

# OMB CIRCULAR A-133

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# COMPLIANCE SUPPLEMENT

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**2008**

**EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET**

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## **PART 1 – BACKGROUND, PURPOSE, AND APPLICABILITY**

### **BACKGROUND**

The Single Audit Act of 1984 established requirements for audits of States, local governments, and Indian tribal governments that administer Federal financial assistance programs. In 1985, the Office of Management and Budget (OMB) issued OMB Circular A-128, “Audits of State and Local Governments,” to provide implementing guidance. In 1990, OMB administratively extended the single audit process to non-profit organizations by issuing OMB Circular A-133, “Audits of Institutions of Higher Education and Other Non-Profit Organizations.”

On July 5, 1996, the President signed the Single Audit Act Amendments of 1996 (31 USC Chapter 75). The 1996 Amendments extended the statutory audit requirement to non-profit organizations and substantially revised various provisions of the 1984 Act. On June 30, 1997, OMB issued revisions to Circular A-133 (62 FR 35278) to implement the 1996 Amendments, extend OMB Circular A-133’s coverage to States, local governments, and Indian tribal governments, and rescind OMB Circular A-128. The 1996 Amendments required the Director, OMB, to periodically review the audit threshold. On June 27, 2003, OMB amended Circular A-133 (68 FR 38401) to increase the audit threshold to an aggregate expenditure of \$500,000 in Federal funds and to make changes in the thresholds for cognizant and oversight agencies. Those changes took effect for fiscal years ending after December 31, 2003. OMB further amended Circular A-133 on June 26, 2007 (72 FR 35080) to: (1) update internal control terminology and related definitions in Circular A-133 and (2) simplify the auditee reporting package submission requirement.

This Compliance Supplement is based on the requirements of the 1996 Amendments and 1997 revisions to OMB Circular A-133, which provide for the issuance of a compliance supplement to assist auditors in performing the required audits. The Senate and House Reports supporting the 1996 Amendments cited studies of the single audit process performed by the Government Accountability Office, the President’s Council on Integrity and Efficiency and the National State Auditors Association (NSAA). All three studies supported the need for a current compliance supplement. The NSAA study stated, “The Compliance Supplement provides an invaluable tool to both Federal agencies and auditors in setting forth the important provisions of Federal assistance programs. This tool allows Federal agencies to effectively communicate items that they believe are important to the successful management of the program and legislative intent. Such a valuable tool requires constant review and update.”

This document serves to identify existing important compliance requirements that the Federal Government expects to be considered as part of an audit required by the 1996 Amendments. Without this Supplement, auditors would need to research many laws and regulations for each program under audit to determine which compliance requirements are important to the Federal Government and could have a direct and material effect on a program. Providing this Supplement is a more efficient and cost-effective approach to performing this research. For the programs contained herein, this Supplement provides a source of information for auditors to understand the Federal program’s objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with these requirements.

This Supplement also provides guidance to assist auditors in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures for programs not included herein. For single audits, this Supplement replaces agency audit guides and other audit requirement documents for individual Federal programs.

OMB Circular A-133 provides that Federal agencies are responsible to annually inform OMB of any updates needed to this Supplement. This responsibility includes ensuring that program objectives, procedures, and compliance requirements, noncompliance with which could have a direct and material effect on these individual Federal programs, are provided to OMB for inclusion in this Supplement, and that agencies keep current these program objectives, procedures, and compliance requirements (including statutory and regulatory citations). To facilitate agency efforts to meet this responsibility, Parts 4 and 5 of this Supplement provide a stand-alone section for each program included in this Supplement, which contains program objectives, program procedures, and compliance requirements. For some programs a separate section (IV, "Other Information") is also included to communicate additional information concerning the program. For example, when a program allows funds to be transferred to another program, section IV will provide guidance on how those funds should be treated on the Schedule of Expenditures of Federal Awards and Type A program determinations. See Appendix IV for a list of programs that contain this section. These program-specific sections can be updated or replaced as Federal programs change. Also, sections will be included as part of the annual update for additional programs once the program objectives, program procedures, and compliance requirements relevant to the program are developed.

## **PURPOSE AND APPLICABILITY (Part 1)**

### **Purpose**

This Supplement is effective for audits of fiscal years beginning after June 30, 2007, and supersedes the OMB Circular A-133 Compliance Supplement dated March 2007.

OMB Circular A-133 describes the non-Federal entity's responsibilities for managing Federal assistance programs (§\_\_\_\_.300) and the auditor's responsibility with respect to the scope of audit (§\_\_\_\_.500). Auditors are required to follow the provisions of OMB Circular A-133 and this Supplement.

### **Applicability**

#### *General*

Auditors shall consider this Supplement and the referenced laws, regulations, and OMB Circulars (whether codified by Federal agencies implementing the Circulars in agency regulations or implemented by other means) in determining the compliance requirements that could have a direct and material effect on the programs included herein. That is, use of this Supplement is mandatory. Accordingly, adherence to this Supplement satisfies the requirements of OMB Circular A-133. For program-specific audits performed in accordance with a Federal agency's program-specific audit guide, the auditor shall follow such program-specific audit guide. Finally, for major programs not included in this Supplement, the auditor shall follow the guidance in Part 7 and use the types of compliance requirements in Part 3 to identify the applicable compliance requirements which could have a direct and material effect on the program.

#### *Update of Requirements*

OMB Circular A-133 provides that Federal agencies are responsible for annually informing OMB of any updates needed to this Supplement. However, auditors should recognize that laws and regulations change periodically and that delays will occur between such changes and revisions to this Supplement. Moreover, auditors should recognize that there may be provisions of contract and grant agreements that are not specified in law or regulation and, therefore, the specifics of such are not included in this Supplement. For example, the grant agreement may specify a certain matching percentage or set a priority for how funds should be spent (e.g., a requirement to not fund certain size projects). Another example is a Federal agency imposing additional requirements on a recipient because it is designated high-risk, in accordance with the A-102 Common Rule or an agency's implementation of Circular A-110 (now included at 2 Code of Federal Regulations [CFR] part 215) or as part of resolution of prior audit findings.

Accordingly, the auditor should perform reasonable procedures to ensure that compliance requirements are current and to determine whether there are any additional provisions of contract and grant agreements that should be covered by an audit under the 1996 Amendments. Reasonable procedures would be inquiry of non-Federal entity management and review of the contract and grant agreements for programs selected for testing (i.e., major programs).

### *Safe Harbor Status*

Because the suggested audit procedures were written to be able to apply to many different programs administered by many different entities, they are necessarily general in nature. Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives or whether additional or alternative audit procedures are needed. Therefore, the auditor should **not** consider this Supplement to be a “safe harbor” for identifying the audit procedures to apply in a particular engagement.

However, the auditor can consider this Supplement a “safe harbor” for identification of compliance requirements to be tested for the programs included herein if, as discussed above, the auditor (1) performs reasonable procedures to ensure that the requirements in this Supplement are current and to determine whether there are any additional provisions of contract and grant agreements that should be covered by an audit under the 1996 Amendments, and (2) updates or augments the requirements contained in this Supplement as appropriate.

### *Responsibility for Other Requirements*

Although the focus of this Supplement is on compliance requirements that could have a direct and material effect on a major program, auditors also have responsibility under *Generally Accepted Government Auditing Standards* (GAGAS) for other requirements when specific information comes to the auditors’ attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on a major program.

## **OVERVIEW OF THIS SUPPLEMENT**

### **Matrix of Compliance Requirements (Part 2)**

The Matrix of Compliance Requirements (Matrix) identifies the Federal programs and compliance requirements addressed in this Supplement, and associates the programs with the applicable compliance requirements. The Matrix also identifies the applicable Federal agency and *Catalog of Federal Domestic Assistance* (CFDA) number for each program included in this Supplement.

### **Compliance Requirements (Part 3)**

Part 3 lists and describes the 14 types of compliance requirements and, except for Special Tests and Provisions, the related audit objectives that the auditor shall consider in every audit conducted under OMB Circular A-133, with the exception of program-specific audits performed in accordance with a Federal agency's program-specific audit guide. Suggested audit procedures are also provided to assist the auditor in planning and performing tests of non-Federal entity compliance with the requirements of Federal programs. Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives and whether additional or alternative audit procedures are needed. Determining the nature, timing, and extent of the audit procedures necessary to meet the audit objectives is the auditor's responsibility.

The compliance requirements for Special Tests and Provisions are unique to each Federal program; therefore, compliance requirements, audit objectives, and suggested audit procedures for Special Tests and Provisions other than the audit objectives and suggested audit procedures for internal control are not included in Part 3.

Consistent with the requirements of OMB Circular A-133, this Part includes audit objectives and suggested audit procedures to test internal control. However, the auditor must determine the specific procedures to test internal control on a case-by-case basis considering factors such as the non-Federal entity's internal control, the compliance requirements, the audit objectives for compliance, the auditor's assessment of control risk, and the audit requirement to test internal control as prescribed in OMB Circular A-133.

### **Agency Program Requirements (Part 4)**

For each Federal program included in this Supplement, Part 4 discusses program objectives, program procedures, and compliance requirements that are specific to the program. With the exception of section III.N, "Special Tests and Provisions," the auditor shall refer to Part 3 for the audit objectives and suggested audit procedures that pertain to the compliance requirements associated with the programs. Since Special Tests and Provisions are unique to the program, the specific audit objectives and suggested audit procedures for the program are included in Part 4 with the exception of audit objectives and suggested audit procedures for internal control, which are included in Part 3.

The description of program procedures is general in nature. Some programs may operate somewhat differently than described due to: (1) the complexity of governing Federal and State laws and regulations; (2) the administrative flexibility afforded non-Federal entities; and (3) the nature, size, and volume of transactions involved. Accordingly, the auditor should obtain an understanding of the applicable compliance requirements and program procedures in operation at the non-Federal entity to properly plan and perform the audit.

### **Clusters of Programs (Part 5)**

A cluster of programs is a grouping of closely related programs that have similar compliance requirements. The types of clusters are: Research and Development (R&D), Student Financial Aid (SFA), and other clusters. “Other clusters” are as identified in this Supplement or designated in a State award document.

Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133 (§\_\_.105). Part 5 provides compliance requirements, audit objectives, and suggested audit procedures for R&D and SFA clusters and lists other clusters.

In planning and performing the audit, the auditor should determine whether programs administered by the non-Federal entity are part of a cluster by referring to the provisions of Part 5 of this Supplement and the State award documents.

### **Internal Control (Part 6)**

As a condition of receiving Federal awards, non-Federal entities agree to comply with applicable laws, regulations, and the provisions of contract and grant agreements, and to maintain internal control to provide reasonable assurance of compliance with these requirements. OMB Circular A-133 requires auditors to obtain an understanding of the non-Federal entity’s internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned. Part 6 is intended to assist non-Federal entities and their auditors in complying with these requirements by presenting characteristics of internal control which may be used to reasonably ensure compliance with the types of compliance requirements in Part 3. The characteristics of internal control presented in Part 6 are neither mandatory nor all-inclusive.

### **Guidance for Auditing Programs Not Included in this Compliance Supplement (Part 7)**

Part 7 provides guidance to auditors in identifying the compliance requirements and designing tests of compliance with such requirements for programs not included in this Supplement.

### **Federal Programs Excluded from the A-102 Common Rule (Appendix I)**

This Appendix lists block grants and other programs excluded from the requirements of the “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” (also known as the “A-102 Common Rule”).

## **Federal Agency Codification of Certain Governmentwide Grants Requirements (Appendix II)**

This Appendix provides regulatory citations for Federal agencies' codification of the A-102 Common Rule and OMB Circular A-110 (2 CFR part 215), "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," in agency regulations. Some agencies have not codified the November 1993 revision to OMB Circular A-110, but have provided such policies to grantees through other means such as grant agreements. This Appendix also includes regulatory citations for Federal agencies' codification of the OMB guidance on nonprocurement suspension and debarment in 2 CFR part 180, as well as the codification for those agencies still operating under the predecessor Common Rule on Debarment and Suspension (November 26, 2003).

## **Federal Agency Contacts for A-133 Audits (Appendix III)**

This Appendix identifies Federal agency contacts from whom auditors can request information or materials about Federal programs or the audit requirements of OMB Circular A-133.

## **Internal Reference Tables (Appendix IV)**

This Appendix provides a listing of programs in Parts 4 and 5 that include section IV, "Other Information." This listing allows the auditor to quickly determine which programs have other information, such as guidance on Type A and Type B program determination or display on the Schedule of Expenditures of Federal Awards. This Appendix also indicates that the Medicaid Cluster is the only program currently identified as higher risk by OMB pursuant to Circular A-133, § \_\_.525(c)(2).

## **List of Changes for the 2008 Compliance Supplement (Appendix V)**

This Appendix provides a list of changes from the OMB Circular A-133 Compliance Supplement dated March 2007 to this 2008 Supplement.

## **Disaster Waivers and Special Provisions Affecting Single Audits (Appendix VI)**

This Appendix addresses waivers, special provisions, and program-specific information on the listed Federal programs in response to Hurricanes Katrina and Rita.

## **Other OMB Circular A-133 Advisories (Appendix VII)**

Reserved.

## **SAS 70 Examinations of EBT Service Organizations (Appendix VIII)**

This Appendix provides guidance on audits of State electronic benefits transfer (EBT) service providers (service organizations) regarding the issuance, redemption, and settlement of benefits under the Food Stamps program (CFDA 10.551) in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 70, Service Organizations.



## Compliance Supplement Core Team (Appendix IX)

This Appendix provides a listing of the Compliance Supplement Core Team members who were responsible for the production of this Supplement.

## TECHNICAL INFORMATION

### Page Numbering Scheme

The following page numbering scheme is used in this Supplement to facilitate future revisions.

Each page included in Parts 1, 2, 3 (Introduction), 6 (Introduction), and 7 is identified by a label that represents the part number and sequential page number. A dash (-) separates the part number from the page number. For example, Part 1 is numbered as follows: 1-1, 1-2, 1-3, and so on.

Each page included in Parts 3 (excluding the Introduction), 4, 5, and 6 (excluding the Introduction) is identified by a label that represents the part number, section number identifier, and sequential page number. For example, Section A of Part 3 is numbered 3-A-1, 3-A-2, 3-A-3, and so on. The section number identifier for Part 4 represents the CFDA number of the applicable program. For example, the Department of Labor's Unemployment Insurance program, CFDA number 17.225, is numbered 4-17.225-1, 4-17.225-2, 4-17.225-3, and so on.

### Code of Federal Regulations

The CFR is a codification of the rules issued by Federal agencies. The CFR is divided into 50 titles, which comprise the broad areas subject to Federal regulation. Each title is further divided into parts and sections, with most references to the CFR being made at this level.

Portions of the CFR are revised daily and these changes are published in the *Federal Register*. However, a revised version of the CFR is published only once each calendar year, on a quarterly basis as follows: titles 1–16 on January 1, titles 17–27 on April 1, titles 28–41 on July 1, and titles 42–50 on October 1.

In the event that changes to a particular section of a title have changed since the last published update of that section, a notation is made in the List of CFR Sections Affected (LSA), which is published monthly. The LSA cites the *Federal Register* page number that contains the changes to the CFR section.

In order to obtain the most current regulations, the user should consult not only the latest version of the CFR, but also the LSA issued in the current month. The *Federal Register* home page (<http://www.gpoaccess.gov/nara/index.html>) offers links to both the *Federal Register* and the CFR. An electronic CFR (e-CFR) is available at <http://www.gpoaccess.gov/ecfr/>. The e-CFR is an unofficial editorial compilation of CFR material and *Federal Register* amendments. It is a current, daily updated version of the Code of Federal Regulations (CFR); however, it is not an official legal edition of the CFR. Please note that on-line versions of the CFR may not be the most current available.

## HOW TO OBTAIN ADDITIONAL GUIDANCE

Guidance to assist auditors in performing audits in accordance with OMB Circular A-133 can be obtained from the following sources.

### Office of Management and Budget

The following information is located under the grants management heading on OMB's Internet home page (<http://www.omb.gov>).

- OMB publications, including OMB Circulars and this Supplement for audits under OMB Circular A-133.
- *SF-SAC, Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations.*
- Codification of Certain Governmentwide Grants Requirements by Department (including the A-102 Common Rule and OMB Circular A-110 (2 CFR part 215)).

### General Services Administration (GSA)

- *Catalog of Federal Domestic Assistance (CFDA).*

A searchable copy of the CFDA and a pdf version are available through the Internet on the GSA Home Page (<http://www.gsa.gov/cfda>). The CFDA is also available on machine-readable magnetic tape, high-density floppy diskettes and CD-ROM from GSA at 202-208-4296).

### Government Printing Office (GPO)

Superintendent of Documents  
P.O. Box 371954  
Pittsburgh, PA 15250-7954  
Telephone: (202) 512-1800

- Government Auditing Standards (stock number 020-000-00-265-4).
- March 2008 Circular A-133 Compliance Supplement (stock number: 041-001-00658-3).

### Inspectors General

IGnet Home Page on the Internet (<http://www.ignet.gov>) contains an Inspector General Directory and the Inspector General Act.

### Federal Audit Clearinghouse

The Federal Audit Clearinghouse acts as an agent for OMB to: (1) establish and maintain a governmentwide database of single audit results and related Federal award information; (2) serve as the Federal repository of single audit reports; and (3) distribute single audit reports to Federal agencies.

The Clearinghouse maintains a site on the Internet at <http://harvester.census.gov/sac/>. For Data Collection Form (SF-SAC) and OMB Circular A-133 submission questions, contact the Federal Audit Clearinghouse by e-mail ([govs.fac@census.gov](mailto:govs.fac@census.gov)), phone (301-763-1551 (voice) and 800-253-0696 (toll free)), or fax 301-457-1592. For questions regarding previous submissions, contact the Federal Audit Clearinghouse Processing Unit at 888-222-9907. The Form SF-SAC and A-133 submission should be mailed to Federal Audit Clearinghouse, 1201 E. 10th Street, Jeffersonville, IN 47132.

## **PART 2 – MATRIX OF COMPLIANCE REQUIREMENTS**

### **INTRODUCTION**

This Part identifies the compliance requirements that are applicable to the programs included in this Supplement. Because Part 4 (Agency Program Requirements) and Part 5 (Clusters of Programs) do not include guidance for all types of compliance requirements that pertain to the program (see introduction to Part 4 for additional information), the auditor should use this Part 2 to identify the types of compliance requirements that apply. The box for each type of compliance requirement will either contain a “Y” (for “Yes” if the type of compliance requirement may apply) or be shaded (if the program normally does not have activity subject to this type of compliance requirement).

Even though a “Y” indicates that the compliance requirement applies to the Federal program, it may not apply at a particular non-Federal entity, either because that entity does not have activity subject to that type of compliance requirement or the activity could not have a material effect on a major program. For example, even though Real Property Acquisition/Relocation Assistance may apply to a particular program, it would not apply to a non-Federal entity that did not acquire real property covered by the Uniform Relocation Assistance and Real Property Acquisition Policies Act. Similarly, a “Y” may be included under Procurement; however, the audit would not be expected to address this type of compliance requirement if the non-Federal entity charges only small amounts of purchases to a major program. The auditor should exercise professional judgment when determining which compliance requirements marked “Y” need to be tested at a particular non-Federal entity.

When a “Y” is present on the matrix and the auditor determines that the requirement should be tested at a non-Federal entity, the auditor should use Part 3, Compliance Requirements, and Part 4 (or 5), if applicable, in planning and performing the tests of compliance. For example, if a program entry in the matrix includes a “Y” in the Program Income column, Part 3 provides a general description of the compliance requirement. Part 3 also provides the audit objective and the suggested audit procedures for testing program income. Part 4 (or 5) may also include specific information on program income requirements pertaining to the program, such as restrictions on how program income may be used. Part 6, Internal Control, may be useful in assessing control risk and designing tests of internal control with respect to each applicable compliance requirement.

When a compliance requirement is shaded in the matrix, it normally does not apply to the program. However, if specific information comes to the auditor’s attention (e.g., during the normal review of the grant agreement or discussions with management) that provides evidence that a compliance requirement shaded in the matrix could have a material effect on a major program, the auditor would be expected to test the requirement. This circumstance should arise infrequently.

CFDA	<b>Types of Compliance Requirements</b>													
	A. <i>Activities Allowed or Unallowed</i>	B. <i>Allowable Costs/Cost Principles</i>	C. <i>Cash Management</i>	D. <i>Davis-Bacon Act</i>	E. <i>Eligibility</i>	F. <i>Equipment and Real Property Management</i>	G. <i>Matching, Level of Effort, Earmarking</i>	H. <i>Period of Availability of Federal Funds</i>	I. <i>Procurement and Suspension and Debarment</i>	J. <i>Program Income</i>	K. <i>Real Property Acquisition/Relocation Assistance</i>	L. <i>Reporting</i>	M. <i>Subrecipient Monitoring</i>	N. <i>Special Tests And Provisions</i>
<b>10 – United States Department of Agriculture (USDA)</b>														
10.001*	Y	Y	Y			Y		Y	Y	Y		Y		Y
10.500	Y	Y	Y			Y	Y	Y	Y	Y		Y	Y	
10.551 10.561	Y	Y	Y		See Part 4	Y	Y	Y	Y			Y	Y	Y
10.553 10.555 10.556 10.559	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
10.557	Y	Y	Y		Y	Y		Y	Y	Y		Y	Y	Y
10.558	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
10.566	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
10.568 10.569	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
10.665 10.666	Y	Y	Y				Y		Y					
10.760	Y	Y	Y			Y	Y	Y	Y			Y		
10.766	Y	Y	Y			Y		Y	Y			Y		
<b>11 – Department of Commerce (DOC)</b>														
11.300 11.307	Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y	Y	Y
11.555	Y	Y	Y			Y	Y	Y	Y			Y	Y	
<b>12 – Department of Defense (DoD)</b>														
12.401	Y	Y	Y	Y		Y	Y	Y	Y	Y		Y		

CFDA	<b>Types of Compliance Requirements</b>													
	A. <i>Activities Allowed or Unallowed</i>	B. <i>Allowable Costs/Cost Principles</i>	C. <i>Cash Management</i>	D. <i>Davis-Bacon Act</i>	E. <i>Eligibility</i>	F. <i>Equipment and Real Property Management</i>	G. <i>Matching, Level of Effort, Earmarking</i>	H. <i>Period of Availability of Federal Funds</i>	I. <i>Procurement and Suspension and Debarment</i>	J. <i>Program Income</i>	K. <i>Real Property Acquisition/Relocation Assistance</i>	L. <i>Reporting</i>	M. <i>Subrecipient Monitoring</i>	N. <i>Special Tests And Provisions</i>
<b>14 – Department of Housing and Urban Development (HUD)</b>														
14.157	Y	Y	Y	Y	Y	Y			Y		Y			Y
14.169	Y	Y					Y	Y	Y	Y		Y	Y	
14.181	Y	Y	Y	Y	Y	Y			Y		Y			Y
14.182														
14.195														
14.249														
14.856			Y		Y	Y						Y	Y	Y
14.218														
14.219	Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y	Y	Y
14.228	Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y	Y	Y
14.231	Y	Y	Y			Y	Y	Y	Y	Y	Y	Y	Y	Y
14.235	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
14.238	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
14.239	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
14.241	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
14.850		Y	Y		Y	Y		Y	Y			Y		Y
14.862	Y	Y	Y			Y	Y	Y	Y	Y	Y	Y	Y	Y
14.866	Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y		Y
14.867	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
14.871	Y	Y	Y		Y							Y	Y	Y
14.872	Y	Y	Y	Y		Y		Y	Y		Y	Y		

CFDA	<b>Types of Compliance Requirements</b>													
	A. <i>Activities Allowed or Unallowed</i>	B. <i>Allowable Costs/Cost Principles</i>	C. <i>Cash Management</i>	D. <i>Davis-Bacon Act</i>	E. <i>Eligibility</i>	F. <i>Equipment and Real Property Management</i>	G. <i>Matching, Level of Effort, Earmarking</i>	H. <i>Period of Availability of Federal Funds</i>	I. <i>Procurement and Suspension and Debarment</i>	J. <i>Program Income</i>	K. <i>Real Property Acquisition/Relocation Assistance</i>	L. <i>Reporting</i>	M. <i>Subrecipient Monitoring</i>	N. <i>Special Tests And Provisions</i>
<b>15 – Department of the Interior (DOI)</b>														
15.021	Y	Y				Y		Y	Y	Y		Y		Y
15.022	Y	Y		Y		Y		Y	Y	Y			Y	Y
15.030	Y	Y				Y		Y	Y	Y		Y		Y
15.042	Y	Y				Y		Y	Y	Y				Y
15.426	Y	Y	Y			Y		Y	Y	Y	Y	Y	Y	
15.605														
15.611	Y	Y	Y			Y	Y	Y	Y	Y	Y	Y	Y	Y
15.614	Y	Y	Y			Y	Y	Y	Y	Y		Y	Y	Y
<b>16 – Department of Justice (DOJ)</b>														
16.710	Y	Y	Y			Y	Y	Y	Y			Y	Y	
16.738	Y	Y	Y			Y	Y	Y	Y			Y	Y	
<b>17 – Department of Labor (DOL)</b>														
17.207														
17.801														
17.804	Y	Y	Y			Y	Y	Y	Y	Y		Y		
17.225	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y		Y
17.235	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	
17.245	Y	Y	Y		Y	Y		Y	Y	Y		Y	Y	
17.253	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
17.258														
17.259														
17.260	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	
17.263	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	
17.264	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	
17.265	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	

CFDA	<b>Types of Compliance Requirements</b>													
	A. <i>Activities Allowed or Unallowed</i>	B. <i>Allowable Costs/Cost Principles</i>	C. <i>Cash Management</i>	D. <i>Davis-Bacon Act</i>	E. <i>Eligibility</i>	F. <i>Equipment and Real Property Management</i>	G. <i>Matching, Level of Effort, Earmarking</i>	H. <i>Period of Availability of Federal Funds</i>	I. <i>Procurement and Suspension and Debarment</i>	J. <i>Program Income</i>	K. <i>Real Property Acquisition/Relocation Assistance</i>	L. <i>Reporting</i>	M. <i>Subrecipient Monitoring</i>	N. <i>Special Tests And Provisions</i>
<b>20 – Department of Transportation (DOT)</b>														
20.106	Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y	Y	Y
20.205 23.003	Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y	Y	Y
20.500 20.507	Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y	Y	Y
20.509	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
20.513 20.516 20.521	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
20.600 20.601 20.602 20.603 20.604 20.605 20.609 20.610 20.611 20.612 20.613	Y	Y	Y			Y	Y	Y	Y	Y		Y	Y	
<b>21 – Department of the Treasury (TREAS)</b>														
21.020	Y	Y	Y		Y	Y	Y		Y			Y	Y	
<b>45 – National Endowment for the Humanities (NEH)</b>														
45.129	Y	Y	Y			Y	Y	Y	Y	Y		Y	Y	
<b>66 – Environmental Protection Agency (EPA)</b>														
66.458	Y	Y	Y			Y	Y	Y	Y	Y	Y	Y	Y	Y
66.468	Y	Y	Y			Y	Y	Y	Y	Y	Y	Y	Y	Y



CFDA	<b>Types of Compliance Requirements</b>													
	A. <i>Activities Allowed or Unallowed</i>	B. <i>Allowable Costs/Cost Principles</i>	C. <i>Cash Management</i>	D. <i>Davis-Bacon Act</i>	E. <i>Eligibility</i>	F. <i>Equipment and Real Property Management</i>	G. <i>Matching, Level of Effort, Earmarking</i>	H. <i>Period of Availability of Federal Funds</i>	I. <i>Procurement and Suspension and Debarment</i>	J. <i>Program Income</i>	K. <i>Real Property Acquisition/Relocation Assistance</i>	L. <i>Reporting</i>	M. <i>Subrecipient Monitoring</i>	N. <i>Special Tests And Provisions</i>
<b>81 – Department of Energy (DOE)</b>														
81.042	Y	Y	Y		Y	Y	Y		Y	Y		Y	Y	
<b>84 – Department of Education (ED)</b>														
84.002	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.010	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
84.011	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
84.027 84.173	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.032-G	Y											Y		Y
84.032-L							Y		Y			Y		Y
84.041	Y	Y		Y			Y					Y		Y
84.042 84.044 84.047 84.066 84.217	Y	Y	Y		Y	Y	Y	Y	Y			Y		
84.048	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
84.126	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y		
84.181	Y	Y	Y			Y	Y	Y	Y			Y		
84.186	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.282	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	
84.287	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
84.288 84.290 84.291	Y	Y	Y			Y	Y	Y	Y			Y		Y

CFDA	<b>Types of Compliance Requirements</b>													
	A. <i>Activities Allowed or Unallowed</i>	B. <i>Allowable Costs/Cost Principles</i>	C. <i>Cash Management</i>	D. <i>Davis-Bacon Act</i>	E. <i>Eligibility</i>	F. <i>Equipment and Real Property Management</i>	G. <i>Matching, Level of Effort, Earmarking</i>	H. <i>Period of Availability of Federal Funds</i>	I. <i>Procurement and Suspension and Debarment</i>	J. <i>Program Income</i>	K. <i>Real Property Acquisition/Relocation Assistance</i>	L. <i>Reporting</i>	M. <i>Subrecipient Monitoring</i>	N. <i>Special Tests And Provisions</i>
84.298	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.318	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.357	Y	Y	Y		Y		Y	Y	Y			Y	Y	Y
84.365	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.366	Y	Y	Y		Y		Y	Y	Y			Y	Y	Y
84.367	Y	Y	Y		Y		Y	Y	Y			Y	Y	Y
84.938	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
<b>93 – Department of Health and Human Services (HHS)</b>														
93.044														
93.045														
93.053	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
93.153	Y	Y	Y			Y	Y	Y	Y	Y		Y		
93.210	Y	Y			Y			Y		Y				
93.217	Y	Y	Y			Y	Y	Y	Y	Y		Y	Y	
93.224	Y	Y	Y		Y	Y		Y	Y	Y		Y		Y
93.268	Y	Y	Y		Y			Y	Y	Y		Y		Y
93.556	Y	Y	Y			Y	Y	Y	Y			Y	Y	
93.558	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
93.563	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
93.566	Y	Y	Y		Y			Y	Y			Y		
93.568	Y	Y	Y		Y		Y	Y	Y			Y	Y	
93.569	Y	Y	Y		Y		Y	Y	Y			Y	Y	Y
93.575														
93.596	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	
93.600	Y	Y	Y	Y		Y	Y	Y	Y	Y		Y	Y	Y

CFDA	<b>Types of Compliance Requirements</b>													
	A. <i>Activities Allowed or Unallowed</i>	B. <i>Allowable Costs/Cost Principles</i>	C. <i>Cash Management</i>	D. <i>Davis-Bacon Act</i>	E. <i>Eligibility</i>	F. <i>Equipment and Real Property Management</i>	G. <i>Matching, Level of Effort, Earmarking</i>	H. <i>Period of Availability of Federal Funds</i>	I. <i>Procurement and Suspension and Debarment</i>	J. <i>Program Income</i>	K. <i>Real Property Acquisition/Relocation Assistance</i>	L. <i>Reporting</i>	M. <i>Subrecipient Monitoring</i>	N. <i>Special Tests And Provisions</i>
93.645	Y	Y	Y				Y	Y	Y			Y		
93.658	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	
93.659	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	
93.667	Y	Y	Y				Y	Y	Y				Y	
93.767	Y	Y	Y		Y		Y	Y	Y	Y		Y	Y	
93.775														
93.776														
93.777														
93.778	Y	Y	Y		Y		Y	Y	Y	Y		Y	Y	Y
93.794	See individual State demonstration agreement and use Part 7													
93.889	Y	Y	Y			Y		Y	Y	Y		Y	Y	
93.914	Y	Y	Y		Y		Y	Y	Y	Y		Y	Y	
93.917	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	
93.918	Y	Y	Y			Y	Y	Y	Y	Y		Y		
93.958	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
93.959	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
93.991	Y	Y	Y			Y	Y	Y	Y	Y		Y	Y	
93.994	Y	Y	Y			Y	Y	Y	Y	Y		Y	Y	
<b>94 – Corporation for National and Community Service (CNCS)</b>														
94.006	Y	Y	Y		Y		Y	Y	Y	Y		Y	Y	
94.011														
94.016	Y	Y	Y		Y		Y	Y	Y	Y		Y		
<b>96 – Social Security Administration (SSA)</b>														
96.001														
96.006	Y	Y	Y			Y		Y	Y			Y		

CFDA	<b>Types of Compliance Requirements</b>													
	A. <i>Activities Allowed or Unallowed</i>	B. <i>Allowable Costs/Cost Principles</i>	C. <i>Cash Management</i>	D. <i>Davis-Bacon Act</i>	E. <i>Eligibility</i>	F. <i>Equipment and Real Property Management</i>	G. <i>Matching, Level of Effort, Earmarking</i>	H. <i>Period of Availability of Federal Funds</i>	I. <i>Procurement and Suspension and Debarment</i>	J. <i>Program Income</i>	K. <i>Real Property Acquisition/Relocation Assistance</i>	L. <i>Reporting</i>	M. <i>Subrecipient Monitoring</i>	N. <i>Special Tests And Provisions</i>
<b>97 – Department of Homeland Security (DHS)</b>														
97.008	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
97.036	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
97.039	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	
97.004 97.067	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
97.109	Y	Y	Y		Y			Y				Y		Y
<b>98 – United States Agency for International Development (USAID)</b>														
98.007 98.008	Y	Y	Y			Y		Y	Y	Y		Y		Y
<b>Clusters of Programs</b>														
R&D	Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y	Y	Y
SFA	Y		Y		Y		Y	Y	Y	Y		Y	Y	Y

**Legend:**

Y Yes, this type of compliance requirement may apply to the Federal program.

Shaded box Indicates the program normally does not have activity subject to this type of compliance requirement.

\* Program does not have a CFDA number, so the Part 4 page number is used.

## **PART 3 – COMPLIANCE REQUIREMENTS**

### **INTRODUCTION**

The objectives of most compliance requirements for Federal programs administered by States, local governments, Indian tribal governments, and non-profit organizations are generic in nature. For example, most programs have eligibility requirements for individuals or organizations. While the criteria for determining eligibility vary by program, the objective of the compliance requirement that only eligible individuals or organizations participate is consistent across all programs.

Rather than repeat these compliance requirements, audit objectives, and suggested audit procedures for each of the programs contained in Part 4 – Agency Program Requirements and Part 5 – Clusters of Programs, they are provided once in this part. For each program in this Compliance Supplement (this Supplement), Part 4 or Part 5 contains additional information about the compliance requirements that arise from laws and regulations applicable to each program, including the requirements specific to each program that should be tested using the guidance in this part.

### **Administrative Requirements**

The administrative requirements that apply to most programs arise from two sources: the “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” (also known as the “A-102 Common Rule”) and 2 CFR part 215 (hereafter, OMB Circular A-110), “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations,” and the agencies’ codification (or other form of implementation) of OMB Circular A-110. The applicable guidance followed depends on the type of organization undergoing audit. Other administrative compliance requirements unique to a single program or a cluster of programs are provided in the Special Tests and Provisions sections of Parts 4 and 5.

### **State, Local, and Indian Tribal Governments**

Governmentwide guidance for administering grants and cooperative agreements to States, local governments, and Indian tribal governments is contained in the A-102 Common Rule, which was codified by each Federal funding agency in its title of the *Code of Federal Regulations*. The A-102 Common Rule section numbers are referred to without the Federal agency’s part number (e.g., §\_\_\_\_.37 would refer to sections in all agency regulations). This allows auditors to refer to the same section numbers when discussing administrative issues with different Federal funding agencies.

These requirements, which incorporate the cost principles by reference, apply to all grants and subgrants to governments, except grants and subgrants to State or local (public) institutions of higher education and hospitals, and except where they are inconsistent with Federal statutes or with regulations authorized in accordance with the exception provision of the A-102 Common Rule. Block grants authorized by the Omnibus Budget Reconciliation Act of 1981 and several

other specifically identified programs are exempted from the A-102 Common Rule. Appendix I to this Supplement specifies legislation and programs where exclusions exist.

In some cases the A-102 Common Rule permits States to follow their own laws and procedures, e.g., when addressing equipment management. These are noted in the sections that follow. The auditor will have to refer to an individual State's rules in those situations.

### **Non-Profit Organizations**

The major source of requirements applicable to institutions of higher education, hospitals and other non-profit organizations is OMB Circular A-110, which incorporates the cost principles by reference. The provisions of OMB Circular A-110 are codified in agency regulations, generally following the section numbers in the circular. The OMB Circular A-110 section numbers are referenced in a manner similar to the A-102 Common Rule references. However, unlike the A-102 Common Rule, with OMB approval, agencies could modify certain provisions of A-110 to meet their special needs. OMB Circular A-110 states "Federal agencies responsible for awarding and administering grants . . . shall adopt the language in the circular unless different provisions are required by Federal statute or are approved by OMB." Subpart A, §\_\_\_\_.4, of OMB Circular A-110 states that "Federal awarding agencies may apply more restrictive requirements to a class of recipients when approved by OMB." Federal awarding agencies may apply less restrictive requirements when awarding small awards, except for those requirements which are statutory. Exceptions on a case-by-case basis may also be made by Federal awarding agencies.

Appendix II to this supplement contains a list of agencies that have codified OMB Circular A-110 and the CFR citations for these codifications. These remain unchanged by the reissuance of A-110 in Title 2 of the CFR. Auditors should continue to reference A-110 provisions and agency implementing citations, as appropriate.

### **Subrecipients**

Governmental subrecipients are subject to the provisions of the A-102 Common Rule. However, the A-102 Common Rule permits States to impose their own requirements on their governmental subrecipients, e.g., equipment management or procurement. Thus, in some circumstances, the auditor may need to refer to State rules and regulations rather than Federal requirements.

All subrecipients who are institutions of higher education, hospitals, or other non-profits, regardless of the type of organization making the subaward, shall follow the provisions of OMB Circular A-110, as implemented by the agency, when awarding or administering subgrants except under block grants authorized by the Omnibus Budget Reconciliation Act of 1981 and the Job Training Partnership Act where State rules apply instead.

## **Compliance Requirements, Audit Objectives, and Suggested Audit Procedures**

Auditors shall consider the compliance requirements and related audit objectives in Part 3 and Part 4 or 5 (for programs included in this Supplement) in every audit of non-Federal entities conducted under OMB Circular A-133, with the exception of program-specific audits performed in accordance with a Federal agency's program-specific audit guide. In making a determination not to test a compliance requirement, the auditor must conclude that the requirement either does not apply to the particular non-Federal entity or that noncompliance with the requirement could not have a material effect on a major program (e.g., the auditor would not be expected to test Procurement if the non-Federal entity charges only small amounts of purchases to a major program). The descriptions of the compliance requirements in Parts 3, 4, and 5 are generally a summary of the actual compliance requirements. The auditor should refer to the referenced citations (e.g., laws and regulations) for the complete statement of the compliance requirements.

The suggested audit procedures are provided to assist auditors in planning and performing tests of non-Federal entity compliance with the requirements of Federal programs. Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objective and whether additional or alternative audit procedures are needed.

The suggested procedures are in lieu of specifying audit procedures for each of the programs included in this Supplement. This approach has several advantages. First, it provides guidelines to assist auditors in designing audit procedures that are appropriate in the circumstance. Second, it helps auditors develop audit procedures for programs that are not included in this Supplement. Finally, it simplifies future updates to this Supplement.

The suggested audit procedures for compliance testing may be accomplished using dual-purpose testing.

### **Internal Control**

Consistent with the requirements of OMB Circular A-133, this Part includes generic audit objectives and suggested audit procedures to test internal control. However, the auditor must determine the specific procedures to test internal control on a case-by-case basis considering factors such as the non-Federal entity's internal control, the compliance requirements, the audit objectives for compliance, the auditor's assessment of control risk, and the audit requirement to test internal control as prescribed in OMB Circular A-133.

The suggested audit procedures for internal control testing may be accomplished using dual-purpose testing.

## **Improper Payments**

Under OMB budgetary guidance and Public Law (Pub. L.) No. 107-300, Federal agencies are required to review Federal awards and, as applicable, provide an estimate of improper payments. Improper payments mean:

1. Any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements, and includes any payment to an ineligible recipient; and
2. Any payment for an ineligible service, any duplicate payment, any payment for services not received, and any payment that does not account for credit for applicable discounts.

Auditors should be alert to improper payments, particularly when testing the following parts of section III. - A, "Activities Allowed or Unallowed;" B, "Allowable Costs/Cost Principles;" E, "Eligibility;" and, in some cases N, "Special Tests and Provisions."



## **A. ACTIVITIES ALLOWED OR UNALLOWED**

### **Compliance Requirements**

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

### **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.

### **Suggested Audit Procedures – Internal Control**

1. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for activities allowed or unallowed and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. 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.

### **Suggested Audit Procedures – Compliance**

1. Identify 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, perform procedures to verify that:
  - a. Activities were allowable.
  - b. Individual transactions were properly classified and accumulated into the activity total.

3. When allowability is determined based upon individual transactions, select a sample of transactions and perform procedures to verify that the transaction was for an allowable activity.
4. The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities.

## B. ALLOWABLE COSTS/COST PRINCIPLES

### Applicability of OMB Cost Principles Circulars

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 in 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.

Although these cost principles circulars have been reissued in Title 2 of the CFR for ease of access, this Supplement refers to them by the circular title and numbering. Auditors should refer to them in the same manner.

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.

## LIST OF SELECTED ITEMS OF COST CONTAINED IN OMB COST PRINCIPLES CIRCULARS (Amended effective June 9, 2004)

The following exhibit provides an updated listing of selected items of cost contained in each of the OMB cost principles circulars based on the changes contained in the *Federal Register* notice dated May 10, 2004 (69 FR 25970-25995)

([http://www.whitehouse.gov/omb/fedreg/2004/040510\\_cost\\_principles.pdf](http://www.whitehouse.gov/omb/fedreg/2004/040510_cost_principles.pdf)). The primary changes are deletion of items, changes in language for consistency, and extension of certain items previously only in one or more—but not all—sets of OMB cost principles to another set(s) of OMB cost principles. Although these changes minimized the number of non-substantive differences among the OMB cost principles, there remain several cost items that are unique to one type of entity (e.g., commencement and convocation costs are applicable only to universities).

The exhibit lists the selected items of cost along with a cursory description of their allowability. The numbers in parentheses refer to the cost item in the applicable circular, as revised. The reader is strongly cautioned not to rely exclusively on the summary but to place primary reliance on the referenced circular text.

<b>Selected Items of Cost Exhibit 1 (amended 6/04)</b>			
<i>Selected Cost Item</i>	<i>OMB Circular A-87, Attachment B State, Local, &amp; Indian Tribal Gov'ts</i>	<i>OMB Circular A-21, Section J Educational Institutions</i>	<i>OMB Circular A-122, Attachment B Non-Profit Organizations</i>
Advertising and public relations costs	(1) Allowable with restrictions	(1) Allowable with restrictions	(1)-Allowable with restrictions
Advisory councils	(2)-Allowable with restrictions	(2) Allowable with restrictions	(2) Allowable with restrictions
Alcoholic beverages	(3)-Unallowable	(3)-Unallowable	(3)-Unallowable
Alumni/ae activities	Not specifically addressed	(4)-Unallowable	Not specifically addressed
Audit costs and related services	(4)-Allowable with restrictions <b>and</b> as addressed in OMB Circular A-133	(5)-Allowable with restrictions <b>and</b> as addressed in OMB Circular A-133	(4)-Allowable with restrictions <b>and</b> as addressed in OMB Circular A-133
Bad debts	(5)-Unallowable	(6)-Unallowable	(5)-Unallowable
Bonding costs	(6)-Allowable with restrictions	(7) Allowable with restrictions	(6)-Allowable with restrictions
Commencement and convocation costs	Not specifically addressed	(8)-Unallowable with exceptions	Not specifically addressed

<b>Selected Items of Cost</b> <b>Exhibit 1</b> (amended 6/04)			
<i>Selected Cost Item</i>	<i>OMB Circular A-87, Attachment B State, Local, &amp; Indian Tribal Gov'ts</i>	<i>OMB Circular A-21, Section J Educational Institutions</i>	<i>OMB Circular A-122, Attachment B Non-Profit Organizations</i>
Communication costs	(7)-Allowable	(9)-Allowable	(7)-Allowable
Compensation for personal services	(8)-Unique criteria for support	(10)-Unique criteria for support	(8)-Unique criteria for support
Compensation for personal services - organization-furnished automobile	Not specifically addressed	(10.g)- Unallowable for that portion of costs attributed to personal use	(8.g)- Unallowable for that portion of costs attributed to personal use
Compensation for personal services - sabbatical leave costs	Not specifically addressed	(10.f(4))- Allowable with restrictions	Not specifically addressed
Compensation for personal services - severance pay	(8)-Allowable with restrictions	(10.h)-Allowable with restrictions	(8.k)-Allowable with restrictions
Contingency provisions	(9)-Unallowable with exceptions	(11)-Unallowable with exceptions	(9)-Unallowable with exceptions
Deans of faculty and graduate schools	Not addressed	(12)-Allowable	Not addressed
Defense and prosecution of criminal and civil proceedings and claims	(10)-Allowable with restrictions	(13)-Allowable with restrictions (Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement)	(10)-Allowable with restrictions (Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement)
Depreciation and use allowances	(11)-Allowable with qualifications	(14)-Allowable with qualifications	(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)	(15)-Unallowable (made by recipient); not reimbursable but value may be used as cost sharing or matching (made to recipient)	(12)-Unallowable (made by recipient); not reimbursable but value may be used as cost sharing or matching (made to recipient)

<b>Selected Items of Cost</b> <b>Exhibit 1</b> (amended 6/04)			
<i>Selected Cost Item</i>	<i>OMB Circular A-87, Attachment B State, Local, &amp; Indian Tribal Gov'ts</i>	<i>OMB Circular A-21, Section J Educational Institutions</i>	<i>OMB Circular A-122, Attachment B Non-Profit Organizations</i>
Employee morale, health, and welfare costs	(13)-Allowable with restrictions	(16)-Allowable with restrictions	(13)-Allowable with restrictions
Entertainment costs	(14)-Unallowable	(17)-Unallowable	(14)-Unallowable
Equipment and other capital expenditures	(15)-Allowability based on specific requirements	(18)-Allowability based on specific requirements	(15)-Allowability based on specific requirements
Fines and penalties	(16)-Unallowable with exception	(19)-Unallowable with exception	(16)-Unallowable with exception
Fundraising and investment management costs	(17)-Unallowable with exceptions	(20)-Unallowable with exceptions (Fundraising)	(17)-Unallowable with exceptions
Gains and losses on depreciable assets	(18)-Allowable with restrictions (Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs)	(21)-Allowable with restrictions	(18)-Allowable with restrictions
General government expenses	(19)-Unallowable with exceptions	Not specifically addressed	Not specifically addressed
Goods or services for personal use	(20) Unallowable	(22)-Unallowable	(19)-Unallowable
Housing and personal living expenses	Not specifically addressed	(23)-Unallowable	(20)-Unallowable as overhead costs
Idle facilities and idle capacity	(21)-Idle facilities - unallowable with exceptions; idle capacity - allowable with restrictions	(24)-Idle facilities - unallowable with exceptions; idle capacity - allowable with restrictions	(21)-Idle facilities - unallowable with exceptions; idle - capacity allowable with restrictions
Insurance and indemnification	(22)-Allowable with restrictions	(25)-Allowable with restrictions	(22)-Allowable with restrictions
Interest	(23)-Allowable with restrictions	(26)-Allowable with restrictions	(23)-Allowable with restrictions

<b>Selected Items of Cost</b> <b>Exhibit 1</b> (amended 6/04)			
<i>Selected Cost Item</i>	<i>OMB Circular A-87, Attachment B State, Local, &amp; Indian Tribal Gov'ts</i>	<i>OMB Circular A-21, Section J Educational Institutions</i>	<i>OMB Circular A-122, Attachment B Non-Profit Organizations</i>
Interest - substantial relocation	Not specifically addressed	(26.b(6))-Possible adjustment in relocated within 20 years	(23.a(6)(d))-Possible adjustment in relocated within 20 years
Labor relations costs	Not specifically addressed	(27)-Allowable	(24)-Allowable
Lobbying	(24)-Unallowable	(28)-Unallowable with exceptions	(25)-Unallowable with exceptions
Lobbying - executive lobbying costs	(24.b)-Unallowable	(28.h)-Unallowable	(25.d)-Unallowable
Losses on other sponsored agreements or contracts	Not specifically addressed	(29)-Unallowable	(26)-Unallowable (Losses on other awards or contracts)
Maintenance and repair costs	(25)-Allowable with restrictions (Maintenance, operations, and repairs)	(30)-Allowable with restrictions	(27)-Allowable with restrictions
Materials and supplies costs	(26)-Allowable with restrictions	(31)-Allowable with restrictions	(28)-Allowable with restrictions
Meetings and conferences	(27)- Allowable with restrictions	(32)- Allowable with restrictions	(29)-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.	(33)-Unallowable for civic, community, or social organizations	(30)-Allowable for civic and community organizations with Federal approval; unallowable for social organizations.
Organization costs	Not specifically addressed	Not specifically addressed	(31)-Unallowable except Federal prior approval
Page charges in professional journals	(34.b)-Allowable with restrictions (addressed under "Publication and printing costs")	(39.b)-Allowable with restrictions (addressed under "Publication and printing costs")	(32)-Allowable with restrictions
Participant support costs	Not specifically addressed	Not specifically addressed	(33)-Allowable with prior approval of the Federal awarding agency



<b>Selected Items of Cost</b> <b>Exhibit 1</b> (amended 6/04)			
<i>Selected Cost Item</i>	<i>OMB Circular A-87, Attachment B State, Local, &amp; Indian Tribal Gov'ts</i>	<i>OMB Circular A-21, Section J Educational Institutions</i>	<i>OMB Circular A-122, Attachment B Non-Profit Organizations</i>
Patent costs	(29)-Allowable with restrictions	(34)-Allowable with restrictions	(34)-Allowable with restrictions
Plant and homeland security costs	(30)-Allowable with restrictions	(35)-Allowable with restrictions	(35)-Allowable with restrictions
Pre-agreement costs	(31)-Allowable with restrictions (Pre-award costs)	(36)-Unallowable unless approved by the Federal sponsoring agency	(36)-Allowable with restrictions
Professional service costs	(32)-Allowable with restrictions	(37)-Allowable with restrictions	(37)-Allowable with restrictions
Proposal costs	(33)-Allowable with restrictions	(38)-Allowable with restrictions	Not specifically addressed
Publication and printing costs	(34)-Allowable with restrictions	(39)-Allowable with restrictions	(38)-Allowable with restrictions
Rearrangement and alteration costs	(35)-Allowable (ordinary and normal); allowable with Federal prior approval (special)	(40)-Allowable (ordinary and normal); allowable with Federal prior approval (special)	(39)-Allowable (ordinary and normal); allowable with Federal prior approval (special)
Reconversion costs	(36)-Allowable with restrictions	(41)-Allowable with restrictions	(40)-Allowable with restrictions
Recruiting costs	(1.c)-Allowable with restrictions (addresses costs of advertising only)	(42)-Allowable with restrictions	(1)-Allowable with restrictions
Relocation costs	Not specifically addressed	(42.d)-Allowable with restrictions	(42)-Allowable with restrictions
Rental cost of buildings and equipment	(37)-Allowable with restrictions	(43)-Allowable with restrictions	(43)-Allowable with restrictions
Royalties and other costs for use of patents	(38)-Allowable with restrictions	(44)-Allowable with restrictions	(44)-Allowable with restrictions
Scholarships and student aid costs	Not specifically addressed	(45)-Allowable with restrictions	Not specifically addressed
Selling and marketing costs	(39)-Unallowable with exceptions	(46)-Unallowable with exceptions	(45)-Unallowable with exceptions

<b>Selected Items of Cost</b> <b>Exhibit 1</b> (amended 6/04)			
<i>Selected Cost Item</i>	<i>OMB Circular A-87, Attachment B State, Local, &amp; Indian Tribal Gov'ts</i>	<i>OMB Circular A-21, Section J Educational Institutions</i>	<i>OMB Circular A-122, Attachment B Non-Profit Organizations</i>
Specialized service facilities	Not specifically addressed	(47)-Allowable with restrictions	(46)-Allowable with restrictions
Student activity costs	Not specifically addressed	(48)-Unallowable unless specifically provided for in the sponsored agreement	Not specifically addressed
Taxes	(40)-Allowable with restrictions	(49)-Allowable with restrictions	(47)-Allowable with restrictions
Termination costs applicable to sponsored agreements	(41)-Allowable with restrictions	(50)-Allowable with restrictions	(48)-Allowable with restrictions
Training costs	(42)-Allowable for employee development	(51)-Allowable for employee development	(49)-Allowable with limitations
Transportation costs	Not specifically addressed	(52)-Allowable with restrictions	(50)-Allowable
Travel costs	(43)-Allowable with restrictions	(53)-Allowable with restrictions	(51)-Allowable with restrictions
Trustees	Not specifically addressed	(54)-Allowable with restrictions	(52)-Allowable with restrictions

## **OMB CIRCULAR A-87**

### **COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS**

#### **Introduction**

OMB Circular A-87 (A-87) establishes principles and standards for determining allowable direct and indirect costs for Federal awards. This section is organized into 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***

A-87, Attachment 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 A-87 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.

#### **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 A-87, Attachment 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 a future year on a “fixed-with-carry-forward” basis. Examples of such services might include general accounting, personnel administration, and purchasing. Section I costs assigned to an

operating agency through the State/local-wide central service CAP are typically included in the agency's indirect cost pool.

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

## ***1. Compliance Requirements – State/Local-Wide Central Service Costs***

### ***a. Basic Guidelines***

- (1) The basic guidelines affecting allowability of costs (direct and indirect) are identified in A-87, Attachment A, paragraph C.
- (2) To be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1):
  - (a) Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.)
  - (b) Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment 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 A-87, 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 A-87.

- (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 A-87, Attachment A, paragraph C.4 for additional information on applicable credits.)
- (j) Be adequately documented.

b. *Selected Items of Cost*

- (1) Sections 1 through 43 of A-87, Attachment 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 A-87 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.
- (2) 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 A-87, Attachment A.

c. *Submission Requirements*

- (1) Submission requirements are identified in A-87, Attachment C, paragraph D.
- (2) A State is required to submit a State-wide central service CAP to HHS for each year in which it claims central service costs under Federal awards.
- (3) 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. All other local governments claiming central service costs must develop a CAP in accordance with the requirements described in A-87 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 receives 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 the 6 months prior to the beginning of the governmental unit’s fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency.

- d. *Documentation Requirements*
- (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) The documentation requirements for all central service CAPs are contained in A-87, Attachment C, paragraph E. 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 the A-102 Common Rule.
- e. *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 the Certificate of Cost Allocation Plan as set forth in A-87, Attachment C.
- f. *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 (A-87, Attachment C, paragraph G.3).
- g. *Billed Central Service Costs (Section II Costs)*
- (1) Internal service funds for central service activities are allowed a working capital reserve of up to 60 days cash expenses for normal operating purposes (A- 87, Attachment C, paragraph G.2). A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.
  - (2) 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 (A-87, Attachment C, paragraph G.4). The adjustments will be made through one of the following methods:
    - (a) A cash refund to the Federal Government for the Federal share of the adjustment, if revenue exceeds costs,
    - (b) Credits to the amounts charged to the individual programs,
    - (c) Adjustments to future billing rates, or
    - (d) Adjustments to allocated central service costs (Section I) if the total amount of the adjustment for a particular service does not exceed \$500,000.

- (3) 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 (A-87, Attachment B, paragraph 22).

**2. *Audit Objectives – State/Local-Wide Central Service Costs***

- a. Obtain an understanding of internal control over the compliance requirements for central service costs, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_.500(c).
- b. Determine whether the governmental unit complied with the provisions of A-87 as follows:
  - (1) Direct charges to Federal awards were for allowable costs.
  - (2) Charges to cost pools allocated to Federal awards through the central service CAPs were for allowable costs.
  - (3) 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).
  - (4) 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.

**3. *Suggested Internal Control Audit Procedures – State/Local-Wide Central Service Costs***

- a. Using the guidance provided in Part 6 – Internal Control for allowable costs/cost principles, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. Consider the results of the testing of internal control in assessing the risk of non-compliance. 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.

**4. *Suggested Compliance Audit Procedures – State/Local-Wide Central Service 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.
  - (1) In reviewing the State/local-wide central service costs, the auditor may not need to test all central service costs (allocated or billed) every year; for example, the auditor in obtaining sufficient evidence for the opinion may consider testing each central service at least every 5 years, and perform additional testing for central services with operating budgets of \$5 million or more.
  - (2) If the local governmental entity is not required to submit the central service CAP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing and extent of compliance testing.
- b. *General Audit Procedures for State/Local-Wide Central Service CAPs* – The following 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 A-87, Attachment A, paragraph C.
    - (b) The principles to establish allowability or unallowability of certain items of cost (A-87, Attachment 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 A-87, Attachment C, paragraph E.
  - (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 sample 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 agencies with significant Federal awards to determine if the percentage of costs allocated to these agencies has increased from the prior year. For those selected agencies with significant allocation percentage increases, determine that the data included in the bases are current and accurate.
  - (f) Verify that carry-forward adjustments are properly computed in accordance with A-87, Attachment C, paragraph G.3.
- (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.

### **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 A-87.

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 ICRPs are based on the most current financial data and are used to either establish predetermined, fixed, or provisional

indirect cost rates or to finalize provisional rates (for rate definitions refer to A-87, Attachment E, paragraph B).

**1. *Compliance Requirements – State/Local Department or Agency Costs – Direct and Indirect***

- a. *Basic Guidelines* – Refer to the previous section, “Allowable Costs – State/Local-Wide Central Service Costs, 1.a – Compliance Requirements-Basic Guidelines,” for the guidelines affecting the allowability of costs (direct and indirect) under Federal awards.
- b. *Selected Items of Cost* – Refer to the previous section, “Allowable Costs - State/Local-Wide Central Service Costs, 1.b - Compliance Requirements-Selected Items of Cost,” for the principles to establish allowability or unallowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect.
- c. *Allocation of Indirect Costs and Determination of Indirect Cost Rates*
  - (1) The specific methods for allocating indirect costs and computing indirect cost rates are as follows:
    - (a) *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 (A-87, Attachment E, paragraph C.2).
    - (b) *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 A-87, Attachment E, paragraph C.3.)
    - (c) *Special Indirect Cost Rates* – In some instances, a single indirect cost rate for all activities of a department or agency may not be appropriate. Different factors may substantially affect the indirect costs applicable to a particular program or group of programs, e.g., the physical location of the work, the nature of the facilities, or level of administrative support required. (For the requirements for a separate indirect cost rate, refer to A-87, Attachment E, paragraph C.4.)

- (d) *Cost Allocation Plans* – In certain cases, the cognizant agency may require a State or local governmental unit’s department or agency to prepare a CAP instead of an ICRP. These are infrequently occurring cases in which the nature of the department or agency’s Federal awards makes impracticable the use of a rate to recover indirect costs. A CAP required in such cases consists of narrative descriptions of the methods the department or agency uses to allocate indirect costs to programs, awards, or other cost objectives. Like an ICRP, the CAP must be either submitted to the cognizant agency for review, negotiation and approval, or retained on file for inspection during audits.

d. *Submission Requirements*

- (1) Submission requirements are identified in A-87, Attachment E, paragraph D.1. All departments or agencies of a governmental unit claiming indirect costs under Federal awards must prepare an ICRP and related documentation to support those costs.
- (2) A State/local department or agency for which a cognizant 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 A-87, 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) Each Indian tribal government desiring reimbursement of indirect costs must submit its ICRP to the Department of the Interior.
- (4) ICRPs must be developed (and, when required, submitted) within 6 months after the close of the governmental unit’s fiscal year.

e. *Documentation and Certification Requirements*

The documentation and certification requirements for ICRPs are included in A-87, Attachment E, paragraphs D.2 and 3, respectively. The proposal and related documentation must be retained for audit in accordance with the record retention requirements contained in the A-102 Common Rule.

**2. *Audit Objectives – State/Local Department or Agency Costs – Direct and Indirect***

- a. Obtain an understanding of internal control over the compliance requirements for State/local department or agency costs, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_.500(c).

- b. Determine whether the governmental unit complied with the provisions of A-87 as follows:
- (1) Direct charges to Federal awards were for allowable costs.
  - (2) Charges to cost pools used in calculating indirect cost rates were for allowable costs.
  - (3) 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).
  - (4) 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.
  - (5) 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.

**3. *Suggested Internal Control Audit Procedures – State/Local Department or Agency Costs- Direct and Indirect***

Refer to the previous section, “Allowable Costs - State/Local-Wide Central Service Costs,” items 3.a through 3.c, for suggested internal control audit procedures.

**4. *Suggested Compliance Audit Procedures – State/Local Department or Agency Costs – Direct and Indirect***

- 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.
- (1) Test a sample of transactions for conformance with:
    - (a) The criteria contained in the “Basic Guidelines” section of A-87, Attachment A, paragraph C.

- (b) The principles to establish allowability or unallowability of certain items of cost (A-87, Attachment 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 the required documentation in accordance with A-87, Attachment E, paragraph D.
  - (2) *Testing of the ICRP* – There may be a timing consideration when the audit is completed before the ICRP is completed. In this instance, the auditor should consider performing interim testing of the costs charged to the cost pools and the allocation bases (e.g., determine from management the cost pools that management expects to include in the ICRP and test the costs for compliance with A-87). 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 charged 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 A-87.
        - (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 sample of transactions to verify the allowability of the costs.
        - (C) Trace the central service 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 A-87 and produce an equitable distribution of costs.
  - (A) Determine that the proposed base(s) includes all activities that benefit from the indirect costs being allocated.
  - (B) If the direct cost base is not limited to direct salaries and wages, determine that distorting items are excluded from the base. Examples of distorting items include capital expenditures, flow-through funds (such as benefit payments), and subaward costs in excess of \$25,000 per subaward.
  - (C) Determine the appropriateness of the allocation base (e.g., salaries and wages, modified total direct costs).
- (iii) *Other Procedures*
  - (A) Examine the employee time report system results (where and if used) to ascertain if they are accurate, and are based on the actual effort devoted to the various functional and programmatic activities to which the salary and wage costs are charged. (Refer to A-87, Attachment B, paragraph 8.h for additional information on support of salaries and wages.)
  - (B) For an ICRP using the multiple allocation base method, test statistical data (e.g., square footage, audit hours, salaries and wages) to ascertain if the proposed allocation or rate bases are reasonable, updated as necessary, and do not contain any material omissions.
- (3) *Testing of Charges Based Upon the ICRA* – Perform the following procedures to test the application of charges to Federal awards based upon an ICRA:
  - (a) Obtain and read the current ICRA and determine the terms in effect.

- (b) Select a sample of claims for reimbursement and verify that the rates used are in accordance with the rate agreement, that rates were applied to the appropriate bases, and that the amounts claimed were the product of applying the rate to the applicable base. Verify that the costs included in the base(s) are consistent with the costs that were included in the base year (e.g., if the allocation base is total direct costs, verify that current-year direct costs do not include costs items that were treated as indirect costs in the base year).
- (4) *Other Procedures – No Negotiated ICRA*
- (a) If an indirect cost rate has not been negotiated by a cognizant Federal agency, as required, the auditor should determine whether documentation exists to support the costs. Where the auditee has documentation, the suggested general audit procedures (direct and indirect costs under paragraph 4.b of this section) should be performed to determine the appropriateness of the indirect cost charges to awards.
  - (b) If an indirect cost rate has not been negotiated by a cognizant agency, as required, and documentation to support the indirect costs does not exist, the auditor should question the costs based on a lack of supporting documentation.

### **Allowable Costs – State Public Assistance Agency Costs**

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

Attachment D of A-87 states that since the federally financed programs administered by State public assistance agencies are funded predominantly by HHS, HHS is responsible for the requirements for the development, documentation, submission, negotiation and approval of public assistance CAPs. These requirements are published in Subpart E of 45 CFR part 95.

Major Federal programs typically administered by State public assistance agencies 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 93.659), and Social Services Block Grant (CFDA 93.667).



**1. Compliance Requirements – State Public Assistance Agency Costs**

- a. *Basic Guidelines* – Refer to the previous section, “Allowable Costs – State/Local-Wide Central Service Costs, 1.a, Compliance Requirements-Basic Guidelines,” for the guidelines affecting the allowability of costs (direct and indirect) under Federal awards.
- b. *Selected Items of Cost* – Refer to the previous section, “Allowable Costs – State/Local-Wide Central Service Costs 1.b, Compliance Requirements-Selected Items of Cost,” for the principles to establish allowability or unallowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect.
- c. *Submission Requirements*
  - (1) 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 events occur (45 CFR section 95.509):
    - (a) 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.
    - (b) A material defect is discovered in the cost allocation plan.
    - (c) The State plan for public assistance programs is amended so as to affect the allocation of costs.
    - (d) Other changes occur which make the allocation basis or procedures in the approved cost allocation plan invalid.

The amendments must be submitted to HHS for review and approval.
- d. *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 contained in 45 CFR section 95.507.
- e. *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 (A-87, Attachment D, paragraph E.1).

**2. *Audit Objectives – State Public Assistance Agency Costs***

- a. Obtain an understanding of internal control over the compliance requirements for State public assistance agency costs, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_.500(c).
- b. Determine whether the governmental unit complied with the provisions of A-87 as follows:
  - (1) Direct charges to Federal awards were for allowable costs.
  - (2) Charges to cost pools allocated to Federal awards through the public assistance CAP were for allowable costs.
  - (3) 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.
  - (4) Charges to Federal awards are in accordance with the approved public assistance CAP. This does not apply if the auditor first determines that the approved CAP is not in compliance with the applicable cost principles and/or produces an inequitable distribution of costs.
  - (5) The employee time reporting systems are implemented and operated in accordance with the methodologies described in the approved public assistance CAP.

**3. *Suggested Internal Control Audit Procedures – State Public Assistance Agency Costs***

Refer to the previous section, “Allowable Costs – State/Local-Wide Central Service Costs” items 3.a through 3.c, for suggested internal control audit procedures.

**4. *Suggested Compliance Audit Procedures – 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 the 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 A-87, Attachment A, paragraph C.
    - (b) The principles to establish allowability or unallowability of certain items of cost (A-87, Attachment B).
  - (2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.
- d. *Special Audit Procedures for Public Assistance CAPs*
- (1) Verify that the State public assistance agency is complying with the submission requirements, i.e., an amendment is promptly submitted when any of the events identified in 45 CFR section 95.509 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 determined 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.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

## **OMB CIRCULAR A-21 COST PRINCIPLES FOR EDUCATIONAL INSTITUTIONS**

### **Introduction**

OMB Circular A-21 (A-21) establishes principles for determining the costs applicable to research and development, training, and other sponsored work performed by educational institutions under grants, contracts, and other agreements with the Federal Government. These agreements are referred to as sponsored agreements. These principles shall be used in determining the allowable direct and indirect costs under those agreements. At educational institutions, indirect costs are accounted for through Facilities & Administrative (F&A) Cost Proposals. F&A costs, for the purpose of A-21, mean costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. F&A costs are synonymous with “indirect” costs, as previously used in A-21 and as currently used in Appendices A and B of A-21. As described in A-21, section F.1, the F&A cost categories include: building and equipment depreciation or use allowance; operation and maintenance expenses; interest expenses; general administrative expenses; departmental administration expenses; sponsored project administration expenses; library expenses; and student administration expenses. F&A costs will be referred to as “indirect costs” in this section.

### ***Cognizant Agency***

A-21, section G.11.a, defines “cognizant agency” as the Federal agency responsible for negotiating and approving F&A rates for an educational institution on behalf of all Federal agencies. 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). Section G.11 of A-21 assigns cost negotiation cognizance to the Department of Health and Human Services and the Department of Defense’s Office of Naval Research.

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

#### ***University Long-Form F&A Cost Proposals***

Additional information on indirect cost rates is found in the HHS publication: *Best Practices Manual for Reviewing College and University Long-Form Facilities & Administrative Cost Rate Proposals*, which is available on the Internet at

<http://rates.psc.gov/fms/dca/C&U%20Review%20Manual.pdf>

## **Allowable Costs – General Criteria**

### ***1. Basic Considerations to Determine Costs***

In addition to the general criteria applicable to both direct and indirect costs, the basic guidelines affecting the allowability of costs (direct and indirect) are identified in section C. of A-21. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be reasonable and necessary for the performance and administration of Federal awards (A-21, section C.3).
- b. Conform with the allocability provisions of A-21 (A-21, section C.4) or Cost Accounting Standards (CAS) Board for educational institutions, as applicable (see 48 CFR part 9905). See “Allowable Costs - Special Requirements - Cost Accounting Standards and Disclosure Statements” in this section for additional guidance on CAS.)
- c. Be 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 (A-21, sections C.10 and C.11).
- d. Conform with the allowability of costs provisions of A-21, or limitations in the program agreement, program regulations, or program statute. When the maximum amount of allowable cost under a limitation is less than the total amount determined in accordance with A-21, the amount not recoverable under a sponsored agreement may not be charged to other sponsored agreements (A-21, section C.7).
- e. Be net of all applicable credits, e.g., volume or cash discounts, insurance recoveries, refunds, rebates, trade-ins, adjustments for checks not cashed, and scrap sales (A-21, section C.5).
- f. Be 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 A-21. Documentation may be in an electronic form (A-21, section C.4).
- g. Be applied uniformly to Federal and non-Federal activities.
- h. With respect to fringe benefit allocations, charges, or rates, such allocations, charges, or rates are to be based on the benefits received by different classes of employees within the educational institution.

## **2. *Selected Items of Cost***

Section J. of Circular A-21 includes general provisions for selected items of costs. For a listing of these costs, see Exhibit 1 of this part of the Supplement. These principles apply irrespective of whether a particular item of cost is properly treated as a direct cost or an indirect cost. Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination as to allowability in each case should be based on the treatment provided for similar or related items of cost.

### **Allowable Costs – Direct Costs**

#### **1. *Compliance Requirements – Direct Costs***

- a. Direct costs are those costs that can be identified specifically with a particular sponsored project, instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Identification with the sponsored work rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect costs of a sponsored agreement.
- b. Costs incurred for the same purpose in like circumstances must be treated consistently. Where an educational institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as a direct costs of all activities of the institution.

#### **2. *Audit Objectives – Direct Costs***

- a. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_\_.500(c).
- b. Determine whether the educational institution complied with the provisions of A-21 and CAS as follows:
  - (1) Direct charges to Federal awards were for allowable costs.
  - (2) Cost accounting practice disclosures, described in the Disclosure Statement (DS-2), including amendments, represented actual practice consistently applied. This objective only applies to non-Federal entities that are required to submit the DS-2.
  - (3) Costs are not included as both a direct billing and as a component of indirect costs, e.g., excluded from cost pools, if charged directly to Federal awards.

**3. *Suggested Internal Control Audit Procedures – Direct Costs***

- a. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. 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.

**4. *Suggested Compliance Audit Procedures – Direct Costs***

- a. Test a sample of transactions for conformance with the following criteria contained in A-21 and CAS, as applicable.
  - (1) If the auditor identifies unallowable direct costs, the auditor should be aware that “directly associated costs” might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would not have been incurred if the other cost had not been incurred. For example, fringe benefits are “directly associated” with payroll costs. When an unallowable cost is incurred, directly associated costs are also unallowable.
  - (2) Costs were approved by the Federal-awarding agency, if required (see Exhibit 1 in this part of the Supplement for selected items of cost that require agency approval when charged to an award as direct costs).
  - (3) Costs were not included as a cost or used to meet cost-sharing requirements of other federally supported activities of the current or a prior period.
  - (4) Costs represent charges for actual costs, not budgeted or projected amounts.
  - (5) Costs were estimated, accumulated, and reported consistently (A-21, section C.10).



- (6) Costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives (A-21, section C.11).
- (7) Costs charged directly to institutional activities (i.e. research and development, instruction, other institutional activities) are accounted for consistent with their disclosed practices, as described in their DS-2, if applicable (A-21, section C.14).
- (8) Departmental costs charged direct to institutional activities (i.e. research and development, instruction, other institutional activities) are consistently charged directly, in like circumstances and are in accordance with the provisions of A-21 and CAS. Salaries of administrative and clerical staff should normally be treated as indirect. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for the administrative or clerical services and the individuals involved can be specifically identified with the project or activity. "Major project" is defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments. Examples are found in A-21, Exhibit C.
- (9) Costs for general-purpose equipment charged direct to institution activities (i.e., research and development, instruction, other institutional activities) are consistently charged as direct, were approved by the awarding agency, and are in accordance with the provisions of A-21 and CAS.
- (10) Salaries and wages charged to Federal awards are allowable to the extent that total compensation to the individual employee conforms to established policies of the institution, are consistently applied, and provided that the charges for work performed directly on sponsored awards have been determined in accordance with and supported by the provisions of A-21, section J.10 as follows:
  - (a) Distribution of salaries and wages is based on payrolls documented in accordance with the generally accepted practices of the institution.
  - (b) Apportionment of employees' salaries and wages which are chargeable to more than one sponsored agreement or other cost objective is accomplished by methods which--
    - (i) Comply with A-21, sections A.2 and C,
    - (ii) Produce an equitable distribution of charges for employees' activities, and

- (iii) Distinguish the employees' direct activities from their indirect activities.
- (c) The payroll distribution is based on an after-the-fact confirmation or determination that costs distributed represent actual costs. Confirmation should be by a responsible person with suitable means of verification that the work was performed. Confirmation by the employee is not required if other responsible persons make appropriate confirmations.

## **Allowable Costs – Indirect Costs**

### ***1. Compliance Requirements – Indirect Costs***

- a. In order to recover indirect costs, educational institutions must prepare indirect cost rate proposals (ICRPs) in accordance with the guidelines provided in A-21. Educational institutions must submit ICRPs to the cognizant agency for approval (A-21, section G.11).
- b. ICRPs prepared by educational institutions are based on the most current financial data supported by the educational institution's accounting system and audited financial statements. These ICRPs can be used to establish either predetermined rates, fixed rates with carry-forward provisions, or provisional rates (A-21, sections G.4, G.5, and G.6). The ICRP to be used to establish indirect cost rates must be certified by the educational institution in accordance with A-21, section K.2.
- c. Indirect costs are those costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity.
- d. As described in A-21, section F.1, the indirect cost categories include: building and equipment depreciation or use allowance; operation and maintenance expenses; interest expenses; general administrative expenses; departmental administration expenses; sponsored project administration expense; library expenses; and student administration expenses. In general the cost groupings established within a category should constitute a pool of items of expense that are considered to be of like nature in terms of their relative contribution to the particular cost objectives to which distribution is appropriate (A-21, section E). Cost categories should be established considering the general guidelines in A-21, section E.2.c.
- e. Indirect costs are defined into two broad categories in A-21, section F.
  - (1) "Facilities" is defined as depreciation and use allowance, interest in debt associated with certain buildings, equipment, and capital improvements, operation and maintenance expenses, and library expenses.

- (2) “Administration” is defined as general administration and general expenses, departmental administration, sponsored project administration, student administration and services, and all other types of expenditures not listed specifically under one of the facility categories.
- f. Each educational institution’s indirect cost rate process must be appropriately designed to determine that Federal sponsors do not in any way subsidize the indirect costs of other sponsors, specifically activities sponsored by industry and foreign governments (A-21, section G.).
- g. Administrative costs charged to sponsored agreements awarded or amended with effective dates beginning on or after the start of the educational institution’s first fiscal year which begins on or after October 1, 1991, shall be limited to 26 percent of modified total direct costs, as defined in A-21, section G.2. Educational institutions should not change their accounting or cost allocation methods which were in effect on May 1, 1991, if the effect is to (1) change the charging of a particular type of cost from indirect to direct, or (2) reclassify or increase allocations from the administrative pools to the facilities pools or fringe benefits cost pools (but also see A-21, section G.8).
- h. *Submission Requirement for Standard Format for Long-Form Proposals* – For ICRPs submitted on or after July 1, 2001, educational institutions shall use the standard format shown in A-21, Appendix C to submit ICRP to the cognizant agency for indirect costs. The cognizant agency for indirect costs may, on an institution-by-institution basis, grant exceptions from all or portions of Part II of the standard format. This requirement does not apply to educational institutions that use the simplified method for calculating indirect cost rates, as described in A-21, section H.

## **2. *Audit Objectives – Indirect Costs***

- a. *For educational institutions that charge indirect costs to Federal awards based on federally approved rate(s):*
  - (1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_.500(c).
  - (2) Determine that the rate(s) used to charge indirect costs is consistent with the appropriate cognizant Federal agency rate agreement (A-21, section G.11).
  - (3) Determine that the federally approved rate in effect at the time of the initial award is applied throughout the life of the sponsored agreement. “Life” means each competitive segment of a project. A competitive segment is a period of years approved by the Federal-funding agency at the time of the award (A-21, section G.7).

- (4) Determine that the federally approved rate(s) were applied to the appropriate distribution base (A-21, section G.2).
  - (5) Determine that indirect costs billed to sponsored agreements are the result of applying the approved rate(s) to the appropriate base amount(s).
- b. *For educational institutions that charge indirect costs to Federal awards based on rate(s) which are not approved by the cognizant Federal agency:*
- (1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_.500(c).
  - (2) Determine the educational institution's cognizant Federal agency for approving indirect cost rates in accordance with A-21, section G.11.
  - (3) Determine whether an ICRP was prepared, certified, and submitted by the educational institution to their cognizant Federal agency. (The Federal agency is responsible for negotiating and approving indirect cost rates). Verify that billings are based on the ICRP.
  - (4) Determine that the submitted rate(s) were applied to the appropriate distribution base (a-21, section G.2).
  - (5) Determine that indirect costs billed to sponsored agreements are the result of applying the submitted rate(s) to the appropriate base amount(s).
- c. *For educational institutions that charge indirect costs to Federal awards based on award-specific rate(s) approved by an awarding agency:*
- (1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_.500(c).
  - (2) Determine that the award-specific rate(s) are the result of special circumstances such as required by law or regulation, in accordance with A-21, section G.11.
  - (3) Determine whether indirect cost rates were applied in accordance with the approved special award provisions or limitations. Associated billings were the result of applying the approved rate to the proper base amount.
  - (4) When the maximum amount of allowable indirect costs under a limitation (i.e. an award-specific rate) is less than the total amount determined in accordance with the principles in A-21, the amount not recoverable under a sponsored agreement may not be charged to other sponsored agreements (A-21, section C.7).

**3. *Suggested Internal Control Audit Procedures – Indirect Costs***

- a. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. 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.

**4. *Suggested Compliance Audit Procedures – Indirect Costs***

- a. Test a sample of transactions for conformance with the following criteria contained in A-21 and CAS, as applicable.
- b. *For educational institutions that charge indirect cost to Federal awards based on federally approved rate(s):*
  - (1) Ascertain if indirect costs or centralized or administrative services costs were allocated or charged to a major program. If not, the following suggested audit procedures do not apply.
  - (2) Obtain and read the current indirect cost rate agreement and determine the terms in effect.
  - (3) Select a sample of claims for reimbursement and verify that the rates used are in accordance with the rate agreement, that rates were applied to the appropriate bases, and that the amounts claimed were the product of applying the rate to the applicable base. Verify that the costs included in the base(s) are consistent with the costs that were included in the base year (e.g., if the allocation base is total direct costs, verify that current year direct costs do not include costs items that were treated as indirect costs in the base year).
  - (4) Ascertain if the educational institution's accounting practices for determining direct and indirect costs for the fiscal year being audited are consistent with the accounting practices used to establish the federally approved rate and its DS-2. If there accounting changes have occurred, determine if they were approved by the cognizant Federal agency. If

accounting changes have not been approved and the accounting changes impact costs charged to federally funded awards, this should be considered a reportable finding. (A-21, section C.14 and CAS, as applicable).

- c. *For educational institutions that charge indirect cost to Federal awards based on rate(s) which are not approved by the cognizant Federal agency:*
- (1) If the ICRP has been certified and submitted to the cognizant Federal agency and is based on costs incurred in the year being audited, then the ICRP should be audited for compliance with the provisions of A-21 and CAS, as applicable.
  - (2) If the educational institution has a certified ICRP, which is based on costs incurred in the year being audited, but has not submitted it to their Federal cognizant agency. The ICRP should be audited using the procedures listed below.
    - (a) Test the indirect cost pool groupings for compliance with A-21, section F.
    - (b) Test the indirect cost pools to determine if costs are allowable.
    - (c) Test that indirect costs have been treated consistently when incurred for the same purpose, in like circumstances, as indirect costs only with respect to final cost objectives. No final cost objective shall have allocated to it as a cost any cost, if another cost incurred for the same purpose, in like circumstances, has been included as a direct cost of that or any other final cost objective (A-21, section C.11).
    - (d) Test that the indirect cost pools in the rate proposal were developed consistent with the educational institution's disclosed practices as described in its DS-2, if applicable (A-21, section C.14).
    - (e) Test the *depreciation and use allowance* cost pool to determine if:
      - (i) Computations of depreciation or use allowance are based on the acquisition cost of the assets. Acquisition costs exclude (A) the cost of land; (B) any portion of the cost of buildings and equipment borne by the Federal Government, irrespective of where title was originally vested or where it is presently located; and (C) any portion of the cost of buildings and equipment contributed by or for the educational institution where law or agreement prohibit recovery (A-21, section J.14).

- (ii) The depreciation method used to charge the cost of an asset (or group of assets) to accounting periods reflects the pattern of consumption of the asset during its useful life (A-21, section J.14).
  - (iii) Charges for use allowances or depreciation are supported by adequate property records and physical inventories, which must be taken at least once every 2 years (A-21, section J.14).
  - (iv) The depreciation methods used to calculate the depreciation amounts for the ICRP are the same methods used by the educational institution for its financial statements (A-21, section J.12).
  - (v) The allocation method for the depreciation and use allowance cost pool complies with A-21, section F.2.
  - (vi) Gains and losses on the sale, retirement, or other disposition of depreciable property have been appropriately accounted for and complies with A-21, section J.21.
  - (vii) *Large research facilities* – Determine that large research facilities that are included in ICRPs negotiated after January 1, 2000, and on which the design and construction began after July 1, 1998, are compliant with the provisions for determining allowable costs in A-21, section F.2.c.
- (f) Test the *interest* cost pool to determine if:
- (i) Computations for interest comply with the provisions of A-21, section J.26.
  - (ii) The allocation method for the interest cost pool complies with A-21, section F.3.
- (g) Test the *operations and maintenance* cost pool to determine if:
- (i) Costs are appropriately classified in this cost pool (A-21, section F.4).
  - (ii) Rental costs comply with the provision of A-21, section J.43.
  - (iii) The educational institution's accounting practices for classifying (A) rearrangement and alteration costs and (B) reconversion costs, either as direct or indirect, result in consistent treatment in like circumstances.

- (iv) The allocation method for the operations and maintenance cost pool complies with A-21, section F.4.
- (h) Tests the *library* cost pool to determine if:
  - (i) Costs are appropriately classified in this cost pool (A-21, section F.8).
  - (ii) The allocation method for the library cost pool complies with A-21, section F.8.
  - (iii) If the allocation method is based on a cost analysis study in accordance with A-21, section E.2.d, determine that the study:
    - (A) Results in an equitable distribution of costs and represents the relative benefits derived,
    - (B) Is appropriately documented in sufficient detail for review by the cognizant Federal agency,
    - (C) Is statistically sound,
    - (D) Is performed specifically at the educational institution,
    - (E) Is reviewed every 2 years, and, if necessary, updated, and
    - (F) Assumptions are clearly stated and adequately explained.
- (i) Test the *administrative* cost pools to determine if:
  - (i) Costs are appropriately classified in these cost pools and the distribution bases are compliant with A-21, sections F.5, F.6, and F.7.
  - (ii) The administrative cost components comply with the limitation on reimbursement of administrative cost in A-21, section G.8. If the proposal is based on the alternative method for administrative cost in A-21, section G.9, then the limitation does not apply. If the proposal is based on the alternative method for administrative cost, determine that the educational institution meets the criteria of section G.9 and that this is adequately documented in the proposal.



- (iii) *Departmental administration expense pool* – test to determine that this cost pool complies with A-21, section F.6.
- (iv) *Academic Deans' Offices* – test that salaries and operating expenses are limited to those attributable to administrative functions.
- (v) *Academic Departments* – Salaries and fringes attributable to the administrative work (including bid and proposal preparation) of faculty (including department heads), and other professional personnel conducting research and/or instruction, is allowed at a rate of 3.6 percent of modified total direct costs. This category should not include professional business or administrative officers. Determine that this allowance is added to the computation of the indirect cost rate for major functions. Test to determine that the expense covered by this allowance are excluded from the departmental cost pool (A-21, section F.6).

Test for consistent treatment, in like circumstances, of other administrative and supporting expenses incurred within academic departments. For example, items such as office supplies, postage, local telephone, and memberships shall normally be treated as indirect costs.

- (3) If the ICRP has been certified and submitted to the cognizant Federal agency, but is based on costs incurred in a fiscal year prior to the fiscal year being audited, a review of the ICRP is not required.
  - (4) If an ICRP has not been prepared and, therefore, the indirect costs charged to Federal awards are not based on a certified ICRP, this may be required to be reported as an audit finding, in accordance with OMB Circular A-133, §\_\_.510(a)(5).
  - (5) *Application of an indirect cost rate(s) not approved by the cognizant agency* – Even though the rate(s) has not been approved by the cognizant agency, an unapproved indirect cost rate(s) should be reviewed for consistent application of the submitted rates to direct cost bases to ensure that the indirect cost rate(s) is applied consistent with the educational institution's policies and procedures that apply uniformly to both federally funded and other activities of the institutions.
- d. *For educational institutions that also have awards containing award-specific rates (approved by the Federal awarding agency) that take precedence over the negotiated rate for purposes of indirect cost recovery:*

- (1) Ascertain that the award-specific rate is in accordance with special circumstances required by law or regulation.
- (2) Obtain and review the award terms used to establish an award-specific indirect cost rate(s).
- (3) Select a sample of claims for reimbursement and verify that the award-specific rate(s) used are in accordance with the terms of the award, that rate(s) 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 terms of the agreement.

### **Allowable Costs – Special Requirements – Cost Accounting Standards and Disclosure Statements**

#### ***1. Compliance Requirement – CAS and Disclosure Statements***

- a. A-21, section C.14 requires educational institutions (institutions) that receive more than \$25 million in Federal funding in a fiscal year to prepare and submit a Disclosure Statement (DS-2) that describes the institution's cost accounting practices. These institutions are required to submit a DS-2 within 6 months after the end of the institution's fiscal year that begins after May 8, 1996, unless the institution is required to submit a DS-2 earlier due to a receipt of a CAS-covered contract in accordance with 48 CFR section 9903.202-1.
- b. These institutions are responsible for maintaining an accurate DS-2 and complying with disclosed cost accounting practices. They are also responsible for filing amendments to the DS-2 when disclosed practices are changed or modified. Amendments should be provided to the cognizant Federal agency for approval.
- c. Federal Acquisition Regulation (FAR) Appendix subpart 9903.201-2, Types of CAS Coverage, requires educational institutions to comply with all of the CAS specified in part 9905 that are in effect on the effective date of a covered contract. Negotiated contracts in excess of \$500,000 are CAS-covered, except for CAS-covered contracts awarded to Federally Funded Research and Development Centers (FFRDCs) operated by an educational institution, which are subject to part 9904.

#### ***2. Audit Objectives – CAS and Disclosure Statements***

- a. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_.500(c).
- b. Determine whether the educational institution's DS-2 is current, accurate, and complete and that it has been approved by the cognizant Federal agency as adequate and compliant with A-21 and CAS (48 CFR part 9905).

- c. Determined whether the educational institution's actual accounting practices are consistent with its disclosed accounting practices.
- d. Determine whether amendments have been filed with and approved by the cognizant Federal agency.
- e. Determine whether the educational institution's accounting practices for direct and indirect costs comply with CAS applicable to educational institutions (48 CFR part 9905).

**3. *Suggested Internal Control Audit Procedures – CAS and Disclosure Statements***

- a. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. 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.

**4. *Suggested Compliance Audit Procedures – CAS and Disclosure Statements***

- a. Obtain a copy of the educational institution's DS-2, amendments, and letters of approval from the cognizant Federal agency.
- b. Read the DS-2 and its amendments and ascertain if the disclosure agrees with the policies prescribed in the educational institution's current policies and procedures documents.
- c. Test that the disclosure agrees with actual practices for the period covered by audit, including whether the practices were consistent throughout the period.
- d. Test direct and indirect charges to Federal awards to determine that the educational institution's practices used in estimating the costs in the proposal were consistent with the institution's cost accounting practices used in accumulating and reporting the costs (A-21, section C.10 and FAR Appendix subpart 9905.501).

- e. For those costs which are sometimes charged direct and sometimes charged indirect, test for consistent classification of these costs, when incurred for the same purpose and under like circumstances (A-21, section C.11 and FAR Appendix subpart 9905.502). For example:
  - (1) Salaries of administrative and clerical staff are normally treated as indirect costs; however, they may be charged direct to a major project or activity under certain conditions. Sample these costs when they have been charged direct to Federal awards to determine consistent treatment for non-Federal awards, instructional activity, or other institutional activity (A-21, section F.6.).
  - (2) Office supplies, postage, local telephone costs and memberships are normally treated as indirect. Sample these costs when they have been charged direct to Federal awards to determine consistent treatment for non-Federal awards, instructional activity, or other institutional activity (A-21, section F.6.).
- f. Capital expenditures for general and special-purpose equipment may be charged direct to awards with approval of the awarding agency. Sample these costs when they have been charged direct to Federal awards to determine consistent treatment for non-Federal awards, instructional activity, or other institutional activity (A-21, section J.18.).
- g. Test costs direct charged to Federal awards and indirect costs accumulated in the educational institution's accounting system for adequate accounting of unallowable costs (A-21 section C.12 and FAR Appendix subpart 9905.505).
- h. Determine that the educational institution's cost accounting period for accumulating costs on Federal awards and indirect cost pools are consistent with the institution's fiscal year. If not, determine that the institution has met the criteria for an exception described in A-21, section C.13 and that it has been approved by the cognizant Federal agency (A-21, section C.13 and FAR Appendix subpart 9905.506).

### **Allowable Costs – Special Requirements – Internal Service, Central Service, Pension, or Similar Activities or Funds**

#### ***1. Compliance Requirement***

Charges made from internal service, central service, pension, or similar activities or funds, must follow the applicable cost principles provided in A-21.

#### ***2. Audit Objectives***

Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_\_.500(c). Determine whether charges made from

internal service, central service, pension, or similar activities or funds are in accordance with A-21.

### **3. *Suggested Internal Control Audit Procedures***

- a. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in OMB Circular §\_\_\_.500(c)(3), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. 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.

### **4. *Suggested Compliance Audit Procedures***

The auditor should consider procedures such as the following:

- a. For activities accounted for in separate funds, ascertain if: (1) retained earnings/fund balances (including reserves) were computed in accordance with A-21; (2) working capital reserves were 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 (3) refunds were made to the Federal Government for its share of any amounts transferred or borrowed from internal service, central service, pension, insurance, or other similar activities or funds for purposes other than to meet the operating liabilities, including interest on debt, of the fund.
- b. Test that all users of services are billed in a consistent manner.
- c. Test that billing rates exclude unallowable costs, in accordance with A-21.
- d. Test, where activities are not accounted for in separate funds, that billing rates (or charges) are developed based on actual costs and were adjusted to eliminate profits.
- e. For educational institutions that have self-insurance and certain types of fringe benefit programs (e.g., 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 which is not over 2 years old.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

## **OMB CIRCULAR A-122 COST PRINCIPLES FOR NON-PROFIT ORGANIZATIONS**

### **Introduction**

OMB Circular A-122 (A-122) establishes cost principles for determining costs of grants, contracts, and other agreements with non-profit organizations. The principles are designed to provide that the Federal Government bear its fair share of costs except where restricted or prohibited by law. These principles are used by all Federal agencies in determining the costs of work performed by non-profit organizations under grants, cooperative agreements, and cost reimbursement contracts. All of these instruments are hereafter referred to as “awards.” The principles do not apply to awards under which an organization is not required to account to the Federal Government for actual costs incurred. In addition to the cost principles established by A-122, the Cost Accounting Standards Board (CASB) has promulgated certain accounting standards that must be followed by non-profit organizations receiving procurement contracts that meet a defined dollar threshold. Generally, organizations are exempt from coverage under CAS unless a single CAS-covered contract or subcontract of at least \$7.5 million has been received. After receipt of this trigger contract, CAS coverage is applied to all negotiated awards over \$500,000 unless they meet certain exemptions. These exemptions and the requirements of CAS can be found in 48 CFR Chapter 99.

### ***Cognizant Agency***

A-122, Attachment A, paragraph E.1.a defines “cognizant agency” as the Federal agency responsible for negotiating and approving indirect cost rates for non-profit organizations on behalf of all Federal agencies. 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 indirect cost rate determination for non-profit organizations can be found at the following web sites:

- Department of Labor – <http://www.dol.gov/oasam/programs/boc/costdeterminationguide/main.htm>
- Department of Health and Human Services – [http://rates.psc.gov/fms/dca/np\\_exall2.html](http://rates.psc.gov/fms/dca/np_exall2.html)
- Department of Education – <http://www.ed.gov/about/offices/list/ocfo/fipao/abouticg.html> - [how-are indirect cost rates determined.](#)

## Allowable Costs – General Criteria

### 1. *Basic Considerations to Determine Cost*

The basic considerations used to determine costs (direct and indirect) are identified in A-122, Attachment A, paragraph A and include the following:

- a. *Composition of cost* – The total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits. The term “applicable credits” refers to those receipts, or reduction of expenditures that operate to offset or reduce expense items that are allocable to awards as direct or indirect costs.
- b. *Allowable costs* – A cost is allowable under an award if the cost meets the following general criteria:
  - (1) Be reasonable for the performance of the award and be allocable in accordance with A-122.
    - (a) A cost is reasonable if, in its nature or 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. Consideration should be given to:
      - (i) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.
      - (ii) The restraints or requirements imposed by such factors as generally accepted sound business practices, arms-length bargaining, Federal and State laws and regulations, and terms and conditions of the award.
      - (iii) Whether the individuals concerned acted with prudence in the circumstances.
      - (iv) Significant deviations from the established practices of the organization that may unjustifiably increase the award costs.
    - (b) A cost is allocable to a particular cost objective, such as a grant, contract, project, service or other activity, in accordance with the relative benefits received. Any cost allocable to a particular award or other cost objective under A-122 may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or terms of the award. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:



- (i) Is incurred specifically for the award.
  - (ii) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received.
  - (iii) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.
- (2) Conform to any limitations or exclusions set forth in A-122 or in the award.
- (3) Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization.
- (4) Be accorded consistent treatment.
- (5) Be determined in accordance with generally accepted accounting principles (GAAP).
- (6) Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program in either the current or a prior period.
- (7) Be adequately documented.
- (8) Be net of all applicable credits.

## **2. *Selected Items of Cost***

A-122, Attachment B, paragraphs 1 through 52, provide principles to be applied in establishing the allowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. Failure to mention a particular item of cost is not intended to imply that it is unallowable; rather, determination as to allowability in each case should be based on the treatment or principles provided for similar or related items of cost.

### **Allowable Costs – Direct Costs**

#### **1. *Compliance Requirements – Direct Costs***

Direct costs are those that can be identified specifically with a particular final cost objective, i.e., award, project or other activity of the organization. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where accounting treatment for such cost is consistently applied to all final cost objectives.

Certain direct costs are unallowable for computing charges to Federal awards, nonetheless they must be treated as direct costs for determining indirect cost rates and be allocated their share of indirect costs if they represent activities that (a) include the salaries of personnel, (b) occupy space, and (c) benefit from the organization's indirect costs. The cost of activities performed primarily as a service to members, clients, or the general public when significant and necessary to the organization's mission must be treated as direct costs—whether or not allowable—and be allocated a share of indirect costs. Examples can be found in A-122, Attachment A, subparagraph B.4.

If the auditor identifies unallowable direct costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost that would not have been incurred if the other cost had not been incurred. For example, fringe benefits are directly associated with payroll costs. When a payroll cost is determined to be unallowable than the directly associated fringe benefit would be determined unallowable as well.

## **2. *Audit Objectives – Direct Costs***

- a. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_.500(c).
- b. Determine whether the organization complied with the provisions of A-122 and CAS (if applicable) as follows:
  - (1) Direct charges to Federal awards were for allowable costs.
  - (2) Unallowable costs, determined to be direct costs, should be included in the allocation base for the purpose of computing an indirect cost rate.

## **3. *Suggested Internal Control Audit Procedures – Direct Costs***

- a. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. 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.

#### **4. *Suggested Compliance Audit Procedures – Direct Costs***

Test direct costs charged to Federal awards with the following criteria:

- a. Costs were approved by the Federal awarding agency, if required. (See Exhibit 1, Selected Items of Cost, in this part of the Supplement.)
- b. Costs conform to the allowability of cost provisions of A-122, or limitations in the program agreement, program regulations, or program statute.
- c. Costs represent charges for actual costs, not budgeted or projected amounts.
- d. Costs are 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.
- e. Costs are calculated in conformity with generally accepted accounting principles, or CAS when required.
- f. Costs are not used to meet cost-sharing requirements of other federally supported activities.
- g. Costs are net of all applicable credits, e.g., volume or cash discounts, insurance recoveries, refunds, rebates, trade-ins, adjustments for checks not cashed, and scrap sales.
- h. Costs are not included as both a direct billing and as a component of indirect costs.
- i. Costs are 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.

#### **Allowable Costs – Indirect Costs**

##### **1. *Compliance Requirements – Indirect Costs***

- a. Indirect costs are those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Stated differently, indirect costs are those costs remaining after direct costs have been determined and assigned directly. While it is not possible to specify the types of costs that will be indirect, there are three major categories of indirect costs for non-profit organizations (NPOs):

- (1) *Depreciation and Use Allowance* – The expenses under this category are that portion of the costs of the organization’s buildings, capital improvements to land and buildings, and equipment, which are computed in accordance with A-122, Attachment B, section 11. Interest on debt associated with certain buildings, equipment, and capital improvements are computed in accordance with A-122, Attachment B, paragraph 23.
  - (2) *Operation and Maintenance* – The expenses under this category are those that have been incurred for the administration, operation, maintenance, preservation, and protection of the organization’s physical plant.
  - (3) *General and Administrative* – The expenses under this category are those that have been incurred for the overall general executive, and administration of the organization and other expenses of a general nature that do not relate solely to any major function of the organization.
- b. Indirect cost rate proposals (ICRPs) prepared by NPOs are based on the most current financial data, supported by the organization’s accounting system and audited financial statements. These ICRPs can be used to either establish predetermined rates, fixed rates with carry-forward provision, provisional, or final rates.
- (1) *Predetermined rates* are established for the current or multiple future period(s) based on current costs (usually costs from the most recently ended fiscal year, known as the base period).
  - (2) *Fixed rates with carry-forward provisions* – rates based on current costs in the same manner as predetermined rates. However, the difference between the base period indirect costs and actual indirect cost recovery are carried forward as an adjustment to the rate computation for the subsequent period.
  - (3) *Provisional rates* – temporary rates used for funding and billing indirect costs, pending the establishment of a final rate after actual costs are determined for the period.
  - (3) *Final rates* – indirect cost rates applicable to a specified past period based on actual costs of that period. Final rates are not subject to adjustment.
- c. Some Federal awards may contain cost limitations on recovery of indirect costs that differ from the federally negotiated indirect cost rates. Normally, this may be due to statutory requirements or limitations contained in program announcements. In these cases, the indirect cost rate approved for that award will be specified in the award letter or agreement. For these awards, the award-specific rate takes precedence over the negotiated rate for purposes of indirect cost recovery.

- d. To recover indirect costs, NPOs prepare ICRPs. The ICRP is the rate calculation and supporting schedules used to arrive at the indirect cost pool amounts and the base amounts. NPOs can select one of three different methods to calculate the indirect cost rate.

(1) *Simplified Allocation Method*

- (a) Where an organization's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by (i) separating the organization's total costs for the base period as either direct or indirect, and (ii) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate, which is used to distribute indirect costs to individual awards. The rate should be expressed as the percentage that the total amount of allowable indirect costs bears to the base selected. This method should also be used where an organization has only one major function encompassing a number of individual projects or activities, and may be used where the level of Federal awards to an organization is relatively small.
- (b) For an organization that receives more than \$10 million in Federal funding of direct costs in a fiscal year, a breakout of the indirect cost component into two broad categories, Facilities and Administration, as defined in Circular A-122, Attachment A, paragraph C.3, is required. The rate in each case shall be stated as the percentage that the amount of the particular indirect cost category (i.e., Facilities or Administration) is of the distribution base identified with that category.
- (c) A full discussion of the simplified allocation method can be found in A-122, Attachment A, subparagraphs D.2.a. through D.2.e.

(2) *Multiple Allocation Base Method*

- (a) Where an organization's indirect costs benefit its major functions in varying degrees, indirect costs shall be accumulated into separate cost groupings, as described in A-122, Attachment A, subparagraph D.3.b. Each grouping shall then be allocated individually to benefiting functions by means of a base that best measures the relative benefits. The default allocation bases by cost pool are described in A-122, Attachment A, subparagraph D.3.c.
- (b) Cost groupings shall be established so as to permit the allocation of each grouping on the basis of benefits provided to the major functions. Each grouping shall constitute a pool of expenses that are of like character in terms of functions they benefit and in terms

of the allocation base which best measures the relative benefits provided to each function. The groupings are classified within the two broad categories: "Facilities" and "Administration," as described in A-122, Attachment A, subparagraph C.3.

- (c) Except where a special indirect cost rate(s) is required in accordance with A-122, Attachment A, subparagraph D.5, the separate groupings of indirect costs allocated to each major function shall be aggregated and treated as a common pool for that function. The costs in the common pool shall then be distributed to individual awards included in that function by use of a single indirect cost rate.
- (d) Indirect costs shall be distributed to applicable sponsored awards and other benefiting activities within each major function on the basis of modified total direct costs (MTDC). MTDC consists of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first \$25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). Equipment, capital expenditures, charges for patient care, rental costs and the portion in excess of \$25,000 shall be excluded from MTDC. Participant support costs shall generally be excluded from MTDC. Other items may only be excluded when the Federal cost cognizant agency determines that an exclusion is necessary to avoid a serious inequity in the distribution of indirect costs.
- (e) A full discussion of the multiple allocation base method can be found in A-122, Attachment A, subparagraphs D.3.a. through D.3.g.

(3) *Direct Allocation Method*

- (a) Some NPOs treat all costs as direct costs except general administration and general expenses. These organizations generally separate their costs into three basic categories: (i) General administration and general expenses, (ii) fundraising, and (iii) other direct functions (including projects performed under Federal awards). Joint costs, such as depreciation, rental costs, operation and maintenance of facilities, telephone expenses, and the like are prorated individually as direct costs to each category and to each award or other activity using a base most appropriate to the particular cost being prorated.
- (b) This method is acceptable, provided each joint cost is prorated using a base which accurately measures the benefits provided to each award or other activity. The bases must be established in accordance with reasonable criteria, and be supported by current data.

- (c) A full discussion of the direct allocation base method can be found in A-122, Attachment A, subparagraph D.4.a. through D.4.c.

## **2. *Audit Objectives – Indirect Costs***

- a. *For NPOs that charge indirect costs to Federal awards based on federally approved rates:*
  - (1) Obtain an understanding of internal controls, assess risk, and test internal controls as required by OMB Circular A-133, §\_\_\_\_.500(c).
  - (2) Determine whether the organization complied with the provisions of A-122 and CAS (if applicable) as follows:
    - (a) Indirect cost rates were applied in accordance with approved rate agreements and any special award provisions/limitations (if different from those stated in the negotiated rate agreement).
    - (b) Associated billings were the result of applying the approved rate to the proper base amount(s).
  - (3) For fixed rate agreements, predetermined rate agreements, and provisional rate agreements determine whether the base used to distribute the approved indirect cost rate is accurate and reflects the terms of the agreement.
  - (4) For fixed rate agreements, determine whether the organization has adequately determined the actual indirect costs for the fiscal year being audited and performed the necessary computations to accurately report the carry-forward adjustment to the rate computation for the subsequent period.
- b. *For NPOs that charge indirect costs to Federal awards that are not based on federally approved rates:*
  - (1) Obtain an understanding of internal controls, assess risk, and test internal controls as required by OMB Circular A-133, §\_\_\_\_.500(c).
  - (2) Determine whether costs that are directly allocated to an award using the Direct Allocation Method are prorated using a base that accurately measures the benefits provided to each award or activity.
  - (3) Determine whether an ICRP was prepared and submitted to the organization's cognizant agency (the Federal agency responsible for negotiating and approving indirect cost rates) as required by A-122. Verify that billings are based on the ICRP.

- (4) Determine whether the NPO's calculated indirect cost rate is (a) consistent with policies and procedures that apply uniformly to both federally funded and other activities of the organization, and (b) applied consistently to the proper allocation bases.
  - (5) Determine whether the organization complied with the provisions of A-122 and CAS as follows:
    - (a) Charges to indirect cost pools were for allowable costs.
    - (b) The base used to distribute indirect costs includes both allowable and unallowable costs.
    - (c) The cost allocation methodology provides equitable and consistent allocation of indirect costs to benefiting awards or activities.
- c. *For NPOs that also have awards containing award-specific rates (approved by the Federal awarding agency) that take precedence over the negotiated rate for purposes of indirect cost recovery:*
- (1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_.500(c).
  - (2) Determine if the award-specific rate(s) is the result of special circumstances, e.g., required by law or regulation.
  - (3) Determine whether indirect cost rates were applied in accordance with the approved special award provisions or limitations. Associated billings were the result of applying the approved rate to the proper base amount.
  - (4) When the maximum amount of allowable indirect costs under a limitation (i.e. an award-specific rate) is less than the total amount determined in accordance with the principles in A-122, the amount not recoverable under a sponsored agreement may not be charged to other sponsored agreements.

### **3. *Suggested Internal Control Audit Procedures – Indirect Costs***

- a. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.



- c. 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.

#### **4. *Suggested Compliance Audit Procedures – Indirect Costs***

- a. *For NPOs that charge indirect costs to Federal awards based on federally approved rates:*
  - (1) Ascertain if indirect costs are material for the major programs being tested. If not, the following suggested audit procedures, b. through e., do not apply.
  - (2) Obtain and read the current indirect cost rate agreement, including the proposal used in the negotiation of the agreement, and determine the terms in effect.
  - (3) Ascertain whether the indirect cost rate agreement uses a pre-determined rate, fixed rate, provisional rate, or final rate. For definitions of these rates, see A-122, Attachment A, subparagraphs E (b) through (e).
    - (a) If a fixed rate agreement with carry-forward provisions has been negotiated with the cognizant agency, determine that the difference between the indirect costs recovered using the fixed rate and the actual indirect costs of the period has been calculated. This adjustment is to be carried forward to the rate computation of the subsequent period.
    - (b) If a provisional rate was used to bill for indirect costs, determine whether a final rate has been established and appropriate claim adjustments have been made based on the final approved rate.
  - (4) For NPOs required to file Disclosure Statements (48 CFR section 9903.202), ascertain if the cognizant agency for indirect cost negotiation has been appropriately notified of changes in the cost accounting practices that occurred during the year to which indirect cost rate agreements are being applied.
    - (1) Select a sample of claims for reimbursement:
      - (a) Verify that the rates used are in accordance with the rate agreement and the amounts claimed were the product of applying the rate to the applicable base.
      - (b) Verify that the base includes both allowable and unallowable costs.

- (c) When the base is total direct costs or modified total direct costs, verify that the distribution base has been properly calculated and excludes capital expenditures and other distorting items such as major subcontracts or subgrants in excess of \$25,000 as approved in the negotiated rate agreement or by the cognizant Federal agency.
- b. *For NPOs that charge indirect costs to Federal awards that are not based on federally approved rates:*
- (1) Determine if the indirect costs are based on a certified ICRP that has been submitted to (but not approved by) the NPO's Federal cognizant agency as required by A-122, Attachment A, subparagraph E. If the ICRP is based on costs incurred in the year being audited, then the ICRP should be audited for compliance with the provisions of A-122 (see procedures in paragraphs 4.b(1)(a) through (1)(c) below).

Note: If the NPO has a certified ICRP, which is based on costs incurred in the year being audited, but it has not been submitted to the Federal cognizant agency, the ICRP should still be audited using the procedures in paragraphs 4.b(1)(a) through (1)(c) below.

- (a) The following procedures should be applied to costs in the indirect cost pool used for recovering indirect costs from Federal awarding agencies. These costs must:
  - (i) Be approved by the Federal awarding agency, if required.
  - (ii) Conform to the allowability of cost provisions of A-122, or limitations in the award agreement, program regulations, or program statute.
  - (iii) Conform to the allocability provisions of A-122 or CAS.
  - (iv) Represent charges for actual costs, not budgeted or projected amounts.
  - (v) With respect to fringe benefit allocations, charges, or rates, be based on the benefits received by different classes of employees within the organization.
  - (vi) Be applied uniformly to Federal and non-Federal activities.
  - (vii) Be calculated in conformity with CAS or generally accepted accounting principles, as required.
  - (viii) Not be used to meet cost-sharing requirements of other federally supported activities.

- (ix) Be net of all applicable credits, e.g., volume or cash discounts, insurance recoveries, refunds, rebates, trade-ins, adjustments for checks not cashed, and scrap sales.
  - (x) Not be included as both a direct billing and as a component of indirect costs.
  - (xi) Be 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.
  - (xii) Be 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.
- (b) The following procedures should be applied to costs in the base(s) for recovering indirect costs from Federal awarding agencies. Determine whether:
- (i) All direct costs, including unallowable costs, are identified and included in the base for indirect cost allocations.
    - (A) For fixed price agreements, all direct costs are recorded for the purpose of allocating indirect costs.
    - (B) For cost-reimbursement awards or contracts that include line item costs that exceed budget limits, all direct costs are recorded for the purpose of allocating indirect costs.
  - (ii) Costs have been recorded in accordance with CAS, generally accepted accounting principles, or other comprehensive basis of accounting, as appropriate.
  - (iii) Costs have been assigned to the correct cost objective or activity.
  - (iv) Costs have been given consistent accounting treatment within and between accounting periods.
- (c) The following procedures should be applied to costs allocated using the Direct Allocation Method:
- (i) 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.

- (ii) Review time studies or time and effort reports (where and if used) to ascertain if they are accurate, are implemented as approved, and are based on the actual effort devoted to the various functional and programmatic activities to which the salary and wage costs are charged.
    - (iii) Review the allocation methodology for consistency and test the appropriateness of allocation methods used.
  - (2) Determine if the indirect costs are based on a certified ICRP that has been submitted to (but not approved by) the NPO's Federal cognizant agency as required by A-122, Attachment A subparagraph E. If the ICRP is not based on costs incurred in the year being audited (e.g., the year being audited is fiscal year 2004, but the ICRP is based on fiscal year 2003 costs), a review of the ICRP is not required.
  - (3) If the indirect costs are not based on a certified and submitted ICRP, in accordance with A-122, this may be required to be reported as an audit finding in accordance with OMB Circular A-133, §\_\_.510(a)(5).
  - (4) *Application of indirect cost rates which are not approved by the cognizant agency* – Even though the rate(s) have not been approved by the cognizant agency, unapproved indirect cost rate(s) should be reviewed for consistent application of the submitted rates to direct cost bases to ensure that the indirect cost rate(s) are applied consistent with the NPO's policies and procedures that apply uniformly to both federally-funded and other activities of the NPO (A-122, Attachment A, paragraph A.(2)(c)).
- c. For NPOs that also have awards containing award-specific rates (approved by the Federal awarding agency) that take precedence over the negotiated rate for purposes of indirect cost recovery:
- (1) Ascertain that the award-specific rate is only being used for the approved award.
  - (2) Obtain and read the award terms used to establish an award-specific indirect cost rate(s).
  - (3) Select a sample of claims for reimbursement and verify that the award specific rate(s) is in accordance with the terms of the award, that the rate(s) was applied to the appropriate base(s), and that the amount claimed is the product of applying the rate to the applicable base. Verify that the cost included in the base(s) is consistent with the terms of the agreement.

**Allowable Costs – Special Requirements – Unallowable Direct Costs****1. Compliance Requirements – Unallowable Direct Costs**

- a. The costs of certain activities are not allowable as charges to Federal awards (see, for example, fundraising costs in A-122, Attachment B, paragraph 17.a). However, even though these costs are unallowable for purposes of computing charges to Federal awards, they nonetheless must be treated as direct costs for purposes of determining indirect cost rates and be allocated their share of the organization's indirect costs if they represent activities which (1) include the salaries of personnel, (2) occupy space, and (3) benefit from the organization's indirect costs.
- b. Costs should be recorded in the organization's cost records as direct or indirect costs based on their relationship to the cost objectives or activities. The costs of activities performed primarily as a service to members, clients, or the general public when significant and necessary to the organization's mission must be treated as direct costs—whether or not allowable—and be allocated an equitable share of indirect costs.

**2. Audit Objectives – Unallowable Direct Costs**

- a. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_.500(c).
- b. Determine whether all unallowable costs categorized as direct costs are included in the allocation base for the purpose of allocating indirect costs.

**3. Suggested Internal Control Audit Procedures – Unallowable Direct Costs**

- a. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. 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.

**4. Suggested Compliance Audit Procedures – Unallowable Direct Costs**

- a. Determine whether all unallowable costs categorized as direct costs are included in the allocation base for the purpose of allocating indirect costs.
- b. Determine whether the following costs are charged as direct costs and allocated an equitable share of indirect costs.
  - (1) Maintenance of membership rolls, subscriptions, publications, or related functions.
  - (2) Providing services and information to members, legislative or administrative bodies, or the public.
  - (3) Meetings and conferences except those held to conduct the general administration of the organization.
  - (4) Maintenance, protection, and investment of special funds not used in operation of the organization.
  - (5) Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirements plans, financial aid, etc.

**Special Requirements – Disclosure Statements (DS-1) Required by Cost Accounting Standards****1. Compliance Requirements – CAS and Disclosure Statements**

- a. Pub. L. 100-679 (41 USC 422) requires certain contractors and subcontractors (which includes NPOs) to comply with CAS and to disclose in writing and follow consistently their cost accounting practices.
- b. 48 CFR section 9903.201-1 (FAR Appendix) describes the rules for determining whether a proposed contract or subcontract is exempt from CAS. Negotiated contracts not exempt in accordance with 48 CFR section 9903.201-1(b) are subject to CAS. A CAS-covered contract may be subject to either full or modified coverage. The rules for determining whether full or modified coverage applies are in 48 CFR section 9903.201-2 (FAR Appendix).
  - (1) Full coverage requires that a business unit comply with all the CAS specified in part 9904 that are in effect on the date of the contract award and with any CAS that become applicable because of later award of a CAS-covered contract. Full coverage applies to contractor business units that (a) receive a single CAS-covered contract award of \$50 million or more; or (b) receive \$50 million or more in net CAS-covered awards during their preceding cost accounting period (48 CFR section 9903.201-2(a)).

- (2) *Modified Coverage* (48 CFR section 9903.201-2(b))
- (a) Modified CAS coverage requires only that the contractor comply with Standard 9904.401, Consistency in Estimating, Accumulating, and Reporting Costs; Standard 9904.402, Consistency in Allocating Costs Incurred for the Same Purpose; Standard 9904.405, Accounting for Unallowable Costs; and Standard 9904.406, Cost Accounting Standard—Cost Accounting Period. Modified, rather, than full, CAS coverage may be applied to a covered contract of less than \$50 million awarded to a business unit that received less than \$50 million in net CAS-covered awards in the immediately preceding cost accounting period.
  - (b) If any one contract is awarded with modified CAS coverage, all CAS-covered contracts awarded to that business unit during that cost accounting period must also have modified coverage with the following exception: if the business unit receives a single CAS-covered contract award of \$50 million or more, that contract must be subject to full CAS coverage. Thereafter, any covered contract awarded in the same cost accounting period must also be subject to full CAS coverage.
  - (c) A contract awarded with modified CAS coverage shall remain subject to such coverage throughout its life regardless of changes in the business unit's CAS status during subsequent cost accounting periods.
- b. 48 CFR section 9903.202 (FAR Appendix) describes the general Disclosure Statement requirements. A Disclosure Statement is a written description of a contractor's cost accounting practices and procedures. The submission of a new or revised Statement is not required for any non-CAS covered contract or from any small business concern. Completed Disclosure Statements are required under the following circumstances:
- (1) Any business unit that is selected to receive a CAS-covered contract or subcontract of \$50 million or more shall submit a Disclosure Statement before award.
  - (2) Any company which, together with its segments, receive net awards of negotiated prime contracts and subcontracts subject to CAS totaling \$50 million or more in its most recent cost accounting period, must submit a Disclosure Statement before award of its first CAS-covered contract in the immediately following cost accounting period. However, if the first CAS-covered contract is received within 90 days of the start of the cost accounting period, the contractor is not required to file until the end of the 90 days.

- c. 48 CFR section 9903.201-7 (FAR Appendix) describes the cognizant Federal agency responsibilities.
  - (1) The requirements of part 9903 shall, to the maximum extent practicable, be administered by the cognizant Federal agency responsible for a particular contractor organization or location, usually the Federal agency responsible for negotiating indirect cost rates on behalf of the Government.
  - (2) The cognizant Federal agency should take the lead role in administering the requirements of Part 9903 and coordinating CAS administrative actions with all affected Federal agencies. When multiple CAS-covered contracts or more than one Federal agency are involved, agencies should discourage Contracting/Grants Officers from individually administering CAS on a contract-by-contract basis. Coordinated administrative actions will provide greater assurances that individual contractors follow their cost accounting practices consistently under all their CAS-covered contracts and that changes in cost accounting practices or CAS noncompliance issues are resolved, equitably, in a uniform overall manner.

## **2. *Audit Objectives – CAS and Disclosure Statements***

- a. Determine whether the NPO's accounting practices, for direct and indirect costs, are compliant with CAS, based on its required CAS coverage (full or modified).
- b. Determine whether the NPO's Disclosure Statement (including amendments) is current, accurate, complete, and properly filed with the cognizant Federal Administrative Officer in accordance with 48 CFR section 9903.202-5.
- c. Determine whether the NPO's actual accounting practices are consistent with its disclosed practices.

## **3. *Suggested Internal Control Audit Procedures – CAS and Disclosure Statements***

- a. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. 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.

#### **4. *Suggested Compliance Audit Procedures – CAS and Disclosure Statements***

- a. Determine whether the NPO has any CAS-covered contract or subcontracts. If so, determine which type of CAS coverage is applicable (full or modified) and if a Disclosure Statement is required to be submitted to the cognizant Federal agency.
- b. Test the NPO's actual accounting practices for direct and indirect costs are compliant with applicable CAS.
- c. If a Disclosure Statement is required, obtain a copy and any amendments. Review these to ensure the disclosures are current, accurate, compliant with CAS, and approved by the cognizant Federal agency.
- d. Test whether the NPO's actual accounting practices are consistent with the disclosed practices.

### **Allowable Costs – Special Requirements – Internal Service, Central Service, Pension, or Similar Activities or Funds**

#### **1. *Compliance Requirement***

NPOs using internal service, central service, pension, or similar activities or funds must follow the applicable cost principles found in A-122.

#### **2. *Audit Objectives***

Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_.500(c). Determine whether charges are made from internal service, central service, pension, or similar activities or funds, are in accordance with A-122.

#### **3. *Suggested Internal Control Audit Procedures***

- a. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.

- c. 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.

#### **4. *Suggested Compliance Audit Procedures***

Perform the following procedures as applicable:

- a. For activities accounted for in separate funds, ascertain that: (1) retained earnings/fund balances (including reserves) were computed in accordance with the applicable cost principles; (2) working capital reserves were 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 (3) refunds were made to the Federal Government for its share of any amounts transferred or borrowed from internal service, central service, pension, insurance, or other similar activities or funds for purposes other than to meet the operating liabilities, including interest on debt, of the fund.
- b. Test that all users of services are billed in a consistent manner.
- c. Test that billing rates exclude unallowable costs in accordance with A-122.
- d. Test, where activities are not accounted for in separate funds, that billing rates (or charges) are developed based on actual costs and were adjusted to eliminate profits.
- e. For organizations that have self-insurance and a certain type of fringe benefit programs (e.g., 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 which is not over two years old.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

## C. CASH MANAGEMENT

### Compliance Requirements

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, recipients 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 grantees 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 non-profit entities on Federal fund balances in excess of \$250 is required to be remitted to 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. No. 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 in Subpart B of 31 CFR part 205 (Subpart B).

The requirements for cash management are contained in the OMB Circular 102 (Paragraph 2.a.), the A-102 Common Rule (§\_\_\_\_.21), OMB Circular A-110 (§\_\_\_\_.22), Treasury regulations at 31 CFR part 205, Federal awarding agency regulations, and the terms and conditions of the award.

### Availability of Other Information

Treasury's Financial Management Service maintains a Cash Management Improvement Act page on the Internet (<http://www.fms.treas.gov/cmia/>).

### 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 States have complied with the terms and conditions of the Treasury-State Agreement or Subpart B procedures prescribed by Treasury.
4. 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.
5. Determine whether interest earned on advances was reported/remitted as required.

### **Suggested Audit Procedures – Internal Control**

1. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for cash management and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. 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.

### **Suggested Audit Procedures – Compliance**

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

#### *States*

1. For programs tested as major for States, verify which of those programs are covered by the Treasury-State Agreement in accordance with the materiality thresholds in 31 CFR section 205.5, Table A).
2. For those programs identified in procedure 1, determine the funding techniques used for those programs. For those funding techniques that require clearance patterns to schedule the transfer of funds to the State, review documentation supporting the clearance pattern and verify that the clearance pattern conforms to the requirements for developing and

maintaining clearance patterns as specified in the Treasury-State Agreement (31 CFR sections 205.12, 205.20, and 205.22).

3. Select a sample of Federal cash draws and verify that:
  - a. The timing of the Federal cash draws was in compliance with the applicable funding techniques specified in the Treasury-State Agreement or Subpart B procedures, whichever is applicable (31 CFR sections 205.11 and 205.33).
  - b. To the extent available, program income, rebates, refunds, and other income and receipts were disbursed before requesting additional Federal cash draws as required by the A-102 Common Rule (§\_\_\_\_.21) and OMB Circular A-110 (§\_\_\_\_.22).
4. Where applicable, select a sample 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 (31 CFR section 205.12(b)(5)).
5. Review the calculation of the interest obligation owed to or by the Federal Government, reported on the annual report submitted by the State to ascertain that the calculation was in accordance with Treasury regulations and the terms of the Treasury-State Agreement or Subpart B procedures. Trace amounts used in the calculation to supporting documentation.

#### *States and Other Recipients*

6. For those programs where Federal cash draws are passed through to subrecipients:
  - a. Select a representative sample of 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 (A-102 Common Rule §\_\_\_\_.37(a)(4)).
  - b. Select a representative sample of Federal cash draws by subrecipients and ascertain that they conformed to the procedures.

#### *Other Recipients and Subrecipients*

7. For those programs that received advances of Federal funds, ascertain 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.
8. Select a sample of Federal cash draws and verify that:
  - a. Established procedures to minimize the time elapsing between drawdown and disbursement were followed.

- b. To the extent available, program income, rebates, refunds, and other income and receipts were disbursed before requesting additional cash payments as required by the A-102 Common Rule (§\_\_\_\_.21) and OMB Circular A-110 (§\_\_\_\_.22).
- 9. Where applicable, select a sample 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.
- 10. 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.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

## **D. DAVIS-BACON ACT**

### **Compliance Requirements**

When required by the Davis-Bacon Act, the Department of Labor's (DOL) governmentwide implementation of the Davis-Bacon Act, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 3141-3144, 3146, and 3147 (formerly 40 USC 276a to 276a-7)).

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (*OMB No. 1215-0149*).

The requirements for Davis-Bacon are also contained in the A-102 Common Rule (§\_\_\_\_.36(i)(5) and OMB Circular A-110 (Appendix A Contract Provisions).

### **Availability of Other Information**

The U.S. Department of Labor, Employment Standards Administration, maintains a Davis-Bacon and Related Acts Internet page (<http://www.dol.gov/esa/programs/dbra/index.htm>). Optional Form WH-347 and instructions are available on this Internet page.

### **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 non-Federal entity notified contractors and subcontractors of the requirements to comply with the Davis-Bacon Act and obtained copies of certified payrolls.

### **Suggested Audit Procedures – Internal Control**

1. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.

2. Plan the testing of internal control to support a low assessed level of control risk for Davis-Bacon Act and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. 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.

### **Suggested Audit Procedures – Compliance**

1. Select a sample of construction contracts and subcontracts greater than \$2000 that are covered by the Davis-Bacon Act and perform the following procedures:
  - a. Verify that the required prevailing wage rate clauses were included.
  - b. Verify that the contractor or subcontractor submitted weekly the required certified payrolls.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.



## **E. ELIGIBILITY**

### **Compliance Requirements**

The specific requirements for eligibility are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in the Compliance Supplement, these specific requirements are in Part 4 – Agency Program Requirements or Part 5 – Clusters of Programs, as applicable. This compliance requirement specifies the criteria for determining the individuals, groups of individuals, or subrecipients that can participate in the program and the amounts for which they qualify.

### **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 area 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 eligibles were calculated in accordance with program requirements.

### **Suggested Audit Procedures – Internal Control**

1. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for eligibility and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. 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.

## Suggested Audit Procedures – Compliance

### 1. *Eligibility for Individuals*

- a. For some Federal programs with a large number of people receiving benefits, the non-Federal entity may use a computer system for processing individual eligibility determinations and delivery of benefits. Often these computer systems are complex and will be separate from the non-Federal entity's regular financial accounting system. Typical functions a computer system for eligibility may perform are:
- Perform calculations to assist in determining who is eligible and the amount of benefits
  - Pay benefits (e.g., write checks)
  - Maintain eligibility records, including information about each individual and benefits paid to or on behalf of the individual (regular payments, refunds, and adjustments)
  - Track the period of time an individual is eligible and stop benefits at the end of a predetermined period unless, there is a redetermination of eligibility
  - Perform matches with other computer data bases to verify eligibility (e.g., matches to verify earnings or identify individuals who are deceased)
  - Control who is authorized to approve benefits for eligibles (e.g., an employee may be approving benefits on-line and this process may be controlled by passwords or other access controls)
  - 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)

Because of the diversity of computer systems, both hardware and software, it is not practical for this Supplement 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 effect 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.

- b. *Split Eligibility Determination Functions*
- (1) *Background* – Some non-Federal entities pay the Federal benefits to the eligible participants but arrange with another entity to perform part or all of the eligibility determination. For example, a State arranges with local government social services agencies to perform the “intake function” (e.g., the meeting with the social services client to determine income and categorical eligibility) while the State maintains the computer systems supporting the eligibility determination process and actually pays the benefits to the participants. The State is fully responsible for Federal compliance for the eligibility determination as the benefits are paid by the State and State shows the benefits paid as Federal awards expended on the State’s Schedule of Expenditures of Federal Awards. Therefore, the auditor of the State is responsible for meeting the internal control and compliance audit objectives for eligibility. This may require the auditor of the State to perform or arrange for additional procedures to ensure compliant eligibility determinations when another entity performs part of the eligibility determination functions.
  - (2) Ensure that eligibility testing includes all benefit payments regardless of whether another entity, by arrangement, performs part of the eligibility determination functions.
- c. Perform procedures to ascertain if the non-Federal entity’s records/database includes all individuals receiving benefits during the audit period (e.g., that the population of individuals receiving benefits is complete).
- d. Select a sample 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 non-Federal entity is required to 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*

- a. In some cases, the non-Federal entity may be required to perform procedures to determine whether a population or area of service delivery is eligible. Test information used in determining eligibility and ascertain if the population or area of service delivery was eligible.
- b. Perform tests to ascertain if:
  - (1) The population or area served was eligible.
  - (2) The benefits paid to or on behalf of the individuals or area of service delivery were calculated correctly.

3. *Eligibility for Subrecipients*

- a. If the determination of eligibility is based upon an approved application or plan, obtain a copy of this document and identify the applicable eligibility requirements.
- b. Select a sample of the awards to subrecipients and perform procedures to verify that the subrecipients were eligible and amounts awarded were within funding limits.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

## F. EQUIPMENT AND REAL PROPERTY MANAGEMENT

### Compliance Requirements

#### *Equipment Management*

Title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established.

A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a State.

Local governments and Indian tribes shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. Institutions of higher education, hospitals, and other non-profit organizations shall follow the provisions of OMB Circular A-110. Basically, the A-102 Common Rule and OMB Circular A-110 require that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. When equipment with a current per unit fair market value of \$5000 or more is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

The requirements for equipment are contained in the A-102 Common Rule (§\_\_\_\_.32), OMB Circular A-110 (§\_\_\_\_.34), Federal awarding agency program regulations, and the terms and conditions of the award.

#### *Real Property Management*

Title to real property acquired by non-Federal entities with Federal awards vests with the non-Federal entity. Real property shall be used for the originally authorized purpose as long as needed for that purpose. For non-Federal entities covered by OMB Circular A-110 and with written approval from the Federal awarding agency, the real property may be used in other federally sponsored projects or programs that have purposes consistent with those authorized for support by the Federal awarding agency. The non-Federal entity may not dispose of or encumber the title to real property without the prior consent of the awarding agency.

When real property is no longer needed for federally supported programs or projects, the non-Federal entity shall request disposition instructions. For purposes of this compliance requirement, the recipient makes the request to the Federal awarding agency. Subrecipients make requests through the recipient (pass-through entity) and do not make requests directly to the Federal awarding agency. The pass-through recipient is required to comply (ensure compliance) with the direction of the Federal awarding agency and the terms and conditions of its award. When real property is sold, sales procedures should provide for competition to the extent practicable and result in the highest possible return. If sold, non-Federal entities are normally required to remit to the awarding agency the Federal portion (based on the Federal participation in the project) of net sales proceeds. If the property is retained, the non-Federal entity shall normally compensate the awarding agency for the Federal portion of the current fair market value of the property. Disposition instructions may also provide for transfer of title in which case, the non-Federal entity is entitled to compensation for its percentage share of the current fair market value.

The requirements for real property are contained in the A-102 Common Rule (§\_\_\_\_.31), OMB Circular A-110 (§\_\_\_\_.32), Federal awarding agency regulations, and the terms and conditions of the award.

### **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 non-Federal entity maintains proper records for equipment and adequately safeguards and maintains equipment.
3. Determine whether disposition or encumbrance of any equipment or real property acquired under Federal awards is in accordance with Federal requirements and that the awarding agency was compensated for its share of any property sold or converted to non-Federal use.

### **Suggested Audit Procedures – Internal Control**

1. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for equipment and real property management and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. 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.

**Suggested Audit Procedures – Compliance**

*(Procedure 1 only applies to subrecipients of States that are local governments or Indian tribal governments. Procedure 2 only applies to States and to subrecipients of States that are local governments or Indian tribal governments.)*

1. Obtain entity's policies and procedures for equipment management and ascertain if they comply with the State's policies and procedures.
2. Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment.

*(Procedures 3-4 only apply to institutions of higher education, hospitals, and other non-profit organizations, and Federal awards received directly from a Federal awarding agency by a local government or an Indian tribal government.)*

**3. *Inventory Management of Equipment***

- a. Inquire if a required physical inventory of equipment acquired under Federal awards was taken within the last two years. Test whether any differences between the physical inventory and equipment records were resolved.
- b. Identify equipment acquired under Federal awards during the audit period and trace selected purchases to the property records. Verify that the property records contain the following information about the equipment: description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and any ultimate disposition data including, the date of disposal and sales price or method used to determine current fair market value.
- c. Select a sample of equipment identified as acquired under Federal awards from the property records and physically inspect the equipment including whether the equipment is appropriately safeguarded and maintained.

**4. *Disposition of Equipment***

- a. Determine the amount of equipment dispositions for the audit period and perform procedures to verify that dispositions were properly classified between equipment acquired under Federal awards and equipment otherwise acquired.
- b. For dispositions of equipment acquired under Federal awards, perform procedures to verify that the dispositions were properly reflected in the property records.
- c. For dispositions of equipment acquired under Federal awards with a current per-unit fair market value of \$5000 or more, test whether the awarding agency was reimbursed for the appropriate Federal share.

*(Procedure 5 applies to States, local governments, Indian tribal governments and non-profit organizations regardless of whether funding is received as a recipient or subrecipient.)*

5. *Disposition of Real Property*

- a. Determine real property dispositions for the audit period and ascertain such real property acquired with Federal awards.
- b. For dispositions of real property acquired under Federal awards, perform procedures to verify that the non-Federal entity followed the instructions of the awarding agency, which will normally require reimbursement to the awarding agency for the Federal portion of net sales or fair market value at the time of disposition, as applicable.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.



## G. MATCHING, LEVEL OF EFFORT, EARMARKING

### Compliance Requirements

The specific requirements for matching, level of effort, and earmarking are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in this Supplement, these specific requirements are in Part 4 – Agency Program Requirements or Part 5 – Clusters of Programs, as applicable.

However, for matching, the A-102 Common Rule (§\_\_\_\_.24) and OMB Circular A-110 (§\_\_\_\_.23) provide detailed criteria for acceptable costs and contributions. The following is a list of the basic criteria for acceptable matching:

- Are verifiable from the non-Federal entity's records.
- Are not included as contributions for any other federally assisted project or program, unless specifically allowed by Federal program laws and regulations.
- Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- Are allowed under the applicable cost principles.
- Are not paid by the Federal Government under another award, except where authorized by Federal statute to be allowable for cost sharing or matching.
- Are provided for in the approved budget when required by the Federal awarding agency.
- Conform to other applicable provisions of the A-102 Common Rule and OMB Circular A-110 and the laws, regulations, and provisions of contract or grant agreements applicable to the program.

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

1. *Matching* or cost sharing includes requirements to provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions).
2. *Level of effort* includes requirements for (a) a specified level of service to be provided from period to period, (b) a specified level of expenditures from non-Federal or Federal sources for specified activities to be maintained from period to period, and (c) Federal funds to supplement and not supplant non-Federal funding of services.

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

### **Audit Objectives**

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

### **Suggested Audit Procedures – Internal Control**

1. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for matching, level of effort, earmarking and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. 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.

### **Suggested Audit Procedures – Compliance**

1. **Matching**
  - a. Perform tests to verify that the required matching contributions were met.
  - b. Ascertain the sources of matching contributions and perform tests to verify that they were from an allowable source.

- c. Test records to corroborate that the values placed on in-kind contributions (including third party in-kind contributions) are in accordance with the OMB cost principles circulars, the A-102 Common Rule, OMB Circular A-110, program regulations, and the terms of the award.
- d. Test transactions used to match for compliance with the allowable costs/cost principles requirement. This test may be performed in conjunction with the testing of the requirements related to allowable costs/cost principles.

### 2.1 **Level of Effort** – *Maintenance of Effort*

- a. Identify the required level of effort and perform tests to verify that the level of effort requirement was met.
- b. Perform test to verify that only allowable categories of expenditures or other effort indicators (e.g., hours, number of people served) were included in the computation and that the categories were consistent from year to year. For example, in some programs, capital expenditures may not be included in the computation.
- c. Perform procedures to verify that the amounts used in the computation were derived from the books and records from which the audited financial statements were prepared.
- d. Perform procedures to verify that non-monetary effort indicators were supported by official records.

### 2.2 **Level of Effort** – *Supplement Not Supplant*

- a. Ascertain if the entity used Federal funds to provide services which they were required to make available under Federal, State, or local law and were also made available by funds subject to a supplement not supplant requirement.
- b. Ascertain if the entity used Federal funds to provide services which were provided with non-Federal funds in the prior year.
  - (1) Identify the federally funded services.
  - (2) Perform procedures to determine whether the Federal program funded services that were previously provided with non-Federal funds.
  - (3) Perform procedures to ascertain if the total level of services applicable to the requirement increased in proportion to the level of Federal contribution.

### 3. **Earmarking**

- a. Identify the applicable percentage or dollar requirements for earmarking.
- b. Perform procedures to verify that the amounts recorded in the financial records met the requirements (e.g., when a minimum amount is required to be spent for a specified type of service, perform procedures to verify that the financial records show that at least the minimum amount for this type of service was charged to the program; or, when the amount spent on a specified type of service may not exceed a maximum amount, perform procedures to verify that the financial records show no more than this maximum amount for the specified type of service was charged to the program).
- c. When earmarking requirements specify a minimum percentage or amount, select a sample of transactions supporting the specified amount or percentage and perform tests to verify proper classification to meet the minimum percentage or amount.
- d. When the earmarking requirements specify a maximum percentage or amount, review the financial records to identify transactions for the specified activity which were improperly classified in another account (e.g., if only 10 percent may be spent for administrative costs, review accounts for other than administrative costs to identify administrative costs which were improperly classified elsewhere and cause the maximum percentage or amount to be exceeded).
- e. When earmarking requirements prescribe the minimum number or percentage of specified types of participants that can be served, select a sample of participants that are counted toward meeting the minimum requirement and perform tests to verify that they were properly classified.
- f. When earmarking requirements prescribe the maximum number or percentage of specified types of participants that can be served, select a sample of other participants and perform tests to verify that they were not of the specified type.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

## H. PERIOD OF AVAILABILITY OF FEDERAL FUNDS

### Compliance Requirements

Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged 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 (A-102 Common Rule, §\_\_\_23; OMB Circular A-110, §\_\_\_28).

Non-Federal entities subject to the A-102 Common Rule shall liquidate all obligations 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 (A-102 Common Rule, §\_\_\_23).

An example used by a program to determine when an obligation occurs (is made) is found under Part 4, Department of Education, CFDA 84.000 (Cross-Cutting Section).

### Audit Objective

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 and obligations were liquidated within the required time period.

### Suggested Audit Procedures – Internal Control

1. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for period of availability of Federal funds and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. 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.

**Suggested Audit Procedures – Compliance**

1. Review the award documents and regulations pertaining to the program and determine any award-specific requirements related to the period of availability and document the availability period.
2. Test a sample 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.
3. Test a sample of transactions that were recorded during the period of availability and verify that the underlying obligations occurred within the period of availability.
4. Select a sample of adjustments to the Federal funds and verify that these adjustments were for transactions that occurred during the period of availability.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

## I. PROCUREMENT AND SUSPENSION AND DEBARMENT

### Compliance Requirements

#### *Procurement*

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

Local governments and Indian tribal governments which are not subrecipients of States will use their own procurement procedures provided that they conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule.

Institutions of higher education, hospitals, and other non-profit organizations shall use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110.

All non-Federal entities shall follow Federal laws and implementing regulations applicable to procurements, as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular A-110.

Requirements for procurement are contained in the A-102 Common Rule (§\_\_\_\_.36), OMB Circular A-110 (§\_\_\_\_.40 through §\_\_\_\_.48), Federal awarding agency regulations, and the terms of the award. The specific references for the A-102 Common Rule and OMB Circular A-110, respectively are given for each procedure indicated below. (The first number listed refers to the A-102 Common Rule and the second refers to A-110.)

#### *Suspension and Debarment*

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. §\_\_.220 of the governmentwide nonprocurement debarment and suspension common rule contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (§\_\_.300). The information contained in the EPLS is available in printed and electronic formats. The printed version is published monthly. Copies may be obtained by purchasing a yearly subscription from

the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, or by calling the Government Printing Office Inquiry and Order Desk at (202) 783-3238. The electronic version can be accessed on the Internet (<http://epls.arnet.gov>).

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

### **Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_.500(c).
2. Determine whether procurements were made in compliance with the provisions of the A-102 Common Rule, OMB Circular A-110, and other procurement requirements specific to an award.
3. For covered transactions determine whether the non-Federal entity verified that entities are not suspended or debarred or otherwise excluded.

### **Suggested Audit Procedures – Internal Control**

1. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for procurement and suspension and debarment and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. 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.



**Suggested Audit Procedures – Compliance**

*(Procedures 1 - 4 apply only to institutions of higher education, hospitals, and other non-profit organizations; and Federal awards received directly from a Federal awarding agency by a local government or an Indian tribal government.)*

1. Obtain entity's procurement policies. Verify that the policies comply with applicable Federal requirements (§\_\_\_\_.36(b)(1) and §\_\_\_\_.43).
2. Ascertain if the entity has a policy to use statutorily or administratively imposed in-State or local geographical preferences in the evaluation of bids or proposals. If yes, verify that these limitations were not applied to federally funded procurements except where applicable Federal statutes expressly mandate or encourage geographic preference (§\_\_\_\_.36(c)(2) and §\_\_\_\_.43).
3. Examine procurement policies and procedures and verify the following:
  - a. Written selection procedures require that solicitations incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured, identify all requirements that the offerors must fulfill, and include all other factors to be used in evaluating bids or proposals (§\_\_\_\_.36(c)(3) and §\_\_\_\_.44(a)(3)).
  - b. There is a written policy pertaining to ethical conduct (§\_\_\_\_.36(b)(3) and §\_\_\_\_.42).
4. Select a sample of procurements and perform the following:
  - a. Examine contract files and verify that they document the significant history of the procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis of contract price (§\_\_\_\_.36(b)(9) and §\_\_\_\_.46).
  - b. Verify that procurements provide full and open competition (§\_\_\_\_.36(c)(1) and §\_\_\_\_.43).
  - c. Examine documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified (§\_\_\_\_.36(b)(1) and (d)(4); and §\_\_\_\_.43 and §\_\_\_\_.44(e)).
  - d. Verify that contract files exist and ascertain if appropriate cost or price analysis was performed in connection with procurement actions, including contract modifications and that this analysis supported the procurement action (§\_\_\_\_.36(f) and §\_\_\_\_.45).

- e. Verify that the Federal awarding agency approved procurements exceeding \$100,000 when such approval was required. Procurements (1) awarded by noncompetitive negotiation, (2) awarded when only a single bid or offer was received, (3) awarded to other than the apparent low bidder, or (4) specifying a “brand name” product (§\_\_\_\_.36(g)(1) and §\_\_\_\_.44(e)) may require prior Federal awarding agency approval.
- f. Verify compliance with other procurement requirements specific to an award.

*(Procedure 5 only applies to States and Federal awards subgranted by the State to a local government or Indian tribal government.)*

- 5. Test a sample of procurements to ascertain if the State’s laws and procedures were followed and that the policies and procedures used were the same as for non-Federal funds.

*(Procedure 6 applies to all non-Federal entities)*

- 6. Select a sample of procurements and subawards and—
  - a. Test whether the non-Federal entities performed a verification check for covered transactions, by checking the EPLS, collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity; and
  - b. Test the sample of procurements and subawards against the EPLS, and ascertain if covered transactions were awarded to suspended or debarred parties.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

## J. PROGRAM INCOME

### Compliance Requirements

Program income is gross income received that is directly generated by the federally funded project during the grant period. If authorized by Federal regulations or the grant agreement, costs incident to the generation of program income may be deducted from gross income to determine program income. Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired with grant funds, the sale of commodities or items fabricated under a grant agreement, and payments of principal and interest on loans made with grant funds. Except as otherwise provided in the Federal awarding agency regulations or terms and conditions of the award, program income does not include interest on grant funds (covered under “Cash Management”), rebates, credits, discounts, refunds, etc. (covered under “Allowable Costs/Cost Principles”), or interest earned on any of them (covered under “Cash Management”). Program income does not include the proceeds from the sale of equipment or real property (covered under “Equipment and Real Property Management”).

Program income may be used in one of three methods: deducted from outlays, added to the project budget, or used to meet matching requirements. Unless specified in the Federal awarding agency regulations or the terms and conditions of the award, program income shall be deducted from program outlays. However, for research and development activities by institutions of higher education, hospitals, and other non-profit organizations, the default method is to add program income to the project budget. Unless Federal awarding agency regulations or the terms and conditions of the award specify otherwise, non-Federal entities have no obligation to the Federal Government regarding program income earned after the end of the grant period.

The requirements for program income are found in the A-102 Common Rule (§\_\_\_\_.21(payment) and §\_\_\_\_.25), OMB Circular A-110 (§\_\_\_\_.2 (program income definition), §\_\_\_\_.22(payment), and §\_\_\_\_.24), Federal awarding agency laws, program regulations, and the provisions of the contract or grant agreements pertaining to the program.

### 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 program income is correctly determined, recorded, and used in accordance with the program requirements, A-102 Common Rule, and OMB Circular A-110, as applicable.

### Suggested Audit Procedures – Internal Control

1. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.

2. Plan the testing of internal control to support a low assessed level of control risk for program income and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. 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.

### **Suggested Audit Procedures – Compliance**

1. *Identify Program Income*
  - a. Review the laws, regulations, and the provisions of contract or grant agreements applicable to the program and ascertain if program income was anticipated. If so, ascertain the requirements for determining or assessing the amount of program income (e.g., a scale for determining user fees, prohibition of assessing fees against certain groups of individuals, etc.), and the requirements for recording and using program income.
  - b. Inquire of management and review accounting records to ascertain if program income was received.
2. *Determining or Assessing Program Income* – Perform tests to verify that program income was properly determined or calculated in accordance with stated criteria, and that program income was only collected from allowable sources.
3. *Recording of Program Income* – Perform tests to verify that all program income was properly recorded in the accounting records.
4. *Use of Program Income* – Perform tests to ascertain if program income was used in accordance with the program requirements, the A-102 Common Rule, and OMB Circular A-110.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

## **K. REAL PROPERTY ACQUISITION AND RELOCATION ASSISTANCE**

### **Compliance Requirements**

The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended, (URA) provides for uniform and equitable treatment of persons displaced by Federally-assisted programs from their homes, businesses, or farms. Property acquired must be appraised by qualified independent appraisers. All appraisals must be examined by a review appraiser to assure acceptability. After acceptance, the review appraiser certifies the recommended or approved value of the property for establishment of the offer of just compensation to the owner. Federal requirements govern the determination of payments for replacement housing assistance, rental assistance, and down payment assistance for individuals displaced by federally funded projects. The regulations also cover the payment of moving-related expenses and reestablishment expenses incurred by displaced businesses and farm operations.

Governmentwide requirements for real property acquisition and relocation assistance are contained in Department of Transportation's single governmentwide rule at 49 CFR part 24, Uniform Relocation Assistance and Real Property Acquisition Regulations for Federal and Federally-Assisted Programs.

### **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 non-Federal entity complied with the real property acquisition, appraisal, negotiation, and relocation requirements.

### **Suggested Audit Procedures – Internal Control**

1. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for real property acquisition and relocation assistance and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. 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.

**Suggested Audit Procedures – Compliance**

1. Inquire of management and review the records of Federal programs to ascertain if the non-Federal entity administers Federally-assisted programs that involve the acquisition of real property or the displacement of households or businesses.

2. *Property Acquisitions*

For a sample of acquisitions:

- a. *Appraisal* – Test records to ascertain if: (1) the just compensation amount offered the property owner was determined by an appraisal process; (2) the appraisal(s) was examined by a review appraiser; and, (3) the review appraiser prepared a signed statement which explains the basis for adjusting comparable sales to reach the review appraiser’s determination of the fair market value.
  - b. *Negotiations* – Test supporting documentation to ascertain if: (1) a written offer of the appraised value was made to the property owner; and (2) a written justification was prepared if the purchase price for the property exceeded the amount offered and that the documentation (e.g., recent court awards, estimated trial costs, valuation problems) supports such administrative settlement as being reasonable, prudent, and in the public interest.
  - c. *Residential Relocations* – Test supporting documentation to ascertain if the non-Federal entity made available to the displaced persons one or more comparable replacement dwellings.
3. *Replacement Housing Payments* – For a sample, test the non-Federal entity’s records to ascertain if there is documentation that supports the following:
    - a. The owner occupied the displacement dwelling for at least 180 days immediately prior to initiation of negotiations.
    - b. The non-Federal entity examined at least three comparable replacement dwellings available for sale and computed the payment on the basis of the price of the dwelling most representative of the displacement dwelling.
    - c. The asking price for the comparable dwelling was adjusted, to the extent justified by local market data, to recognize local area selling price reductions.
    - d. The allowance for increased mortgage cost “buy down” amount was computed based on the remaining principal balance, the interest rate, and the remaining term of the old mortgage on the displacement dwelling.
    - e. The non-Federal entity prepared written justification on the need to employ last resort housing provisions, if the total replacement housing payment exceeded \$22,500.

4. *Rental or Downpayment Assistance* – For a sample, test the non-Federal entity’s records to ascertain if there is documentation that supports the following:
  - a. The displacee occupied the displacement dwelling for at least 90 days immediately prior to initiation of negotiations.
  - b. The displacee rented, or purchased, and occupied a decent, safe, and sanitary replacement dwelling within one year.
  - c. The non-Federal entity prepared written justification if the payment exceeded \$5,250.
  
5. *Business Relocations* – For a sample of business relocations:
  - a. *Moving Expenses* – Test that payments for moving and related expenses were for actual costs incurred or that fixed payments, in lieu of actual costs, were limited to a maximum of \$20,000 and computed based on the average annual net earnings of the business, as evidenced by income tax returns, certified financial statements, or other reliable evidence.
  - b. *Business Reestablishment Expense* – Verify that (1) the displacee was eligible as a farm operation, a non-profit organization, or a small business to receive reestablishment assistance, and (2) the payment was for actual costs incurred and did not exceed \$10,000.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

## L. REPORTING

### Compliance Requirements

#### *Financial Reporting*

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

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

The standard financial reporting forms are as follows:

1. *Financial Status Report (FSR) (SF-269 (OMB No. 0348-0039) or SF-269A (OMB No. 0348-0038))*. Recipients use the FSR to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271.
2. *Request for Advance or Reimbursement (SF-270 (OMB No. 0348-0004))*. Recipients use the SF-270 to request Treasury advance payments and reimbursements under non-construction programs.
3. *Outlay Report and Request for Reimbursement for Construction Programs (SF-271 (OMB No. 0348-0002))*. Recipients use the SF-271 to request funds for construction projects unless advances or the SF-270 is used.
4. *Federal Cash Transactions Report (SF-272 (OMB No. 0348-0003) or SF-272-A (OMB No. 0348-0003))*. Recipients use the SF-272 when payment is by advances or reimbursements. The Federal awarding agency may waive the requirement for an SF-272 when electronic payment mechanisms provide adequate data.

Electronic versions of these standard forms are located on OMB's Internet home page ([http://www.whitehouse.gov/omb/grants/grants\\_forms.html](http://www.whitehouse.gov/omb/grants/grants_forms.html)).



### *Reporting Under the Payment Management System*

Many recipients utilize the Payment Management System (PMS) operated by the Division of Payment Management (DPM) within the Department of Health and Human Services' Program Support Center. After a Federal agency awards a grant, DPM is responsible for controlling payments to the recipient; receiving collections for unexpended funds, duplicate payments, and interest earned on Federal funds; accounting for disbursement information provided by the recipient; and reporting data equivalent to the SF-272, *Federal Cash Transactions Report*, to the recipient and the Federal agency.

Federal awarding agencies enter authorization amounts in PMS to allow recipients to draw Federal funds. There are three methods by which recipients can request funds: (1) the PMS 270 cash request, (2) SMARTLINK II, or (3) CASHLINE systems. SMARTLINK II enables recipients to request Federal funds through computer link with DPM, while CASHLINE allows funds to be requested via a touch-tone telephone. Once a quarter, using the authorization amounts provided by the Federal agency, payments requested by recipients, cash collection activity, and disbursement information provided by recipients, DPM generates PSC-272 reports.

The PSC 272 is a series of reports consisting of:

1. PSC 272, *Federal Cash Transactions Report, Status of Federal Cash (OMB No. 0937-0200)*. This report provides a total accountability of all Federal cash received by the recipient. It is partially prepared by DPM based on data reported to DPM, and is completed and certified by the recipient.
2. PSC 272-A, *Federal Cash Transactions Report (OMB No. 0937-0200)*. This report is a continuation of the PMS-272 and is used by the recipient to report cash disbursements to DPM.
3. PSC 272-B, *Statement of Cash Accountability (OMB No. 0937-0200)*. This report is furnished for the recipient's information and shows how the recipient's cash accountability was derived by DPM.
4. PSC 272-C, *Error Correction Document (OMB No. 0937-0200)*. This report can be used by the recipient to report data reconciliation problems for awards on the PSC 272-A or the Advances to Payee portion of the PSC 272-B.
5. PSC 272-E, *Major Program Statement (OMB No. 0937-0200)*. This report is furnished to States, Indian tribes, and cross-serviced organizations for their information only. This report lists individual payments during the quarter among the various programs, and provides a cash accountability for all advances received through PMS by major program. All information provided is pre-printed by DPM.
6. PSC 272-F, *Authorizations for Future Periods (OMB No. 0937-0200)*. This report is provided for information only and requires no action by the recipient. It represents all awards posted in the PMS database that have effective dates in future reporting periods.

7. PSC 272-G, *Inactive Documents Report (OMB No. 0937-0200)*. This report lists all awards posted in the PMS database that have become inactive or fully disbursed during the current period or a previous period. In the event that disbursement adjustments are required, they should be reported via the PSC 272-A.

The reports are either mailed to the recipient or electronically downloaded by the recipient using DPM's Electronic 272 System. Recipients should verify the reported amounts. If discrepancies are noted, the report is annotated (or the PSC 272-C is completed) and returned to DPM. The recipient uses the PSC 272-A to report the amount of disbursements made; then signs, dates, and returns the report to DPM. Recipients may report disbursements data electronically using the Electronic 272 process. PSC 272 reporting requirements do not apply to block grant programs; however, DPM does provide block grant recipients with a PSC 272-E, *Major Program Statement*, quarterly. This report is provided solely for information and no action is required by the recipient.

### *Performance Reporting*

Recipients shall submit performance reports at least annually but not more frequently than quarterly. Performance reports generally contain, for each award, brief information of the following types:

1. A comparison of actual accomplishments with the goals and objectives established for the period.
2. Reasons why established goals were not met, if appropriate.
3. Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

### *Special Reporting*

Non-Federal entities may be required to submit other reporting which may be used by the Federal agency for such purposes as allocating program funding.

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

1. Have a direct and material effect on the program.
2. Are capable of evaluation against objective criteria stated in the laws, regulations, contract or grant agreements pertaining to the program.

Performance and special reporting data specified in Part 4, Compliance Requirements, meet the above criteria.

Reporting requirements are contained in the following documents:

- a. A-102 Common Rule - Financial reporting, §\_\_\_\_.41; Performance reporting, §\_\_\_\_.40(b).
- b. OMB Circular A-110 - Financial reporting, §\_\_\_\_.52; Performance reporting, §\_\_\_\_.51.
- c. The laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

### **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.

### **Suggested Audit Procedures – Internal Control**

1. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for reporting and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. 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.

### **Suggested Audit Procedures – Compliance**

Note: For recipients using PMS to draw Federal funds, the auditor should consider the following steps numbered 1 through 5 as they pertain to the PSC 272, PSC 272-A, PSC 272-B, and PSC 272-E, regardless of the source of the data included in the PMS reports. Although certain data is supplied by the Federal awarding agency (i.e., award authorization amounts) and certain amounts are provided by DPM, the auditor should ensure that such amounts are in agreement with the recipient's records and are otherwise accurate.

1. Review applicable laws, regulations, and the provisions of contract or grant agreements pertaining to the program for reporting requirements. Determine the types and frequency

of required reports. Obtain and review Federal awarding agency, or pass-through entity in the case of a subrecipient, instructions for completing the reports.

- a. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual).
  - b. For performance and special reports, determine the criteria and methodology used in compiling and reporting the data.
2. Perform appropriate analytical procedures and ascertain the reason for any unexpected differences. Examples of analytical procedures include:
- a. Comparing current period reports to prior period reports.
  - b. Comparing anticipated results to the data included in the reports.
  - c. Comparing information obtained during the audit of the financial statements to the reports.

Note: The results of the analytical procedures should be considered in determining the nature, timing, and extent of the other audit procedures for reporting.

3. Select a sample of each of the following report types:
- a. Financial reports
    - (1) Ascertain if the financial reports were prepared in accordance with the required accounting basis.
    - (2) Trace the amounts reported to accounting records that support the audited financial statements and the schedule of expenditures of Federal awards and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records.
    - (3) For any discrepancies noted in PSC-272 reports, review subsequent PSC-272 reports to ascertain if the discrepancies were appropriately resolved with the Department of Health and Human Services' Division of Payment Management.
  - b. Performance and special reports
    - (1) Trace the data to records that accumulate and summarize data.
    - (2) Perform tests of the underlying data to verify that the data were accumulated and summarized in accordance with the required or stated

criteria and methodology, including the accuracy and completeness of the reports.

- c. When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.
  - d. Test mathematical accuracy of reports and supporting worksheets.
4. Test the selected reports for completeness.
- a. For financial reports, review accounting records and ascertain if all applicable accounts were included in the sampled reports (e.g., program income, expenditure credits, loans, interest earned on Federal funds, and reserve funds).
  - b. For performance and special reports, review the supporting records and ascertain if all applicable data elements were included in the sampled reports.
5. Obtain written representation from management that the reports provided to the auditor are true copies of the reports submitted or electronically transmitted to the Federal awarding agency, the Department of Health and Human Services' Division of Payment Management for recipients using the Payment Management System, or pass-through entity in the case of a subrecipient.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

## M. SUBRECIPIENT MONITORING

### Compliance Requirements

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 cases 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 non-compliance.
- *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 non-compliance 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:

- *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 to be tested, these agreed-upon procedures engagements enable the pass-through entity to target the coverage to 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)), A-102 Common Rule (§\_\_\_37 and §\_\_\_40(a)), and OMB Circular A-110 (§\_\_\_51(a)), Federal awarding agency program regulations, and the terms and conditions of the award.

#### **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.

### **Suggested Audit Procedures – Internal Control**

1. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for subrecipient monitoring and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. 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.

### **Suggested Audit Procedures – Compliance**

(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 of ensuring that a subrecipient is not suspended or debarred) with the testing of Subrecipient Monitoring.)

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:
    - 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.
  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.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

## N. SPECIAL TESTS AND PROVISIONS

### Compliance Requirements

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

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

### Internal Control

The following audit objective and suggested audit procedures should be considered in tests of special tests and provisions in addition to those provided in Part 4 – Agency Program Requirements; Part 5 – Clusters of Programs; and in accordance with Part 7 – Guidance for Auditing Programs Not Included in This Compliance Supplement:

### Audit Objective

Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_\_.500(c).

### Suggested Audit Procedures

1. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- 2.. Plan the testing of internal control to support a low assessed level of control risk for special tests and provisions and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §\_\_\_\_.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether

additional compliance tests and reporting are required because of ineffective internal control.

3. 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.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

## **PART 4 – AGENCY PROGRAM REQUIREMENTS**

### **INTRODUCTION**

For each Federal program (except R&D and SFA) included in this Supplement, Part 4 provides I, “Program Objectives,” and II, “Program Procedures.” Also, Part 4 provides information about compliance requirements specific to a program in III, “Compliance Requirements.” Finally, Part 4 also provides IV, “Other Information,” when there is other useful information pertaining to the program that does not fit in sections I - III. For example, when a program allows funds to be transferred to another program, section IV will provide guidance on how those funds should be treated on the Schedule of Expenditures of Federal Awards and Type A program determinations.

When any of five types of compliance requirements (A, “Activities Allowed or Unallowed,” E, “Eligibility,” G, “Matching, Level of Effort, Earmarking,” L, “Reporting,” and N, “Special Tests and Provisions”) are applicable to a program included in this Supplement, Part 4 will always provide information specific to the program. The auditor should look to Part 3 for a general description of the compliance requirements, audit objectives, and suggested audit procedures and to Part 4 for information about the specific requirements for a program. An exception is that for N, “Special Tests and Provisions;” Part 3 only includes audit objectives and suggested audit procedures for internal control and all other information is included in Part 4.

The other nine types of compliance requirements generally are not specific to a program and, therefore, are usually not listed in Part 4. However, when one of these other nine types of compliance requirements have information specific to a program, this specific information will be provided with the program in Part 4.

When a requirement is marked as “Not Applicable,” it means either that there are no compliance requirements or the auditor is not required to test compliance.

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements. The descriptions of the compliance requirements in Parts 3 and 4 are generally a summary of the actual compliance requirements. The auditor should refer to the referenced citations (e.g., laws and regulations) for the complete compliance requirements.

For R&D and SFA, Part 5 is the equivalent of Part 4; therefore the auditor will need to consider Parts 2, 3, and 5 in developing the audit program for these programs (program clusters).

**UNITED STATES DEPARTMENT OF AGRICULTURE****None FOOD FOR PROGRESS PROGRAM  
None SECTION 416(b) PROGRAM****I. PROGRAM OBJECTIVES**

The U.S. Department of Agriculture (USDA) donates agricultural commodities for use in carrying out assistance programs in developing countries and friendly countries. Such countries are often emerging democracies that have made a commitment to introduce or expand private enterprise elements into the agricultural sectors of their economies.

**II. PROGRAM PROCEDURES****General Overview**

The Food for Progress Program and the Section 416(b) Program (Foreign Food Aid Donation Programs) are Commodity Credit Corporation (CCC) programs. CCC implements these programs through personnel of the Foreign Agricultural Service (FAS) and Farm Service Agency (FSA). The CCC, a wholly-owned government corporation within the USDA, may acquire agricultural commodities under various surplus removal and agricultural price support programs and make them available for various domestic and foreign food assistance programs. Under the Food for Progress Act of 1985, CCC may purchase commodities from the market for donation overseas.

Recipients under the Foreign Food Aid Donation Programs are known collectively as Cooperating Sponsors. The CCC makes commodities available to the Cooperating Sponsors for use in the operation of charitable and economic development activities in eligible foreign countries. Cooperating Sponsors may be foreign governments or private entities including non-profit organizations located in the United States but operating programs overseas which are registered with the United States Agency for International Development (7 CFR section 1499.3).

The two programs have different criteria for determining what qualifies as an eligible foreign country.

*Food for Progress Program* - Commodities made available under this program, regardless of funding source, must be donated for use in developing countries and emerging democracies that have made commitments to introduce or expand free enterprise elements in their agricultural economies. Within these constraints, USDA gives priority consideration to proposals for countries that:

- Have economic and social indicators that demonstrate the need for assistance, including indicators related to income, undernourishment, movement toward freedom, and food imports; or
- Are in transition, either politically or economically, including countries that show potential toward strong private sector growth and development or that are recovering from conflict.

*Section 416(b) Program* - Section 416(b) of the Agricultural Act of 1949 authorizes the donation of CCC-owned commodities in excess of domestic program requirements to carry out food assistance programs in developing and friendly countries.

## **Program Operation**

### *General*

A Cooperating Sponsor must file a Plan of Operation with the CCC under the Section 416(b) Program. The CCC is also authorized to require such a plan under the Food for Progress Program (7 CFR section 1499.5). This Plan of Operation becomes part of an agreement between the CCC and the Cooperating Sponsor. The plan or agreement stipulates, among other things, the nature of the project the sponsor proposes to operate, the country in which such operations will take place, the types and quantities of commodities needed, the purpose for which the commodities will be used, and the use of either direct distribution or monetization of commodities. The Cooperating Sponsor is responsible for fulfilling the reporting requirements concerning logistics, monetization, and quarterly financial reports.

### *Direct Distribution*

A direct distribution by the Cooperating Sponsor involves the distribution of donated commodities directly to individuals or charitable institutions in the host country referred to as Recipient Agencies (e.g., hospitals, schools, kindergartens, orphanages, homes for the elderly). These Recipient Agencies then use the commodities in serving their clientele.

### *Recipient Agencies*

A Cooperating Sponsor must enter into an agreement with a Recipient Agency prior to the transfer of any commodities, sales proceeds, or program income to the Recipient Agency. The agreement must require the Recipient Agency to compensate the Cooperating Sponsor for any agricultural commodities or other assets generated by the program that are not used for purposes expressly provided for in the agreement, or that are lost, damaged, or misused as the result of the Recipient Agency's failure to exercise reasonable care.

### *Monetization*

A monetization agreement authorizes the Cooperating Sponsor to sell the commodities in the applicable foreign country and use the sales proceeds to support its programmatic activities in accordance with the signed agreement. To the maximum extent possible, the Cooperating Sponsor is expected to conduct the sale of commodities through the private sector of the host country's economy. A Cooperating Sponsor's agreement with the CCC may also provide for bartering commodities in exchange for goods and services to support program operations.

In addition to commodities, the CCC's agreement with the Cooperating Sponsor may provide the Cooperating Sponsor cash assistance to fund program administrative and operational expenses. Program regulations also authorize cash advances for this purpose. Such cash awards may be made only after approval of a program operating budget submitted by the Cooperating Sponsor.

## Source of Governing Requirements

Commodity donations are authorized by the Food for Progress Act of 1985 (7 USC 1736o) (Food for Progress Program) and Section 416(b) of the Agricultural Act of 1949 (7 USC 1431(b)) (Section 416(b) Program). Implementing regulations are found at 7 CFR part 1499.

## Availability of Other Program Information

For more information, contact the Director, Food Assistance Division, FAS, USDA at 1250 Maryland Avenue, S.W., Suite 400, Washington, D.C. 20024. Contacts may also be made through: (202) 720-4221 (voice); (202) 690-0251 (fax); or info@fas.usda.gov (E-mail).

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

#### 1. *Use of Funds*

The Plan of Operation and agreement set forth the description of the activities for which commodities, monetized proceeds, or program income shall be used.

Except as approved in advance by CCC, the Cooperating Sponsor shall ordinarily bear all costs incurred subsequent to CCC's delivery of commodities at U.S. ports or intermodal points (7 CFR section 1499.7(d)).

With prior written approval from CCC, the Cooperating Sponsor may use CCC funds for administrative expenses under the Food for Progress Program. Administrative expenses include expenses incurred for the purchase of goods and services directly related to program administration and monitoring of distribution and monetization operations (7 CFR section 1499.7(b)(3)).

#### 2. *Use of Commodities and Monetization Proceeds*

A Cooperating Sponsor must use USDA commodities furnished under the Foreign Food Aid Donation Programs, and proceeds from the sale of such commodities if applicable, for purposes expressly provided for in its agreement with the CCC (7 CFR sections 1499.10(a) and 1499.12(d)).

Agreements with Cooperating Sponsors implementing Section 416(b) projects may provide for the use of proceeds from monetization operations to fund administrative expenses (7 USC 1431(b)(7)(F)).

## **C. Cash Management**

### **1. *Cash Advances From the CCC***

A Cooperating Sponsor may request an advance of up to 85 percent of the amount of an approved program operating budget. Cash advances furnished by the CCC must be deposited in interest bearing accounts. Any interest earned on such advances must be used for the same purposes as the cash advances themselves (7 CFR sections 1499.7(f) and (g)).

### **2. *Commodity Monetization Proceeds***

A Cooperating Sponsor must deposit all proceeds from the sale of USDA-donated commodities under monetization agreements into interest bearing accounts. Exceptions are permitted where this practice is prohibited by local law or custom of the importing country, or the CCC determines that enforcing the requirement would impose an undue burden on the sponsor (7 CFR section 1499.12(c)).

## **F. Equipment and Real Property Management**

To the extent required by the program agreement, a Cooperating Sponsor must furnish the CCC and FAS with inventory lists of equipment and real property acquired with proceeds from the sale of donated commodities, interest, and other program income (OMB No. 0551-0035). When such assets are no longer needed for program purposes, the sponsor must dispose of them in accordance with 7 CFR section 1499.12(g).

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

Any portion of a cash advance not obligated by the Cooperating Sponsor within 180 days of receipt, and any related interest, must be refunded to the CCC within 30 days after the Cooperating Sponsor's obligational authority over the funds has expired (7 CFR section 1499.7(h)).

CCC will not pay any cost incurred by the Cooperating Sponsor prior to the date of the program agreement (7 CFR section 1499.7(c)).

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

A Cooperating Sponsor must follow commercially reasonable practices in procuring goods and services and when engaging in construction activity in accordance with its agreement with the CCC (7 CFR section 1499.12(f)).



## **J. Program Income**

Program income includes interest on sale proceeds and money received by the Cooperating Sponsor, other than monetization proceeds, as a result of carrying out approved activities (7 CFR section 1499.1). A Cooperating Sponsor must use program income for program purposes identified in its agreement with the CCC (7 CFR section 1499.5).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271 - *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272 - *Federal Cash Transactions Report* - Not Applicable
- e. *Financial Statement (OMB No. 0551-0035)* - Any Cooperating Sponsor that receives an advance of CCC funds must file quarterly financial statements with the CCC.

#### *Key Line Items:*

- (1) Cash on hand at beginning of the quarter.
- (2) CCC advances received during the quarter.
- (3) Interest earned during the quarter.
- (4) Expenditures for administrative and Internal Transportation, Storage, and Handling (ITSH) costs during the quarter. Both categories of cost must be subdivided into sub-categories identified in instructions issued by the FAS.
- (5) Cash on hand at the end of the quarter.

### **2. Performance Reporting**

- a. CCC Form 620, *Logistics Report (OMB No. 0551-0035)* - A Cooperating Sponsor must submit this report to the FAS semiannually for each agreement. If commodities are distributed directly, the sponsor must continue submitting reports until all commodities made available under the agreement have been distributed. In the following detail, quantities of commodities are reported in terms of net metric tons (NMT) unless otherwise specified (7 CFR section 1499.16(c)(1)).

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

- (1) *Commodity Delivery Table* - The following data relating to **shipping** of each commodity provided for in the agreement:
    - (a) *Amount received at port.*
    - (b) *Ocean losses/damages.*
    - (c) *Amount received at warehouse.*
    - (d) *Inland losses/damages.*
  - (2) *Freight Charges* - The dollar amount of claims for a reduction or recovery of freight charges in both local currency and U.S. dollar equivalents. Claims generated by the ocean and inland portions of the shipment should be separately identified.
  - (3) *Warehouse Losses* - The following data relating to **storage** of each commodity provided for in the agreement:
    - (a) *Warehouse losses/damages.*
    - (b) *Balance available for distribution.*
  - (4) *Direct Distribution* - The following data relating to **direct distribution** of each commodity provided for in the agreement:
    - (a) *Amount distributed.*
    - (b) *Distribution losses/damages.*
    - (c) *Type of institution reached and number of institutions reached.*
    - (d) *Number of benefiting individuals.*
  - (5) *Warehouse Inventory Status* - The warehouse inventory status of each commodity provided for in the agreement: beginning inventory, total received in warehouse, total dispatched from warehouse, warehouse losses, and ending inventory.
- b. CCC Form 621, *Monetization Report (OMB No. 0551-0035)* - A Cooperating Sponsor must submit this report to the FAS semiannually for each agreement that provides for monetization of the commodities. Reports are required until all the commodities have been sold and the proceeds disbursed for authorized purposes. If a monetization project involves a revolving loan program, current FAS policy requires the

Cooperating Sponsor to submit reports only through repayment of the first loan cycle.

Methods a Cooperating Sponsor may use to determine prevailing local market prices for monetization purposes include, but are not limited to, soliciting sealed bids, using public auctions, involving commodity exchanges, or obtaining written statements from the agricultural attache or minister for foreign agricultural affairs in the host country. The FAS home page on the Internet provides agricultural attache contact information.

([http://www.fas.usda.gov/scriptsw/fasfield/ovs\\_directory\\_search.asp](http://www.fas.usda.gov/scriptsw/fasfield/ovs_directory_search.asp))

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

*Part I - Sales:*

For each commodity provided for in the agreement: the amount sold, the price per MT (metric ton), exchange rate, proceeds generated in LC (local currency), and proceeds generated in USD (U.S. dollar equivalent).

*Part II - Barter:*

For each commodity used in barter exchanges: the type and amount bartered, the commodity/service received, and the domestic price on transaction date for commodity bartered and commodity/service received.

*Part III - Deposits to Special Funds Account:*

The following classes of funds deposited, both in local currency and in the equivalent number of U.S. dollars: sales of commodities, interest, other program income.

*Part IV - Disbursements from Special Funds Account:*

The amount of each disbursement, in both local currency and U.S. dollars, and a brief statement of the use of funds.

*Part V - Balance of Special Funds Accounts:*

Beginning and ending balances of special fund accounts, both in local currency and in U.S. dollars.

**3. Special Reporting - Not Applicable**

## N. Special Tests and Provisions

### 1. Recipient Agencies

**Compliance Requirement** - The Plan of Operation is required to describe the Recipient Agencies that will be involved in the program and a description of each Recipient Agency's capability to perform its responsibilities (7 CFR section 1499.5(a)(3)). A Recipient Agency is defined as an entity located in the foreign country that receives commodities or commodity sale proceeds from a Cooperating Sponsor for the purpose of implementing activities (7 CFR section 1499.1).

The Cooperating Sponsor must enter into a written agreement with a Recipient Agency before transferring USDA commodities, monetization proceeds, or other program income to that entity. Such an agreement must require the Recipient Agency to pay to the Cooperating Sponsor the value of any commodities provided by USDA, sales proceeds, or other program income not used for purposes expressly permitted under the Cooperating Sponsor's own agreement with the CCC; or that are lost, damaged, or misused as the result of the Recipient Agency's failure to exercise reasonable care (7 CFR section 1499.11(a)).

The Cooperating Sponsor must ensure that the activities of any Recipient Agency that receives \$25,000 or more in commodities or commodity sales proceeds are subjected to on-site inspection. The Cooperating Sponsor may meet this requirement by relying upon independent audits of the Recipient Agencies or by conducting its own on-site reviews (7 CFR section 1499.17).

**Audit Objective** - Determine whether (1) the Cooperating Sponsor entered into written agreements with the Recipient Agencies, (2) the use of the Recipient Agencies was consistent with the Plan of Operation, and (3) the Cooperating Sponsor monitored the activities of Recipient Agencies to ensure proper performance of assigned activities and use of commodities, monetized proceeds, and program income.

#### Suggested Audit Procedures

Select a sample of Recipient Agencies and ascertain if:

- a. The Cooperating Sponsor entered into a written agreement with the Recipient Agency.
- b. The Cooperating Sponsor's use of the Recipient Agency was consistent with the Plan of Operation.
- c. The Cooperating Sponsor appropriately monitored the activities of the Recipient Agency to ensure proper performance of assigned activities and use of commodities, monetized proceeds, and program income.

## UNITED STATES DEPARTMENT OF AGRICULTURE

### CFDA 10.500 COOPERATIVE EXTENSION SERVICE

#### I. PROGRAM OBJECTIVES

The Cooperative State Research, Education, and Extension Service (CSREES) provides formula grant funds to the 1862 land-grant institutions and the 1890 land-grant institutions for cooperative agricultural extension work which consists of the development of practical applications of research knowledge and practical demonstrations of existing or improved practices or technologies in agriculture, uses of solar energy with respect to agriculture, home economics, and rural energy, and related subjects to persons not attending or resident in colleges.

#### II. PROGRAM PROCEDURES

The First Morrill Act of 1862 provided for the establishment of the 1862 land-grant institutions which are located in the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, and the insular areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands. The Second Morrill Act of 1890 provided for the support of the 1890 land-grant institutions, including Tuskegee University and West Virginia State University, which are located in 16 States.

The 1862 land-grant institutions receive formula grant funds for cooperative extension work under sections 3(b) and (c) of the Smith-Lever Act and the 1890 land-grant institutions, including Tuskegee University and West Virginia State University, receive formula grant funds for cooperative extension work under section 1444 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (NARETPA). The only exception is the District of Columbia, which receives extension funds under the District of Columbia Public Postsecondary Education Reorganization Act, Pub. L. No. 93-471, as opposed to the Smith-Lever Act.

Funds are allocated to the land-grant institutions based on specified formulas, and these funds are made available to the land-grant institutions at the beginning of each quarter through the Department of Health and Human Services' Payment Management System (DHHS-PMS). These formulas are based on the farm and rural populations of each state and include an equal portion distributed to all eligible institutions. These funds support the activities commonly referred to as "base programs."

Formula funds are also provided to the 1862 and 1890 land-grant institutions under section 3(d) of the Smith-Lever Act for the Expanded Food and Nutrition Education Program (EFNEP), which is authorized under section 1425 of NARETPA. These funds are made available to the 1862 and 1890 land-grant institutions in the 50 States, the Commonwealth of Puerto Rico, and the insular areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands. To enable low-income individuals and families to engage in nutritionally sound food purchasing and preparation practices, the expanded food and nutrition education program provides for employment and training of professional and paraprofessional aides to engage in direct nutrition education of low-income families and in other appropriate nutrition education programs. To the maximum extent practicable, program aides are hired from the indigenous

target population. In fiscal year (FY) 2006, 1890 institutions became eligible for EFNEP funds as the FY 2006 appropriation level for EFNEP exceeded the FY 1995 appropriation level.

The 1862 and the 1890 land-grant institutions are required to submit a 5-Year Plan of Work which describes the extension programs that they intend to administer for the period from October 1, 1999, through September 30, 2004 (7 USC 344 and 3221). A 2-Year Plan of Work Update only for FY 2005 and FY 2006, is required instead of submitting a new 5-Year Plan of Work for FY 2005-FY 2009 (Revisions to the Guidelines for State Plans of Work for the Agricultural Research and Extension Formula Funds, 69 Federal Register (FR) 6244-48, February 10, 2004).

### **Source of Governing Requirements**

The laws governing this program are codified at 7 USC 301-349, 3221, 3222, 3222d, and 3319.

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

Additional program information is available from the CSREES site on the Internet at <http://www.csrees.usda.gov>.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

1. Formula grant funds may be spent only for the furtherance of cooperative extension work and according to the 5-Year Plan of Work or 2-Year Plan of Work Update approved by CSREES (7 USC 344 and 3221(d)). The Guidelines for the State Plans of Work for Agricultural Research and Extension Formula Funds were published in the *Federal Register* on July 1, 1999 (64 FR 35910-35919). The 5-Year Plan of Work for fiscal year (FY) 2000 through FY 2004 was due July 15, 1999. This 5-Year Plan of Work may be integrated with the research component of the land-grant institution which is funded under the Hatch Act, and/or the 5-Year Plan of Work may be a joint plan between an 1862 land-grant institution and an 1890 land-grant institution if they are both located in the same State (64 FR 35916). Guidelines for the 2-Year Plan of Work Update were published in the *Federal Register* on February 10, 2004 (69 FR 6244-48). The 2-Year Plan of Work Update extends coverage of the original 5-Year Plan of Work to include FY 2005 through FY 2006 and was due April 1, 2004. The 2-Year Plan of Work Update should continue to be based on the original national goals established in the FY 2000 – FY 2004 Plan of Work.

2. No portion of Smith-Lever Act funds and section 1444 funds of NARETPA may be applied directly or indirectly “to the purchase, erection, preservation or repair of any building or buildings, or the purchase or rental of land” (7 USC 345 and 3221(e)).
3. No portion of Smith-Lever Act funds and section 1444 funds under NARETPA may be applied directly or indirectly in college course teaching or lectures in college (7 USC 345 and 3221(e)).

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

1. *Indirect Costs* - No indirect costs or tuition remission may be charged against the formula grant funds authorized under the Smith-Lever Act or under section 1444 of NARETPA (7 USC 3319).
2. *Retirement Contributions* - Retirement and pension contributions paid from grant funds for individuals whose salaries are paid in whole or in part with grant funds are capped at 5 percent. The deposits and contributions of Federal origin must be at least equaled by the grantee (7 USC 331).

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

### **1. Matching**

- a. *1862 Land-Grant Institutions in the 50 States* - All formula funds provided to the 1862 land-grant institutions in the 50 States under sections 3(b) and (c) of the Smith-Lever Act must be 100 percent matched. In-kind contributions are not allowed as match for formula funds authorized under sections 3(b) and (c) of the Smith-Lever Act (7 USC 343(e)). Funds provided under section 3(d) of the Smith-Lever Act for the expanded food and nutrition education program (EFNEP) do not require any matching contributions (7 USC 3175).
- b. *1862 Land-Grant Institution in the District of Columbia* - All allocations made to the 1862 land-grant institution in the District of Columbia under the District of Columbia Public Postsecondary Education Reorganization Act, Pub. L. No. 93-471, must be 100 percent matched. In-kind contributions are allowed as match for formula funds (Pub. L. No. 93-471, Section 208(c)).
- c. *1862 Land-Grant Institutions in the Commonwealth of Puerto Rico and the insular areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands* - The Commonwealth of Puerto Rico and the insular areas must meet a 50 percent matching requirement of the Federal formula funds beginning in FY 2003 (7 USC 343(e)(4) and 7 USC 301 (note)). The Secretary of Agriculture may waive the matching funds requirement for any fiscal year if the Secretary determines that the government of the insular area will be unlikely to meet the matching

requirement for the fiscal year (7 USC 343(e)(4)). “Matching funds” means cash contributions and excludes in-kind matching contributions. Matching funds must be used to support research and extension activities as identified in the approved 5-Year Plan of Work and the 2-Year Plan of Work Update or for approved qualifying educational activities (7 USC 343(e); 7 CFR part 3419).

- d. *1890 Land-Grant Institutions, including Tuskegee University and West Virginia State University* - In FY 2003, the matching requirement is 60 percent; in FY 2004, 70 percent; in FY 2005, 80 percent; in FY 2006, 90 percent; and in FY 2007 and thereafter, 100 percent. These land-grant institutions may apply for a waiver of the matching funds requirement in excess of 50 percent for any fiscal year. “Matching funds” means cash contributions and excludes in-kind matching contributions. Matching funds must be used to support research and extension activities as identified in the approved 5-Year Plan of Work and the 2-Year Plan of Work Update or for approved qualifying educational activities. Matching funds must be available in the same Federal fiscal year as the Federal funds. 1890 Land-Grant Institutions, including Tuskegee University and West Virginia State University, may carryover matching funds from one fiscal year to the following fiscal year (7 USC 3222d and 7 CFR part 3419).

2. **Level of Effort** - Not Applicable

3. **Earmarking** - Not Applicable

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

Smith-Lever Act formula funds distributed to the 1862 land-grant institutions may be carried forward five years from the year allocated. For Section 1444 of NARETPA funds allocated to the 1890 land-grant institutions, including Tuskegee University and West Virginia State University, no more than 20 percent of the funds received in any fiscal year may be carried forward to the succeeding fiscal year (7 USC 3221(a)).

## L. **Reporting**

### 1. **Financial Reporting**

- a. *SF-269, Financial Status Report* - This report is due from the 1862 land-grant institutions by April 1 (7 USC 344(b)) and from the 1890 land-grant institutions, including Tuskegee University and West Virginia State University, by December 1 (7 USC 3221(d)).
- b. *SF-270, Request for Advance or Reimbursement* - Not Applicable
- c. *SF-271, Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable



- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PSC-272 series of reports.
- 2. Performance Reporting** - Not Applicable
- 3. Special Reporting** - Not Applicable

## UNITED STATES DEPARTMENT OF AGRICULTURE

### CFDA 10.551 FOOD STAMPS

### CFDA 10.561 STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM

## I. PROGRAM OBJECTIVES

The objective of the Food Stamp Program is to help low-income households buy the food they need for good health.

## II. PROGRAM PROCEDURES

### Administration

The U.S. Department of Agriculture (USDA), Food and Nutrition Service (FNS) administers the Food Stamp Program in cooperation with State and local governments.

State welfare agencies (or county welfare agencies under the oversight of the State government) certify eligibility and provide benefits to households. FNS authorizes, monitors, and investigates stores that redeem benefits, provides funding for State administration and benefits, and oversees the operation of State welfare agencies to ensure compliance with Federal laws and regulations.

### Federal Funding of Benefits and State Administrative Costs

The Federal Government pays 100 percent of the value of Food Stamp Program benefits and generally reimburses States for 50 percent of their costs to administer the program (7 CFR section 277.4(b)), except for those functions listed in III G.1., Matching. The Food Stamp Program's authorizing statute places no cap on the amount of funds available to reimburse States at the 50 percent rate for allowable administrative expenses. No reimbursement is allowed for State expenditures for activities undertaken as a condition of settlement of quality control claims against the State for low payment accuracy.

### Certification

Eligibility for food stamps is based primarily on income and resources. Although welfare reform and subsequent legislation increase State design options that can affect benefits for recipients, a key feature of the program is its status as an entitlement program with standardized eligibility and benefits.

### *Assessing Need*

Households generally cannot exceed a gross income eligibility standard set at 130 percent of the Federal poverty standard (7 CFR section 273.9(a)(1)). Households also cannot exceed a net income standard, which is set at 100 percent of the Federal poverty standard (7 CFR section 273.9(a)(2)). The net income standard allows specified deductions from gross income, e.g., a standard deduction and deductions for medical expenses (elderly and disabled only), excess shelter costs, and work expenses. Non-financial eligibility criteria include: age, school status,

citizenship/legal immigration status, residency, household composition, work requirements, and disability status. Some non-citizens are ineligible to participate in the program (7 USC 2015(f)). Able-bodied adults without dependents are subject to a time limit for receiving benefits if certain requirements are not met (7 USC 2015(o)).

### *Application Process*

The application process includes completing and filing an application form, being interviewed, and having certain information verified. In addition to using information supplied by the recipients, welfare agencies use data from other agencies, such as the Social Security Administration, the Internal Revenue Service, and the State employment security agency, to verify the household's identity and income.

### **Benefits**

Benefit amounts vary with household size and income. As required by law, allotments for various household sizes are revised October 1 of each year to reflect the cost of the Thrifty Food Plan, a model plan for a low-cost nutritious diet that is developed and costed by USDA.

The benefits each household receives are redeemed for food in participating retail stores. States issue benefits in the form of debit cards, which recipients can use to purchase food. This is known as electronic benefits transfer (EBT). Welfare reform legislation required all States to use EBT by 2002, and all States have achieved full compliance.

### **Benefit Redemption**

Generally, households must use program benefits for foods to be prepared and consumed at home. There are, however, some exceptions to this general policy. For example, there are provisions for the homeless to use program benefits in authorized restaurants and for residents of some small institutional settings to participate in the program.

The State's EBT contractor is responsible for settlement, or payment, to retailers that have accepted EBT cards for food purchases. The contractor's "concentrator bank" makes the payment through the National Automated Clearing House (ACH) system. The concentrator bank is reimbursed for the payments by a draw made on the State's EBT benefit account with the U.S. Treasury. States usually authorize their EBT contractors to make these draws, although some States draw the cash and pay the concentrator banks themselves. The State is responsible for reconciling the payments made to retailers by its EBT contractor with the amounts drawn from its EBT account with the U.S. Treasury.

States must obtain an examination by an independent auditor of the State EBT service provider (service organization) regarding the issuance, redemption, and settlement of benefits under the Food Stamp Program in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 70, Service Organizations. Appendix VIII to this Supplement provides additional guidance on these examinations.

In performing audits under OMB Circular A-133 of the Food Stamp Program, an auditor may use these SAS 70 reports to gain an understanding of internal controls and obtain evidence about the operating effectiveness of controls.

### **State Responsibilities**

A State administering the Food Stamp Program must sign a Federal/State Agreement that commits it to observe applicable laws and regulations in carrying out the program (7 CFR section 272.2). Although welfare reform and subsequent legislation provided additional administrative flexibility, the Food Stamp Act remains highly prescriptive. Both the law and regulations prescribe detailed requirements for: (1) meeting program goals, such as providing timely service and rights to appeal; and (2) ensuring program integrity, such as verifying eligibility, safeguarding coupon inventories, establishing and collecting claims for benefit overpayments, and prosecuting fraud.

To ensure that States operate in compliance with the law, program regulations, and their own Plans of Operation, each State is required to have a system for monitoring and improving its administration of the Food Stamp Program (7 CFR section 275.1(a)), particularly the accuracy of eligibility and benefit determinations. This performance monitoring system includes management reviews, reviews of quality control systems, and reporting to FNS on program performance. State agencies shall conduct a review once every year for large project areas, once every two years for medium project areas, and once every three years for small project areas, unless an alternative schedule is approved by FNS. Projects are classified as large, medium, or small based on State determinations. The State must also ensure corrective action in response to the detection of program deficiencies (7 CFR sections 275.2, 275.5, and 275.16-19).

### **Federal Oversight and Compliance Mechanisms**

FNS oversees State operations through an organization consisting of headquarters and seven regional offices. In addition, about 60 field offices are often involved in State agency oversight.

FNS program oversight includes budget review and approval, reviews of financial and program reports and State management review reports, and on-site FNS reviews. Each year FNS headquarters conveys to its regions the concerns that were elevated to the national level through audits or other mechanisms. Regions combine this with their knowledge of individual States to inform the States of possible vulnerabilities to include in their internal management reviews and corrective action plans.

Although FNS uses technical assistance extensively to promote improvements in State operation of the program, enforcement mechanisms are also available. In addition to the financial rewards and penalties related to payment accuracy, FNS has other mechanisms to recover other losses and the cost of negligence (7 CFR sections 276.2 and 276.3). For other forms of noncompliance, FNS has the authority to give notice and, if improvements do not occur, withhold administrative funds for failure to implement program requirements (7 CFR section 276.4).

## **Certification Quality Control System**

The Food Stamp Program maintains an extensive quality control system required by law and regulation (7 CFR sections 275.10-14). The system provides State and national measures of the accuracy of eligibility and benefit amount determination (often referred to as payment accuracy), both underpayment and overpayment, and of the correctness of decisions to deny, terminate, or (beginning in fiscal year 2001) suspend benefits.

### *Measurement*

States are required to select a statistically valid sample of cases and to review the cases for eligibility and benefit amount. Review methods in this sample are generally more intensive than those used in determining eligibility. States submit findings of all sampled cases, including incomplete and not-subject-to-review cases, to an automated database maintained by the Federal Government. State quality control data allow a State to be aware on an ongoing basis of its level of accuracy, and allow for the identification of trends and appropriate corrective action.

The applicable FNS regional office reviews each State's sampling plan annually and re-reviews a subsample of the State quality control reviews. The FNS re-review process provides feedback to each State on its quality control system. FNS uses the State's sample and the FNS subsample in a regression formula (described in regulation) to determine payment error rates. By law, the error rate is the combined value of overpayments and under payments to participating households. FNS headquarters also reviews its regional operations and provides technical assistance to assure consistency in the national quality control system.

### *Corrective Action and Penalties*

There is a specific legislative requirement for corrective action by any State with an error rate above 6 percent (7 USC 2025 (c)(1)(B)). FNS maintains an extensive system of technical assistance for States as they develop and implement corrective action. FNS also monitors the implementation of corrective action plans. States with persistently high error rates are assessed fiscal liabilities based on the amount of benefits issued in error.

### *Implications of Quality Control for the Compliance Supplement*

The Food Stamp Program Quality Control system uses an intensive State review of a sample of active cases across the United States to measure the accuracy of Food Stamp Program eligibility determinations and benefit amounts. An FNS re-review of a subset of those cases follows. These samples are statistically valid at the State and national level. Information from Federal program oversight indicates that this sampling system is operating adequately to provide assurances that FNS is measuring the accuracy of eligibility decisions and that these data provide a basis for corrective action to improve the accuracy of eligibility decisions. Therefore, the Quality Control System sufficiently tests individual eligibility in the Food Stamp Program.

However, in those situations where computer systems are integral to the operation of the program, e.g., automated eligibility determination, the auditor should perform tests as deemed necessary to obtain assurance of the integrity of these systems. In those instances where multiple programs share the same systems, e.g., automated intake systems for Temporary Assistance for Needy Families (TANF), Food Stamps, Medicaid, etc., testing may be done as part of the work on multiple programs.

### **Source of Governing Requirements**

The Food Stamp Program is authorized by the Food Stamp Act of 1977, as amended (7 USC 2011 *et seq.*). This description of Food Stamp Program procedures incorporates provisions of the following amendments to the Act: the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Welfare Reform, Pub. L. No. 104-193, August 22, 1996), the Balanced Budget Act of 1997 (Pub. L. No. 105-33, August 5, 1997); and the Agricultural Research, Extension, and Reform Act of 1998 (Pub. L. No. 105-185, June 23, 1998); and the Farm Security and Rural Investment Act of 2002 (Pub. L. No. 107-171, 116 Stat. 134 *et seq.*, May 13, 2002). Food Stamp Program regulations are found in 7 CFR parts 271 through 285.

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

Additional program information is available from FNS's Food Stamp site on the Internet at <http://www.fns.usda.gov/fsp>.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Note: Generally, E, "Eligibility," G.1, "Matching," I, "Procurement and Suspension and Debarment" (with respect to procurement), and N, "Special Tests and Provisions" only apply to State governments. However, when States have delegated to the local governments functions normally performed by the State as administering agency, e.g., eligibility determination, issuance of food stamps, etc., the related compliance requirements will apply to the local government.

### **A. Activities Allowed or Unallowed**

Funds made available for administrative costs must be used to screen and certify applicants for program benefits, issue benefits to eligible households, conduct fraud investigations and prosecutions, provide fair hearings to households for which benefits have been denied or terminated, conduct nutrition education activities, prepare financial and special reports, operate automated data processing (ADP) systems, monitor subrecipients (where applicable), and otherwise administer the program. Portions of the award made available for specific purposes, such as ADP systems development or Employment and Training activities, must be used for such purposes (7 CFR part 277).

**E. Eligibility****1. Eligibility for Individuals**

The auditor is not required to test eligibility because detail testing of the individual case files is performed by the quality control unit and reviewed by FNS and the automated system supporting eligibility determinations and processing and tracking food stamp issuances is tested under III.N.1, "Special Tests and Provisions - ADP System for Food Stamps."

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable****3. Eligibility for Subrecipients - Not Applicable****G. Matching, Level of Effort, Earmarking****1. Matching**

The State is required to pay 50 percent of the costs of administering the program. An exception to the 50 percent reimbursement rate is 100 percent grants to administer the Employment and Training Program (7 CFR section 277.4(b)).

For Federal fiscal years 1999 through 2007, the Federal reimbursement will be decreased and the State share of administrative costs will increase by an amount equal to certain common certification costs grandfathered into the States' TANF grant levels but attributable to the Food Stamp Program (7 USC 2025(k), Section 4122 of Pub. L. No. 107-171, 116 Stat. 324, May 13, 2002). The amount of each State's downward adjustment was determined by the Department of Health and Human Services, and the States were notified by letter.

Costs of payment error rate reduction activities conducted under reinvestment agreements with FNS are not eligible for any level of Federal reimbursement. Private in-kind contributions are not allowable to count toward the State's share of the program's administrative cost (7 CFR sections 275.4(c) and 275.23(e)(11)(i)(C)).

**2. Level of Effort - Not Applicable****3. Earmarking - Not Applicable**

## I. Procurement and Suspension and Debarment

1. *ADP Systems Development* - For competitive acquisitions of ADP equipment and services costing \$5 million or more (combined Federal and State shares), the State must submit an Advanced Planning Document (APD) for the costs to be approved and allowable as charges to FNS. This threshold is for the total project cost. In addition, noncompetitive acquisitions of \$1 million or more require an APD. Contracts resulting from noncompetitive procurements of more than \$1 million and contracts for EBT systems, regardless of cost, also must be provided to FNS for review (7 CFR section 277.18).
2. *Procurement* - Regardless of whether the State elects to follow State or Federal rules in accordance with the A-102 Common Rule, the following requirements must be followed for procurements initiated on or after October 1, 2000:
  - a. A State or local government shall not award a contract to a firm it used to orchestrate the procurement leading to that contract. Examples of services that would disqualify a firm from receiving the contract include preparing the specifications, drafting the solicitation, formulating contract terms and conditions, etc. (7 CFR section 3016.60(b)).
  - b. A State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts (7 CFR section 3016.60(c)).

## L. Reporting

### 1. Financial Reporting

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

### 2. Performance Reporting - Not Applicable

### 3. Special Reporting

Note: The requirement for State agencies to automate their food stamp programs includes automation of reporting requirements (7 CFR section 272.10(b)(2)(vi)). The testing to ensure accuracy and completeness of the following reports should be coordinated with the testing of the ADP System for Food Stamps (see III.N.1 - "Special Tests and Provisions - ADP Systems for Food Stamps").



- a. FNS-46 - *Food Stamp Program Issuance Reconciliation Report (OMB No. 0584-0080)*. This monthly report is used to account for benefits issued during a report month for each issuance reconciliation point. The FNS-46 reports the reconciliation of food stamp benefits actually issued with the State's (or county's in county-run operations) Master Issuance File. The Master Issuance File contains records on all households eligible to receive benefits (such as a listing of the households and the benefits each is authorized to receive). Actual issuances may be recorded in the Record for Issuance (RFI) or alternative filing system. The RFI is created from the Master Issuance File and shows the amount of benefits the household is eligible to receive and the actual amount issued. Generally, one FNS-46 covers the entire State. However, if a State concurrently operates more than one type of issuance system (e.g., over-the-counter issuance, mail issuance, etc.), its FNS-46 report(s) must separately identify the amount of benefits issued under each system.

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

- (1) Line 6 - *Total Issuance this month*
- (2) Line 7 - *Returns during current month*
- (3) Line 9 - *Value of authorized replacements(s) transacted*

- b. FNS-209 - *Status of Claims Against Households (OMB No. 0584-0069)*. If a household receives more food stamp benefits than it is entitled to receive, the State must establish a claim against that household and demand repayment (7 CFR section 273.18 (a)). The State is required to create and maintain a system of records for monitoring these claims against households. These State systems generate the data entered on the FNS-209 report. The minimum requirements for such systems are listed at 7 CFR section 273.18(m). The State is permitted to retain a portion of the collected repayments: 35 percent of the recovered funds from claims involving fraud or other intentional program violations; 35 percent of the funds recovered from claims generated by inadvertent household errors, collected by reducing a person's unemployment compensation benefits; and 20 percent of the recovered funds from inadvertent household error claims collected by other means. No portion of funds recovered from agency-error overpayments may be retained (7 CFR section 273.18(k)).

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

- (1) Line 3a *Beginning Balance* and line 13 *Ending Balance* - represent the beginning and ending balances, respectively, of the claims. Columns A, B, and C represent the number and amount of claims by claim type (i.e., intentional program violation, inadvertent household error, and State agency administrative error). The aggregate value of claims activity from the subunits should equal the State totals. The beginning and ending balances should represent the total of individual claims that comprise these balances.
- (2) Line 14 *Cash, Check, and M.O.* - represents total claims payments made in the form of cash, checks, or money orders.
- (3) Line 15 *Food Stamps* - represents all payments in the form of food stamp coupons and EBT benefit returns.
- (4) Line 16 *Recoupment* - represents the value of collections made through allotment reductions.
- (5) Line 17 *Offset* - represents the total value of collections made by offsetting restored benefits against outstanding claim balances.
- (6) Line 18b *Cash Adj.(+ or -)* - represents amendments or corrections to the collection summary of a previous report.
- (7) Line 18c *Non-Cash Adj. (+ or -)* - represents amendments or corrections to the collection summary of a previous report relative to the return of food stamps, recoupment, or offsetting transactions.
- (8) Line 19 *Transfers (+ or -)* - represents the claims that were contained in the collection summary of a previous report and which are being transferred from one claim category to another claim category.
- (9) Line 20a *Cash Refunds* - represents the value of cash refunds provided to households that overpaid claims.
- (10) Line 20b *Non-Cash Refunds* - represents the value of non-cash refunds provided to households that overpaid claims.
- (11) Lines 21 *Total*, and 28 *Total Letter of Credit Adjustments* - represent the Total Collection Summary and the Total Letter of Credit Adjustments. The aggregate value of claims collection activity from the subunits should equal the State totals.

## N. Special Tests and Provisions

### 1. ADP System for Food Stamps

Note: See III.E.1, “Eligibility - Eligibility for Individuals,” for the reason why the testing of the ADP system for food stamps is under this special test and provision instead of under Eligibility.

**Compliance Requirement** - State agencies are required to automate their Food Stamp Program operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning the Food Stamp Program (7 CFR sections 272.10 and 277.18). This includes: (1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration; (2) providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period (7 CFR sections 272.10(b)(1)(iii) and 273.10(f) and (g)); and (3) generating data necessary to meet Federal issuance and reconciliation reporting requirements.

**Audit Objective** - Determine whether the State administering agency’s ADP system for food stamps is meeting the requirements to: (1) accurately and completely process and store all case file information for eligibility determination and benefit calculation; (2) automatically cut off households at the end of their certification period unless recertified; and, (3) provide data necessary to meet Federal issuance and reconciliation reporting requirements.

#### Suggested Audit Procedures

Because of the diversity of ADP hardware and software systems, it is not practical for the Compliance Supplement to provide suggested audit procedures to address each system. See Part 3, E.1.a (suggested audit procedures for eligibility for individuals relating to automated systems) in this Supplement for other guidance concerning testing ADP systems. The auditor should test the ADP system to ascertain if the system:

- a. Accurately and completely processes and stores all case file information for eligibility determination and benefit calculation.
- b. Automatically cuts off households from food stamps at the end of their certification period unless the household is recertified.
- c. Provides data necessary to meet Federal issuance and reconciliation reporting requirements. Note: This testing should be coordinated with the testing of Special Reporting (see III.L.3).

## 2. EBT Reconciliation

**Compliance Requirement** - States that use EBT must have systems in place to reconcile all of the funds entering into, exiting from, and remaining in the system each day with the State's benefit account with Treasury and EBT contractor records. This includes a reconciliation of the State's issuance files of postings to recipient accounts with the EBT contractor. States (generally through the EBT contractor that operates the EBT system) must also have systems in place to reconcile retailer credit activity as reported into the banking system to client transactions maintained by the processor and to the funds drawn down from the EBT benefit account with Treasury. States' EBT system processors should maintain audit trails that document the cycle of client transactions from posting to point-of-sale transactions at retailers through settlement of retailer credits. The financial and management data that comes from the EBT processor is reconciled by the State to the Food Stamp Program issuance files and settlement data to ensure that benefits are authorized by the State and that funds have been properly drawn down. States may only draw Federal funds for authorized transactions, i.e., on-line purchases supported by entry of a valid personal identification number (PIN) or purchases using manual vouchers with telephone verification supported by a client signature and an EBT contractor authorization number (7 CFR sections 274.12(a), 274.12(g)(1) and 274.12(j)(1)).

**Audit Objective** - Determine whether the State reconciles retailer activity to client transactions, to its issuance files of postings to recipient accounts with the EBT contractor, and to postings to and drawdown activity from the State's benefit account with Treasury.

### Suggested Audit Procedures

- a. Verify that the State has a system in place to reconcile total funds entering into, exiting from, and remaining in the system each day.
- b. Select and test a sample of reconciliation(s) to verify that discrepancies are followed up and resolved. This is generally a contractor duty.
- c. Verify that the State or its contractor has a system in place to reconcile retailer credits against the information entered into the Automated Clearinghouse network and to the amount of funds drawn down by the State or the State's fiscal agent (the EBT contractor).
- d. Ascertain if the State or its contractor has recorded any non-Federal liabilities in the daily EBT reconciliation, i.e., transactions which cannot be charged to the program. If so, verify that the non-Federal liabilities were funded by non-Federal sources (i.e., the State or the contractor).

### 3. Issuance Document Security

**Compliance Requirement** - The State is required to maintain adequate security over, and documentation/records for, Authorization to Participate (ATP) cards, other documents authorizing issuance, EBT cards (7 CFR section 274.12(h)(3)), and the food stamp coupons themselves to prevent: coupon theft, embezzlement, loss, damage, destruction; unauthorized transfer, negotiation, or use of coupons; and alteration or counterfeiting of coupons and other documents authorizing issuance (7 CFR sections 274.7(b) and 274.11(c)).

**Audit Objective** - Determine whether the State maintains security over instruments used to authorize issuance of food stamp benefits.

#### Suggested Audit Procedures

- a. Observe the physical security over food stamps, ATP cards, EBT cards, and/or other negotiable instruments used in the issuance process.
- b. Verify that food stamp coupons, ATP cards, and EBT cards returned from the Postal Service are returned to inventory or destroyed.

### 4. Physical Inventory

**Compliance Requirement** - Each coupon issuer and bulk storage point that distributes food stamps is required to prepare a Food Coupon Accountability Report (FNS-250) to report monthly coupon issuance and inventory (7 CFR section 274.4(b)). Each State agency must assure that day-to-day operations of all coupon issuers comply with regulations by performing a triennial on-site review, including physical inventory, of each coupon issuer and bulk storage site under its direction (7 CFR section 274.1(c)).

**Audit Objective** - Determine whether the State agency has conducted required triennial on-site reviews, including physical inventories, at coupon issuers and bulk storage points.

#### Suggested Audit Procedures

Determine by inquiry or inspection of records that the State agency conducts the required triennial reviews of coupon issuers and bulk storage points to ensure physical inventories are appropriate, inventories are made as required, and differences between recorded and actual inventories are reconciled.

### 5. Food Coupon Inventory Levels

**Compliance Requirement** - State agencies must monitor the coupon inventories of coupon issuers and bulk storage points to ensure that inventories are neither excessive nor insufficient to meet the issuance needs and requirements. Inventory levels are not to exceed a "six-month supply," taking into account coupons on hand and on order (7 CFR section 274.7(a)(1)). State agencies must review the FNS-250 and other reports including shipping and transfers, returned and/or replaced mail-issuances, improperly manufactured

or mutilated coupons, and reports of shortage or overage of food coupon books to ensure the accuracy of monthly inventories, compliance with required inventory levels, and accuracy and reasonableness of coupon orders.

**Audit Objective** - Determine whether food stamp coupon levels are neither excessive nor insufficient to meet the issuer's requirements.

### **Suggested Audit Procedures**

Verify that the State agencies determine that inventory levels at coupon issuers and bulk storage points are neither excessive nor insufficient to meet the issuance needs and requirements, and that inventory levels do not exceed a six-month supply, taking into account coupons on hand and on order.

## **6. Quality Control Unit**

**Compliance Requirement** - The State or local government must establish a quality control unit that is independent of program operations (7 CFR section 275.2(b)).

**Audit Objective** - Determine whether the quality control unit is organizationally independent of program operations.

### **Suggested Audit Procedures**

Ascertain that the quality control unit is organizationally independent of program operations.

## UNITED STATES DEPARTMENT OF AGRICULTURE

<b>CFDA 10.553</b>	<b>SCHOOL BREAKFAST PROGRAM (SBP)</b>
<b>CFDA 10.555</b>	<b>NATIONAL SCHOOL LUNCH PROGRAM (NSLP)</b>
<b>CFDA 10.556</b>	<b>SPECIAL MILK PROGRAM FOR CHILDREN (SMP)</b>
<b>CFDA 10.559</b>	<b>SUMMER FOOD SERVICE PROGRAM FOR CHILDREN (SFSPC)</b>

### I. PROGRAM OBJECTIVES

The objectives of the child nutrition cluster programs are to: (1) assist States in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential child care institutions, and summer recreation programs; and (2) encourage the domestic consumption of nutritious agricultural commodities.

### II. PROGRAM PROCEDURES

#### General Overview

At the Federal level, these programs are administered by the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture (USDA). FNS generally administers these programs through grants to State agencies. Each State agency, in turn, enters into agreements with subrecipient organizations for local level program operation and the delivery of program benefits and services to eligible children. The types of organizations that receive subgrants under each program are described below under "Program Descriptions." In cases where a State agency is not permitted or is not available to administer the program(s), they are administered directly by FNS regional offices. The regional offices then perform the administrative functions for local program operators that are normally performed by a State agency (7 CFR sections 210.3, 215.3, 220.3, and 225.3). For purposes of this discussion, State agencies and FNS regional offices are referred to collectively as "administering agencies."

Under 7 CFR part 250 (General Regulations and Policies - Food Distribution), USDA makes donated agricultural commodities available for use in the operation of all child nutrition programs except the SMP. FNS enters into agreements with State distributing agencies for the distribution of USDA donated commodities. The State distributing agencies, in turn, enter into agreements with local program operators, which are defined collectively as "recipient agencies." A State may designate a recipient agency to perform its storage and distribution duties. A State distributing agency may engage a commercial food processor to use the commodities in the manufacture of food products, and then deliver such manufactured products to recipient agencies.

## Program Descriptions

### *Common Characteristics*

The programs in the Child Nutrition Cluster are all variants of a basic program design having the following characteristics:

- a. Local program operators provide prepared meals to children in structured settings. Four types of meal service may be authorized: breakfast, lunch, supplements (snacks), and supper. Milk service may be authorized only under the SMP. The types a particular program operator may offer are determined first by the respective program's authorizing statute and regulations, and second by the program operator's agreement with its administering agency.
- b. While all children in attendance are entitled to receive these program benefits, children whose households meet stated income eligibility criteria generally receive their meals (or milk, where applicable) free or at a reduced price. With certain exceptions, children not eligible for free or reduced price meals or free milk must pay the full prices set by the program operator for these items. A program meal must be priced as a unit.

There are two systems of charging for program meals: "pricing" and "nonpricing" programs. In a pricing program, children who do not qualify for free meals pay a separate fee for their meals. The fee may be collected at the point of service; through a separate daily, weekly, or monthly meal charge or meal ticket payment; by earmarking a portion of the child's tuition payment expressly for food service; or through an identifiable reduction from the standard tuition rate for meals provided by parents. In a nonpricing program, no separate identifiable charges are made for meals served to enrolled children. Examples of organizations that often operate nonpricing programs include juvenile detention centers, boarding schools, other residential child-care institutions, and some private schools.

- c. Federal assistance to local program operators takes the form of cash reimbursement. In addition, USDA donates food (commodities) under 7 CFR part 250 for use in preparing meals to be served under the NSLP, SBP, and SFSPC.
- d. To obtain cash and commodity assistance, a local program operator must submit monthly claims for reimbursement to its administering agency. All meals (and half-pints of milk under SMP) claimed for reimbursement must meet Federal requirements and be served to eligible children.
- e. The program operator's entitlement to reimbursement payments is generally computed by multiplying the number of meals (and/or half-pints of milk under the SMP) served by a prescribed per-unit payment rate (called a "reimbursement rate"). Different reimbursement rates are prescribed for different categories and types of service. "Type" refers to the kind of service (breakfast, lunch, milk, etc.),



while “category” refers to the beneficiary’s eligibility (free, reduced price, or paid). Under this formula, a local program operator’s entitlement to funding from its administering agency is generally a function of the categories and types of service provided. Therefore, the child nutrition cluster programs are said to be “performance funded.”

### *Characteristics of Individual Programs*

The program-specific variants of this basic program model are outlined below.

- a. *School Nutrition Programs* (NSLP and SBP) - These programs target children enrolled in schools. For program purposes, a “school” is a public or non-profit private school of high school grade or under, or a public or licensed non-profit private residential child-care institution. At the local level, a school food authority (SFA) is the entity with which the administering agency makes an agreement for the operation of the programs. A SFA is the governing body (such as a school board) legally responsible for the operation of the NSLP and/or SBP in one or more schools. A school operated by a SFA may be approved to serve breakfast and lunch. A school with an afterschool care program with an educational or enrichment component may also be approved to serve supplements. See also the description of the SMP below.
- b. *SFSPC* - The SFSPC is directed toward children in low-income areas when school is not in session. It is locally operated by approved sponsors, which may include public or private non-profit SFAs, public or private non-profit residential summer camps, or units of local, municipal, county or State governments or other private non-profit organizations that develop a special summer or other school vacation program providing food service similar to that available to children during the school year under the NSLP and SBP.

A feeding site under a sponsor’s oversight may be approved to serve breakfast, lunch, supplements, and/or supper. Except for children enrolled in participating summer camps, all participating children receive their meals free. Participating summer camps must identify children eligible for free or reduced price meals and may charge those not income-eligible for free meals. Effective January 1, 2008, sponsors are reimbursed for operating (meal service) and administrative costs according to the performance funding formula outlined above.

Although USDA donated foods are made available under the SFSPC, they are restricted to sponsors that prepare the meals to be served at their sites and those that have entered into an agreement with a SFA for the preparation of meals.

- c. SMP - The SMP provides milk to children in schools and child-care institutions that do not participate in other Federal meal service programs. However, schools operating the NSLP and/or SBP may also participate in the SMP to provide milk to children in half-day pre-kindergarten and kindergarten programs where children do not have access to the NSLP and SBP. A SFA or institution operating the SMP as a pricing program may elect to serve free milk but there is no Federal requirement that it do so. The SMP has no reduced price benefits.

## **Program Funding**

FNS furnishes funds to State agencies by letter of credit. The State agencies use the meal reimbursement funds to support program operations by SFAs, institutions, and sponsors under their oversight, and the administrative funds to fund their own administrative costs. Funding for FNS regional office-administered programs is handled through FNS's Integrated Program Accounting System.

### *Funding Program Benefits*

FNS provides cash reimbursement to each State agency for each meal served under the NSLP, SBP, and SFSPC and for each half pint of milk served under the SMP. The State agency's entitlement to cash assistance for NSLP and SBP meals, NSLP supplements, and SMP milk not reimbursed at the "free" rate is determined by multiplying the number of units served within the State by a "national average payment rate" set by FNS. Cash reimbursement to a State agency under the SFSPC is the product obtained by multiplying the number of meals served by maximum rates of reimbursement established by FNS.

FNS sets the national average payment rate or maximum rate of reimbursement for each type of meal service (breakfast, lunch, supplement, supper) within each program. A national average payment rate is also set for each eligibility category within the NSLP and SBP. Basic levels of cash assistance are provided for all lunches and breakfasts, respectively. This basic rate is increased by two cents for each lunch served in SFAs in which 60 percent or more of the lunches served during the second preceding school year were served free or at a reduced price. Additional assistance is provided for lunches and breakfasts served to children eligible for free or reduced price meals. A higher rate of reimbursement is paid for each breakfast served free or at reduced price in schools determined to be in "severe need." Milk served free under the SMP is funded at the average cost of milk. Since all meals are served free under the SFSPC, all meals of the same type are funded at the same rate.

State agencies earn commodity assistance based on the number of program meals served in schools participating in the NSLP and for certain sponsors participating in the SFSPC. The State agency's level of commodity assistance is the product of the number of meals served in the preceding year multiplied by the national average payment for donated foods.

FNS adjusts the national average payment rates and maximum rates for reimbursement annually for NSLP, SBP, and SFSPC to reflect changes in the Consumer Price Index and for the SMP to reflect changes in the Producer Price Index. FNS adjusts commodity assistance rates annually to reflect changes in the Price Index for Food Used in Schools and Institutions. The current announcements of all these assistance rates can be found on the Internet at <http://www.fns.usda.gov/cnd> (7 CFR sections 210.4(b), 220.4(b), 215.1, and 225.9(d)(9)).

A State agency uses the cash assistance obtained through performance funding to reimburse participating SFAs and sponsors for eligible meals served to eligible persons. Like “national average payments” to States, reimbursement payments are also made on a per-meal (performance funding) basis. SFAs and SFSPC sponsors receive commodities to the extent they can use them for program purposes; however, certain types of products are limited by an entitlement.

#### *Funding State-Level Administrative Costs*

In addition to funding for reimbursement payments to SFAs and sponsors, State agencies receive funding from several sources for costs they incur to administer these programs.

- a. *State Administrative Expense (SAE) Funds* - These funds are granted under CFDA 10.560, which is not included in the Child Nutrition Cluster.
- b. *SFSPC State Administrative (SAF) Funds* - In addition to regular SAE grants, administrative funds are made available to State agencies under CFDA 10.559 to assist with administrative costs of the SFSPC (7 CFR section 225.5). The State agency must describe its intended use of the funds in a Program Management and Administrative Plan submitted to FNS for approval (7 CFR section 225.4).

#### **Source of Governing Requirements**

The programs included in this cluster are authorized by the Richard B. Russell National School Lunch Act (NSLA) (42 USC 1751 *et seq.*) and the Child Nutrition Act of 1966 (CNA) (42 USC 1771 *et seq.*). The implementing regulations for each program are codified in parts of 7 CFR as indicated: National School Lunch Program (NSLP), part 210; School Breakfast Program (SBP), part 220; Special Milk Program for Children (SMP), part 215; and, Summer Food Service Program for Children (SFSPC), part 225. Regulations at 7 CFR part 245 address eligibility determinations for free and reduced price meals and free milk in schools and institutions. Regulations at 7 CFR part 250 give general rules for the receipt, custody, and use of USDA donated commodities provided for use in the Child Nutrition Cluster of programs.

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

Additional program information is available from the FNS’s Child Nutrition site on the Internet at <http://www.fns.usda.gov/cnd>. Information on the distribution of USDA donated commodities for the Child Nutrition Cluster programs is available from the FNS Food Distribution web site at <http://www.fns.usda.gov/fdd/programs/schenp/>.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

##### 1. SFSPC Sponsor *Reimbursement Prior to January 1, 2008*

Prior to January 1, 2008, sponsors generally were required to separately report SFSPC operating and administrative costs as follows:

(This requirement is effective for new contracts with solicitations issued on or after November 30, 2007. For amendments/renewals of contracts existing on November 30, 2007 or for other new contracts, see Final Rule, Procurement Requirements for the National School Lunch, School Breakfast, and Special Milk Programs, III. Implementation, 72 FR 61479, October 31, 2007.)

a. Administrative Costs - Sponsor reimbursement is provided for central-level general administrative overhead, including such costs as planning and organizing, site monitoring, preparation of claims and reports, and audits. Payment to sponsors for administrative costs amounted to the lesser of: actual net expenses incurred for administrative costs; or the number of meals by type actually served to eligible children multiplied by the administrative rates for those meals; or the administrative budget that was approved by the administering agency and included in the program agreement, along with any approved amendments to it (7 CFR sections 225.9(d)(5) and (d)(8)), and section 225.15(c)). Also see the definition of “administrative costs” at 7 CFR section 225.2.

b. Exception for States with Simplified SFSPC Programs -

Operating and administrative cost comparisons are not required for eligible school, public, and camp sponsors in 26 States (Alaska, Arizona, Arkansas, Colorado, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Michigan, Mississippi, Nebraska, New Hampshire, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Tennessee, Texas, Washington, West Virginia, Wisconsin, and Wyoming) and Puerto Rico from October 1, 2004 through December 31, 2007 (42 USC 1769(f)).

2. *SFSPC Sponsor Reimbursement on or after January 1, 2008*

Effective January 1, 2008, all States must operate the SFSPC under simplified cost accounting procedures. Sponsors are no longer required to report operating and administrative costs, although they must maintain records of them. Sponsor reimbursement is no longer related to operating and administrative cost comparisons; it is determined solely by applying the applicable meals X rates formula. Separate rates are used to compute reimbursement for operating and administrative costs, but a sponsor can use its entire reimbursement payment for any combination of operating and administrative costs (Title VII, Section 738 of Pub. L. No. 110-161, December 26, 2007).

**E. Eligibility**

**1. Eligibility for Individuals**

Any child enrolled in a participating school or summer camp, or attending a SFSPC feeding site, who meets the applicable program's definition of "child" may receive meals under the applicable program. Children belonging to households meeting nationwide income eligibility requirements may receive meals at no charge or, in the case of the NSLP and SBP, at reduced price. Children in schools operating the School Nutrition Programs, or in camps operating the SFSPC, who have been determined ineligible for free or reduced price meals pay the full price, set by the SFA or sponsor, for their meals (7 CFR sections 225.15(f), 245.1(a), and 245.3(c); definition of "subsidized lunch (paid lunch)" at 7 CFR section 210.2; and definitions of "camp," "closed enrolled site," "open site," and "restricted open site" at 7 CFR section 225.2).

a. *General Eligibility*

The specific groups of children eligible to receive meals under each program are identified in the respective program's regulations.

- (1) *School Nutrition Programs (NSLP and SBP)* - A "child" is defined as: (a) a student of high school grade or under (as determined by the State educational agency) enrolled in an educational unit of high school grade or under, including students who are mentally or physically handicapped (as determined by the State) and who are participating in a school program established for the mentally or physically handicapped; (b) a person who has not reached his/her twenty-first birthday and is enrolled in a public or non-profit private residential child care institution; or (c) for meal supplements served in afterschool care programs operated by an eligible school, a person who is 18 years of age or under, except that children who turn 19 during the school year remain eligible for the duration of the school year ( 42 USC 1766a(b); definition of "child" at 7 CFR sections 210.2 and 220.2).

- (2) *SFSPC* - A “child” is defined as: (a) any person 18 years of age and under; and (b) a person over 18 years of age, who has been determined by the State educational agency or a local public educational agency to be mentally or physically handicapped, and who participates in a public or non-profit private school program established for the mentally or physically handicapped (Definition of “children” at 7 CFR section 225.2).
  - (3) *SMP* - Schools operating this program use the same definition of “child” that is used in the NSLP and SBP, except for provision (3) under the definition of “child” at 7 CFR section 210.2 regarding supplements served in afterschool care programs. Where the program operates in child-care institutions, as defined in 7 CFR section 215.2, a “child” is any enrolled person who has not reached his/her nineteenth birthday (7 CFR section 215.2).
- b. *Eligibility for Free or Reduced Price Meals or Free Milk*
- (1) *General Rule: Annual Certification* - A child’s eligibility for free or reduced price meals under a Child Nutrition Cluster program may be established by the submission of an annual application or statement which furnishes such information as family income and family size. SFAs, institutions, and sponsors determine eligibility by comparing the data reported by the child’s household to published income eligibility guidelines. In addition to publishing income eligibility information in the *Federal Register*, FNS makes it available on the FNS web site (<http://www.fns.usda.gov/cnd/>) under “Income Eligibility Guidelines.”
    - (a) *School Nutrition Programs* - Children from households with incomes at or below 130 percent of the Federal poverty level are eligible to receive meals or milk free under the School Nutrition Programs. Children from households with incomes above 130 percent but at or below 185 percent of the Federal poverty level are eligible to receive reduced price meals. Persons from households with incomes exceeding 185 percent of the poverty level pay the full price (7 CFR sections 245.2, 245.3, and 245.6; section 9(b)(1) of the NSLA (42 USC 1758 (b)(1)); sections 3(a)(6) and 4(e) of the CNA (42 USC 1772(a)(6) and 1773(e))).

- (b) *SFSPC* - While all SFSPC meals are served at no charge, the sponsors of certain types of feeding sites must make individual determinations of eligibility for free or reduced price meals in accordance with 7 CFR section 225.15(f). See III.E.3. "Eligibility - Eligibility for Subrecipients" for more information.
- (c) *SMP* - Eligibility for free milk in SFAs electing to serve free milk is limited to children of households meeting the income eligibility criteria for free meals under the School Nutrition Programs. The SMP has no provision for reduced price benefits (Definition of "free milk" at 7 CFR section 215.2, and 7 CFR sections 215.7(b), 245.3, and 245.6).

Annual eligibility determinations may also be based on the child's household receiving benefits under the Food Stamp Program, Food Distribution Program on Indian Reservations (FDPIR), the Head Start Program (CFDA 93.600) (42 USC 1758(b)(6)(A)), or, under most circumstances, the Temporary Assistance for Needy Families (TANF) program (CFDA 93.558) (42 USC 1758(b)). A household may furnish documentation of its participation in one of these programs; or the school, institution, or sponsor may obtain the information directly from the State or local agency that administers these programs. Certain runaway, homeless, and migrant children are categorically eligible for free school lunches and breakfasts (42 USC 1758(b)(5)(A); 7 CFR section 245.6(b)).

- (2) *Exceptions* - The following are exceptions to the requirement for annual determinations of eligibility for free or reduced price meals and free milk under the Child Nutrition Cluster programs.
  - (a) *Puerto Rico and the Virgin Islands* - These two State agencies have the option to provide free meals and milk to all children participating in the School Nutrition Programs, regardless of each child's economic circumstances. Instead of counting meals and milk by type, they may determine the percentage that each type comprises of the total count using statistical surveys. The survey design must be approved by FNS (7 CFR section 245.4).
  - (b) *Special Assistance Certification and Reimbursement Alternatives* - Special Assistance Certification and Reimbursement Alternatives, Provisions 1, 2 and 3, are authorized by Section 11(a)(1) of the NSLA (42 USC 1759a(a)(1)). Provision 1 may be used in schools where at least 80 percent of the children enrolled are eligible for free or reduced price meals. Under Provision 1, eligibility

determinations for children eligible for free meals under the School Nutrition Programs must be made once every two consecutive school years. Children who qualify for reduced price meals are certified annually (42 USC 1759a(a)(1)(B); 7 CFR section 245.9(a)).

For Provisions 2 and 3, extended cycles are allowed for eligibility determinations. Since the schools also use alternative meal counting and claiming procedures, descriptions of Provisions 2 and 3 are presented below in III.L.3, "Reporting - Special Reporting."

- (c) *SFSPC Open Sites and Restricted Open Sites* - Determinations of individual household eligibility are not required for meals served free at SFSPC "open sites," or at "restricted open sites. See III.G.3, "Eligibility - Eligibility for Subrecipients," for more information.

c. *Reduced Price Charges for Program Meals*

The SFA sets meal prices. However, the price for a reduced price lunch, breakfast, or snack may not exceed \$0.40, \$0.30, and \$0.15, respectively (See definition of "reduced price meal" in 7 CFR section 245.2).

- 2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**
- 3. Eligibility for Subrecipients**

Administering agencies may disburse program funds only to those organizations that meet eligibility requirements. Under the NSLP, SBP and SMP, this means the definition of "school food authority" (SFA) as described at 7 CFR sections 210.2, 215.2, and 220.2, respectively. Eligible SFSPC organizations are described at 7 CFR section 225.2 under the definition of "sponsor." Additional organizational eligibility requirements apply to the SFSPC, NSLP Afterschool Snacks, and the SBP at the feeding site level (see detail below).

- a. *SFSPC* - Federal regulations at 7 CFR section 225.2 define sites in four ways:
- (1) *Open Sites* - At an open site, meals are made available to all children in the area where the site is located. This area must be one in which poor economic conditions exist (one in which at least 50 percent of the children are from households that would be eligible for free or reduced price school meals under the NSLP and the SBP). Data to support a site's eligibility may include: (a) free and reduced price eligibility data maintained by schools that serve the same area; (b) census data; or (c) other statistical data, such as



information provided by departments of welfare and zoning commissions.

- (2) *Restricted Open Sites* - A restricted open site is one that was initially open to broad community participation, but at which the sponsor has restricted attendance for reasons of safety, security, or control. A restricted open site must serve an area in which poor economic conditions exist, and its eligibility may be documented with the same kinds of data listed above for open sites.
  - (3) *Closed Enrolled Sites* - A closed enrolled site makes meals available only to enrolled children, as opposed to the community at large. Its eligibility is based not on serving an area where poor economic conditions exist, but on the eligibility of enrolled children for free or reduced price school meals. At least 50 percent of them must be so eligible. The sponsor must determine their eligibility through the application process described at 7 CFR section 225.15(f).
  - (4) *Camps* - Eligible camps include residential summer camps and nonresidential day camps that offer regularly scheduled food service as part of organized programs for enrolled children. A camp need not serve an area where poor economic conditions exist. Instead, the camp's sponsor must determine each enrolled child's eligibility for free SFSPC meals through the application requirements at 7 CFR sections 225.15(e) and (f). Unlike other sponsors, the sponsor of a camp receives reimbursement only for meals served to children eligible for free or reduced price school meals (7 CFR section 225.14(d)(1)).
- b. *SBP - Severe Need Schools* - In addition to the national average payment, FNS makes additional payments for breakfasts served to children qualifying for free or reduced price meals at schools that are in severe need. The administering agency must determine whether a school is eligible for severe need reimbursement based on the following eligibility criteria: (1) the school is participating in or desiring to initiate a breakfast program and (2) 40 percent or more of the lunches served to students at the school in the second preceding school year under the NSLP were served free or at a reduced price. Administering agencies must maintain on file, and have available for reviews and audits, the source of the data to be used in making individual severe need determinations (42 USC 1773(d); 7 CFR section 220.9(d)).
- c. *NSLP - Afterschool Snacks* - Reimbursement for afterschool snacks is made available to those school districts which (1) operate the NSLP in one or more of their schools and (2) sponsor or operate afterschool care programs with an educational or enrichment purpose. In the case of

snacks served at an eligible site located in the attendance area of a school in which at least 50 percent of the enrolled children are certified eligible for free and reduced price school meals, all snacks are served free and are reimbursed at the free rate regardless of individual eligibility. Schools and sites not located in such an area may also participate, but they must count and claim supplements as free, reduced price and paid, depending on the eligibility status of the children served, and they must maintain documentation of eligibility for children receiving free or reduced price supplements (42 USC 1766a).

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

### **1. Matching**

#### *NSLP - State Revenue Matching Requirement*

The State is required to contribute State-appropriated funds amounting to at least 30 percent of the funds it received under Section 4 of the NSLA in the school year beginning July 1, 1980, unless otherwise exempted by 7 CFR section 210.17. In the fall of each year, FNS furnishes each State with a report giving data for the State's use in determining its matching requirements. However, the State revenues derived from the operation of the NSLP and State revenues expended for salaries and administrative expenses of the NSLP at the State level are not considered in this computation. In States with per capita income lower than the national average, the 30 percent match is proportionately reduced (sections 7(a)(1) and (2) of the NSLA, and 7 CFR section 210.17(a)).

- a. *Private School Exemption* - States that are prohibited by law from disbursing State appropriated funds to non-public schools are not required to match "General Cash Assistance" (Section 4) funds expended for meals in such schools, or to disburse to such schools any of the State revenue required to meet the matching requirements. Also, the matching requirements do not apply to schools in which the program is administered by a FNS regional office (7 CFR section 210.17(b)).
- b. *Applicable State Revenues* - State revenues, appropriated or used specifically for program purposes, are eligible for meeting the matching requirement. States use a number of methods to apply funds toward the matching requirement. For example, they may: (1) disburse such funds directly to SFAs, generally on a per-meal basis; (2) pay bills that SFAs would otherwise have had to pay themselves (such as FICA payments for school food service workers); and (3) track State-appropriated funds that SFAs have indirectly applied to the program through transfers from their general funds to their school food service funds (7 CFR section 210.17(d)).

### **2. Level of Effort - Not Applicable**

### 3. Earmarking - Not Applicable

## I. Procurement and Suspension and Debarment

### 1. Procurement

- a. General Procurement - Regardless of whether the State elects to follow State or Federal rules in accordance with the A-102 Common Rule, the following requirements must be followed for procurements initiated by State agencies and SFSPC institutions on or after October 1, 2000. The effective date of these requirements for SFAs is set by their administering agencies, but cannot be later than July 1, 2001.
  - (1) *Contractor Selection* - A State agency, SFA, institution, or sponsor shall not award a contract to a firm it used to orchestrate the procurement leading to that contract. Examples of services that would disqualify a firm from receiving the contract include preparing the specifications, drafting the solicitation, formulating contract terms and conditions, etc. (7 CFR sections 3016.60(b) and 3019.43).
  - (2) *Geographical Preference* - A State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts (7 CFR section 3016.60(c)).
- b. *Contracts With Food Service Management Companies* – Before awarding a contract to a food service management company, or amending such a contract, an SFA operating the NSLP and SBP must: (1) obtain its administering agency's review and approval of the contract terms; (2) incorporate all changes required by the administering agency; (3) obtain written administering agency approval of any changes made by the SFA or its food service management company to a pre-approved prototype contract; and (4) when requested, submit procurement documents for administering agency inspection (7 CFR sections 210.16(a)(10) and 220.7(d)(1)(ix)). (This requirement is effective for new contracts with solicitations issued on or after November 30, 2007. For amendments/renewals of contracts existing on November 30, 2007 or for other new contracts, see Final Rule, Procurement Requirements for the National School Lunch, School Breakfast, and Special Milk Programs, III. Implementation, see 72 FR 61479, October 31, 2007.)

c. *Cost-Reimbursable Contracts* –

- (1) Cost-reimbursable contracts awarded by SFAs operating the NSLP, SMP, and SBP, including contracts with cost-reimbursable provisions and solicitation documents prepared to obtain offers of such contracts, must include the following provisions:
  - (a) Billing documents submitted by the contractor will either separately identify allowable and unallowable portions of each cost, or include only allowable costs and a certification that payment is sought only for such costs.
  - (b) The contractor must identify the amount of each discount, rebate, and other applicable credit on bills and invoices presented to the SFA for payment and individually identify the amount as a discount, rebate, or in the case of other applicable credits, the nature of the credit. If approved by the State agency, the school food authority may permit the contractor to report this information on a less frequent basis than monthly, but no less frequently than annually.
- (2) No cost resulting from a cost-reimbursable contract may be paid from the SFA's nonprofit school food service account if: (a) the underlying contract does not include the foregoing provisions; or (b) such disbursement would result in the contractor receiving payments in excess of the contractor's actual, net allowable costs (7 CFR sections 210.21(f), 215.14a(d), and 220.16(e)). (This requirement is effective for new contracts with solicitations issued on or after November 30, 2007. For amendments/renewals of contracts existing on November 30, 2007 or for other new contracts, see Final Rule, Procurement Requirements for the National School Lunch, School Breakfast, and Special Milk Programs, III. Implementation, see 72 FR 61479, October 31, 2007.)

2. *Suspension and Debarment* - Mandatory awards by pass-through entities to subrecipients are excluded from the suspension and debarment rules (7 CFR section 3017.215(h)).

**L. Reporting**

**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. FNS-13, *Annual Report of State Revenue Matching (OMB No. 0584 - 0075)* - This report is due 120 days after the end of each school year and identifies the State revenues to be counted toward meeting the State revenue matching requirement (7 CFR section 210.17(g)).

*Key Line Item* - The following line item contains critical information:

Line 5 - *State revenues to be counted toward the State Revenue Matching Requirement*

- f. *Subrecipient Financial Reporting* - A State agency may require SFAs, institutions, and sponsors under its oversight to report information the State agency needs to prepare the financial reports identified above. Such subrecipient reports should be tested during audits of the subrecipients.

## **2. Performance Reporting** - Not Applicable

## **3. Special Reporting**

### a. *State Agency Special Reporting*

To receive funds for the Child Nutrition Cluster programs, a State agency administering one or more of these programs compiles the data gathered on its subrecipients' claims for reimbursement into monthly reports to its FNS regional office. Such reports present the number of meals, by category and type, served by SFAs or sponsors under the State agency's oversight during the report period.

An initial monthly report, which may contain estimated participation figures, is due 30 days after the close of the report month. A final report containing only actual participation data is due 90 days after the close of the report month. A final closeout report is also required in accordance with the FNS closeout-schedule. Revisions to the data presented in a 90-day report must be submitted by the last day of the quarter in which they are identified. However, the State agency must immediately submit an amended report if, at any time following the submission of the 90-day report, identified changes to the data cause the State agency's level of funding to change by more than (plus or minus) 0.5 percent. The specific reports for each program are described below.

- (1) FNS-10, *Report of School Program Operations (OMB No. 0584-0002)* - This report captures meals served under the NSLP and SBP, and half-pints of milk served under the SMP (7 CFR sections 210.5(d), 210.8, 215.10, 215.11, 220.11, and 220.13).

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

- (a) Item 5 - *National School Lunch Program*:
- Line 5a - *Total lunches served in the NSLP*
  - Line 5b - *Lunches served in school food authorities that qualify the State for additional payment*
  - Line 5c - *Total afterschool snacks served in all approved schools and sites*
  - Line 5d - *Total afterschool snacks served in area eligible schools and sites*
- (b) Line 6 - *School Breakfast Program (Include schools with severe need)*
- (c) Line 7 - *School Breakfast Program (Severe need only)*
- (d) Line 8 - *Commodity Schools (Lunches only)*
- (e) Item 9 - *Special Milk Program*:
- Line 9a - *Schools (Include Residential Child Care Institutions)*
  - Line 9b - *Nonresidential Child Care Institutions*
  - Line 9c - *Summer Camps*
- (f) Item 10 - *No. of Meals Served in Private Schools Only*:
- Line 10a - *National School Lunch Program*
  - Line 10b - *Afterschool snacks*
  - Line 10c - *Afterschool snacks served in area eligible schools and sites*
  - Line 10d - *School Breakfast Program (Include Severe Need)*

- Line 10e - *Severe Need School Breakfast Program*
- (g) Item 11 - *No. of Meals Served in Residential Child Care Institutions (RCCIs) Only:*
  - Line 11a - *National School Lunch Program*
  - Line 11b - *NSLP - Snacks*
  - Line 11c - *School Breakfast Program (Include Severe Need)*
  - Line 11d - *Severe Need School Breakfast Program*
- (2) FNS-418, *Report of the Summer Food Service Program for Children (OMB No. 0584-0280)* - This report documents the number of meals served under the SFSPC by sponsors under the State agency's oversight. Unlike the FNS-10 and FNS-44 (*Report of the Child and Adult Care Food Program*), which are generally submitted year round, the FNS-418 is filed only for the months when the program is in operation (7 CFR sections 225.8(b) and 225.9(d)(5)).

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

Part A - Meals Served

- (a) Lines 5 through 7 - *Breakfasts*
  - (b) Lines 8 through 10 - *Lunches*
  - (c) Lines 11 through 13 - *Suppers*
  - (d) Lines 14 through 16 - *Supplements*
  - (e) Lines 17 through 19 - *Total*
- b. *Subrecipient Special Reporting*

To receive reimbursement payments for meals (and milk under the SMP) served, a SFA, institution, or sponsor must submit claims for reimbursement to its administering agency (7 CFR sections 210.8(b), 225.9(d), and 225.15(c)(2)). The claiming process is as follows:

(1) *Claiming - General Process*

At a minimum, a claim must include the number of reimbursable meals/milk served by category and type during the period (generally a month) covered by the claim. All meals claimed for reimbursement must (a) be of types authorized by the SFAs, institution's, or sponsor's administering agency; (b) be served to eligible children; and (c) be supported by accurate meal counts and records indicating the number of meals served by category and type (7 CFR sections 210.7(c), 210.8(c), and 225.9(d)).

- (a) *School Nutrition Programs* - The following types of service may be authorized for schools participating in these programs: breakfast, lunch, supplement (if the school operates an afterschool care program), and milk (under the SMP). A school may be approved for the SMP only if it: (i) does not operate any other Federal Child Nutrition meal service programs; or (ii) operates the NSLP and/or SBP, but makes milk available to children in half-day pre-kindergarten or kindergarten programs who do not have access to the NSLP and SBP. All claims must be supported by accurate meal counts by category and type taken at the point of service or developed through an approved alternative procedure (7 CFR sections 210.7, 210.8, 215.8, 215.10, 220.9, and 220.11).
- (b) *SFSPC* - The meals that may be claimed under the program are: breakfast, lunch, supper, and supplement. Food service sites other than camps and sites which primarily serve migrant children may claim either: one meal each day (a breakfast, a lunch, a supper, or a supplement), or two meals each day if one is a lunch or supper and the other is a breakfast or a supplement. Camps or sites which serve meals primarily to migrant children may serve three meals or two meals and one supplement (7 CFR sections 225.9(d), 225.15(c), and 225.16).

(2) *Claiming - Exceptions*

As noted above in III.E.1.b, "Eligibility for Individuals - Eligibility for Free or Reduced Price Meals or Free Milk," schools operating the School Nutrition Programs under Special Assistance Certification and Reimbursement Alternative Provisions 2 and 3 may use alternative counting and claiming procedures. Under either provision, the schools must serve meals at no charge to all children regardless of income eligibility for program benefits; and the SFA pays, from sources other than Federal funds, for the costs



of serving the lunches or breakfasts that are in excess of the value of assistance received under the NSLA and CNA (42 USC 1759a(a)(1)).

- (a) *Provision 2* - Provision 2 has a four-year cycle for annual notification and certification for free and reduced price meals. In the first year, schools must take daily counts of the number of meals served by meal category (paid, free, reduced price) and establish the percentage of meals served by category each month. In the second, third and fourth school years, schools must count only the total number of reimbursable meals served each month; the monthly percentages established in the first year are then applied to the counts taken in the corresponding months of the current year. At the end of four years, the cycle may be extended for another four years if the State determines that the economic condition of the school's enrollment has not improved. Additional four-year extensions may be approved on the same basis (42 USC 1759a(a)(1)(C) and (D); 7 CFR section 245.9(b)).
- (b) *Provision 3* - Provision 3 has a four-year cycle. Cash reimbursement and commodity assistance are provided at the same level as the school received in the last year free and reduced price applications were taken and daily meal counts by category and type were made, adjusted for inflation, the number of operating days, and enrollment. Schools opting for this alternative are not required to make annual free and reduced price eligibility determinations. Free and reduced price eligibility determinations and daily meal counts by income category are only required during a base year which is not included as part of the four year cycle. Provisions exist for authorizing subsequent four-year extensions if the economic condition of the school's enrollment has not improved (42 USC 1759a(a)(1)(E); 7 CFR section 245.9(d)).

#### **M. Subrecipient Monitoring**

State agencies administering the programs included in the Child Nutrition Cluster are required to perform specific monitoring procedures in accordance with 7 CFR sections 210.18 and 210.19(a)(4) (SBP and NSLP), 7 CFR section 215.11 (SMP), and 7 CFR section 225.7 (SFSPC).

## N. Special Tests and Provisions

### 1. Verification of Free and Reduced Price Applications (NSLP)

**Compliance Requirement** - By November 15th of each school year, the local education agency (LEA) (or State in certain cases) must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals, unless the LEA is otherwise exempt from the verification requirement. The verification sample size is based on the total number of approved applications on file on October 1st .

A State agency may, with FNS approval, assume from LEAs under its jurisdiction the responsibility for performing the verifications. If the LEA performs the verification function it must be in accordance with instructions provided by the State agency. The LEA must follow-up on children whose eligibility status has changed as the result of verification activities to put them in the correct category.

LEAs (or State agencies) must select the sample by one of the following methods:

- a. **Basic Sample Size.** The lesser of 3 percent or 3000 of the approved applications on file selected from error-prone applications. For this purpose, error prone applications are those showing household incomes within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced price meals.
- b. **Alternative Sample Sizes.**
  - (1) The lesser of 3 percent or 3,000 applications selected at random from approved applications on file as of October 1 of the school year, or
  - (2) The sum of: (a) the lesser of 1 percent of all applications identified as error-prone or 1,000 error-prone applications, and (b) the lesser of 1/2 of 1 percent of, or 500, approved applications in which the household provided, in lieu of income information, a case number showing participation in the Food Stamp Program, TANF, or the FDPIR.
  - (3) The use of alternative sample sizes are available only as follows:
    - (a) Any LEA may qualify if its non-response rate for the preceding school year's verification was less than 20 percent; or
    - (b) An LEA with more than 20,000 children approved by application for free and reduced price meals may qualify if its non-response rate for the preceding year had improved over the rate for the second preceding year by at least 10 percent.

“Non-response rate” is defined as the percentage of approved household applications selected for verification for which the LEA has not obtained verification information.

Sources of information for verification include written evidence, collateral contacts, and systems of records, as described in 7 CFR section 245.6a(b) (42 USC 1758(b)(3)(D)).

**Audit Objective** - Determine whether the LEA (or State) selected and verified the required sample of approved free and reduced price applications and made the appropriate changes to eligibility status.

### **Suggested Audit Procedures**

- a. Obtain the current family size and income guidelines published by FNS.
- b. Through examination of documentation, ascertain that:
  - (1) The sampling and verification of free and reduced price applications were performed, as required.
  - (2) Changes were made to eligibility status based on documentation and other information obtained through the verification process.

## **2. Accountability for Commodities**

The following compliance requirements do not apply to recipient agencies (as defined at 7 CFR section 250.3), including SFAs and SFSPC institutions. Auditors making audits of recipient agencies are not required to test compliance with these requirements.

### **Compliance Requirement**

#### a. *Maintenance of Records*

Distributing and subdistributing agencies (as defined at 7 CFR section 250.3) must maintain accurate and complete records with respect to the receipt, distribution, and inventory of donated foods including end products processed from donated foods. Failure to maintain records required by 7 CFR section 250.16 shall be considered *prima facie* evidence of improper distribution or loss of donated foods, and the agency, processor, or entity may be required to pay USDA the value of the food or replace it in kind (7 CFR sections 250.16(a)(6) and 250.15(c)).

#### b. *Physical Inventory*

Distributing and subdistributing agencies shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency that contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR section 250.14(e)).

**Audit Objective** - Determine whether an appropriate accounting was maintained for donated food commodities, that an annual physical inventory was taken, and the physical inventory was reconciled with inventory records.

### **Suggested Audit Procedures**

- a. Determine storage facility, processing, and end use locations of all donated food commodities, including end products processed from donated foods. Determine the commodity records maintained by the entity and obtain a copy of procedures for conducting the required annual physical inventory. Obtain a copy of the annual physical inventory results.
- b. Perform analytical procedures, obtain explanation and documentation for unusual or unexpected results. Consider the following:
  - (1) Compare receipts, distribution, losses and ending inventory of donated foods for the audit period to the previous period.
  - (2) Compare distribution by entity for the audit period to the previous period.
- c. Ascertain the validity of the required annual physical inventory. Consider performing the following steps, as appropriate:
  - (1) Observe the annual inventory process at selected locations and recount a sample of commodity items.
  - (2) If the annual inventory process is not observed, select a sample of significant commodities on hand as of the physical inventory date and, using the commodity records, “roll forward” the balance on hand to the current balance observed.
  - (3) On a test basis, recompute physical inventory sheets and related summarizations.
  - (4) Ascertain that the annual physical inventory was reconciled to commodity records. Investigate any large adjustments between the physical inventory and the commodity records.
- d. On a sample basis, test the mathematical accuracy of the commodity records and related summarizations. From the commodity records, vouch a sample of receipts, distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including correct quantity, proper period and, if applicable, correct recipient agency.

### **3. School Food Accounts**

**Compliance Requirement** - A SFA is required to account for all revenues and expenditures of its non-profit school food service in accordance with State requirements.

A SFA must operate its food services on a non-profit basis; all revenue generated by the school food service must be used to operate and improve its food services (7 CFR sections 210.14 (a), 210.14 (c), 210.19 (a)(2), 215.7(d)(1), 220.2(o-2), and 220.7(e)(1)(i)).

**Audit Objective** - Determine whether a separate accounting is made of the school food service, Federal reimbursement payments are promptly credited to the school food service account, and transfers out of the school food service account are for the benefit of the school food service.

#### **Suggested Audit Procedures**

- a. Review the school food service accounting records and ascertain if a separate accounting is made for the school food service.
- b. Test Federal reimbursement payments received monthly from the administering agency to ascertain if promptly credited to the food service account.
- c. Test transfers out of the school food service account and ascertain if the transfers were for the benefit of the school food service.

#### **IV. OTHER INFORMATION**

FNS no longer requires recipient agencies to inventory commodities separately from purchased food. However, the value of commodities used during a State or recipient agency's fiscal year is considered Federal awards expended in accordance with the OMB Circular A-133 §\_\_.105 definition of Federal financial assistance and should be valued in accordance with §\_\_.205(g). Therefore, recipient agencies must determine the value of commodities used. FNS recommends that recipient agencies use the value of commodities delivered to them during the audit period for this purpose.

**UNITED STATES DEPARTMENT OF AGRICULTURE****CFDA 10.557 SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)****I. PROGRAM OBJECTIVES**

The objective of the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) is to provide supplemental nutritious foods, nutrition education, and referrals to health care for low-income persons during critical periods of growth and development. Such persons include pregnant women, breast-feeding women up to one year postpartum, non-breast-feeding women up to six months postpartum, infants (persons under one year of age), and children under age five determined to be at nutritional risk. Intervention during the prenatal period improves fetal development and reduces the incidence of low birth weight, short gestation, and anemia.

**II. PROGRAM PROCEDURES****Administration**

The U.S. Department of Agriculture (USDA) Food and Nutrition Service (FNS) administers the WIC Program through grants awarded to State health departments or comparable State agencies, Indian tribal governments, bands or intertribal councils, or groups recognized by the Bureau of Indian Affairs, U.S. Department of the Interior, or the Indian Health Service (IHS) of the U.S. Department of Health and Human Services (HHS). A State agency administering the WIC Program must sign a Federal/State Agreement that commits it to observe applicable laws and regulations in carrying out the program. The State agencies, in turn, award subgrants to local agencies to certify applicants' eligibility for WIC Program benefits and deliver such benefits to eligible persons.

**Program Funding**

The WIC Program is a grant program that is 100 percent federally funded. No State matching requirement exists. Funds are awarded by FNS on the basis of funding formulas prescribed in the WIC Program regulations.

FNS allocates federally appropriated funds to WIC State agencies as grants which are divided into two parts: a component for food costs and a component for Nutrition Services and Administration (NSA) costs. Resources made available to a State agency under these two components of its initial Federal WIC formula grant may be modified by the cumulative effect of the following requirements:

*Reallocations and Recoveries*

The WIC Program's authorizing statute and regulations require FNS to recover unspent funds and reallocate them to State agencies.

### *Conversion Authority*

A State agency that submits a plan to increase WIC participation under a cost containment strategy, as outlined under the “Cost Containment Requirements” section below, in excess of the increases projected by FNS in the NSA funds allocation formula, may shift a portion of its food grant component to its NSA component. This “conversion authority” is a function of the “excess” participation increase and is determined by FNS (See III.A.2, “Activities Allowed or Unallowed - Exceptions”).

### *Spending Options*

Federal legislation and regulations authorize a State agency to shift a portion of its Federal WIC formula grant between grant periods (Federal fiscal years) (See III.H, “Period of Availability of Federal Funds”).

### *Rebates*

A State agency may contract with a food manufacturer to receive a rebate on each unit of the manufacturer’s product purchased with Food Instruments (FIs) redeemed by program participants. Such rebates are credits against prior expenditures made during the month in which the rebate was earned for WIC food costs (See III.B, “Allowable Costs/Cost Principles”).

### *Vendor, Participant, and Local Agency Collections*

A State agency is authorized to retain Federal program funds recovered through claims action against vendors, participants, and local agencies, and to use such recoveries for program purposes. (See III.B, “Allowable Costs/Cost Principles”).

### *Program Income*

Certain miscellaneous receipts a State agency collects as the result of WIC program operations are classified as program income (See III.J, “Program Income”).

### *State Funding*

Although the Federal Financial Participation (FFP) for WIC is 100 percent, some States voluntarily appropriate funds from their own revenues to extend WIC services beyond the level that could be supported by Federal funding alone.

### **Certification**

Applicants for WIC Program benefits are screened at WIC clinic sites to determine whether they meet the eligibility criteria in the following categories: categorical, residency, income, and nutritional risk (See III.E.1, “Eligibility - Eligibility for Individuals”).

## **Benefits**

The WIC Program provides participants with specific nutritious supplemental foods, nutrition education, and health services referrals at no cost. The authorized supplemental foods are prescribed from standard food packages according to the category and nutritional need of the participant. The seven food packages available are described in detail in WIC Program regulations.

About 75 percent of the WIC Program's annual appropriation is used to provide WIC participants with monthly food package benefits. The remainder is used to provide additional services to participants and to manage the program. Additional services provided to WIC participants include nutrition education, breast-feeding promotion and support activities, and client services, such as diet and health assessments, referral services for other health care and social services, and coordination activities.

## **Food Benefit Delivery**

Supplemental foods are provided to participants in any one of three ways, which are defined in program regulations at 7 CFR section 246.12(b) as follows:

*Direct Distribution Food Delivery Systems* (used in Mississippi, the San Felipe Indian Tribal Organization in New Mexico, and in parts of Illinois, Idaho, West Virginia, and the Acoma-Canoncito-Laguna Hospital Board of New Mexico)

The State agency and/or its agent purchases supplemental foods in bulk and issues them to participants at designated distribution facilities.

*Home Food Delivery Systems* (used in Vermont and in parts of Alaska, North Dakota, Texas, and Utah)

Arrangements with home food delivery contractors provide for the delivery of supplemental foods directly to participants' homes.

*Retail Food Delivery System* (used by most State agencies)

Negotiable FIs are issued directly to individual participants, who exchange them for authorized supplemental foods at retail stores approved as vendors by the State agency. Two types of systems are used to redeem the FIs: voucher systems and check systems. In a voucher system, the vendor submits the FIs directly to the State agency for payment; in a check system, vendors deposit FIs to their bank accounts and the State reimburses them through their banks. Generally, a participant must use an FI within 30 days of the first date of use printed on the FI; and the vendor must submit the FI for payment within 60 days of that date. Prior to March 27, 2007, the vendor's FI submission deadline was 90 days.



Each FI issued to a participant must have a unique serial number. As of March 27, 2007, a State agency is required to determine the ultimate disposition of all FIs by serial number within 120 days of the first valid date for participant use; prior to March 27, 2007, the deadline for a State agency to do this had been set at 150 days. The State agency must adjust previously reported obligations for WIC food costs in order to account for actual FI redemptions and other changes in the status of FIs.

### **Cost Containment Requirements**

In an effort to use their food funding more efficiently, all WIC State agencies in the 50 States, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, American Samoa, the Commonwealth of the Northern Mariana Islands, and most Indian Tribal State agencies have implemented cost containment measures. Reducing the average food cost per person enables WIC to reach more participants with a given amount of funds. The most successful strategy has been the negotiation of competitive rebate contracts between State agencies and infant formula companies. Such contracts provide for the State agency to receive rebates on infant formula used in the program. Other cost containment measures used by State agencies include competitive bidding for juice, infant cereal, and infant juice; selection of retail vendors based on competitive prices; setting maximum redemption amounts for FIs; authorizing the use of store or generic brands of supplemental foods; and using a home delivery or direct distribution food delivery system.

#### *Vendor Cost Containment*

Regulations in 7 CFR part 246, published November 29, 2005, expanded requirements for selecting and paying vendors on the basis of competitive prices. Unless FNS has granted a State agency an exemption, the State agency is now required to:

1. Implement or modify a vendor peer group system, whereby authorized vendors are classified into groups on the basis of common characteristics or criteria that affect food prices. At least one such criterion must be a measure of geography, such as metropolitan or other statistical areas that form distinct labor and products markets.
2. Select and authorize vendors by applying competitive price criteria.
3. Set limits on payments to vendors within each peer group.
4. Identify vendors (called “above-50-percent vendors”) that derive more than 50 percent of their annual food sales revenue from WIC FIs.
5. Comply with requirements designed to ensure that the use of above-50-percent vendors is cost neutral to the program (that is, that it does not result in higher WIC food costs than would have been the case if WIC participants had transacted their WIC FIs only at regular vendors). (See III.N.4, “Special Tests and Provisions - Authorization of Above-50-Percent Vendors.”)

## **Federal Oversight and Compliance Mechanisms**

FNS oversees State operations through an organization consisting of headquarters and seven regional offices. Federal program oversight encompasses review of the nine functional areas of the program: Organization and Management; Funding and Participation; Vendor Management; Information Systems; Certification, Eligibility, and Coordination; Nutrition Services; Civil Rights; Monitoring and Audits; and Food Delivery. Each year FNS regional offices evaluate as many of these areas as possible within available resource constraints, focusing on those areas they consider most need of review.

Although FNS uses technical assistance extensively to promote improvements in State operation of the WIC Program, enforcement mechanisms are also present. The misuse of funds through State or local agency negligence or fraud may result in the assessment of a claim (7 CFR section 246.23(a)). Claims may be established for funds lost due to FI theft or embezzlements or for unreconciled FIs (7 CFR sections 246.23(a)(2) and (4)). FNS has other mechanisms to recover other losses and the cost of negligence. For other forms of noncompliance, FNS has the authority to give notice and, if improvements do not occur, withhold administrative funds for failure to implement program requirements (7 CFR section 246.19(a)(2)).

FNS has identified the following circumstances that may indicate noncompliance with WIC program requirements: (1) redeemed FIs which the issuing local agencies had reported as voided or unclaimed; (2) a large number of consecutively numbered, unreconciled FIs issued by the same local agency; (3) redeemed FIs that appear to have been validly issued but fail to match issuance records; and, (4) participants that transacted all of their FIs on the same day as they were issued.

## **Source of Governing Requirements**

The WIC Program is authorized by section 17 of the Child Nutrition Act of 1966 (42 USC 1786). Program regulations are found at 7 CFR part 246.

## **Availability of Other Program Information**

For additional information, contact the applicable FNS regional office. Regional office telephone and datafax numbers, and the States each regional office serves may be found on FNS's web site (<http://www.fns.usda.gov/wic>). The WIC Program regulations can be found at that web site as well.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

## A. Activities Allowed or Unallowed

### 1. *General Rule*

- a. Funds allocated to a State agency for food must be expended to purchase supplemental foods for participants or to redeem FIs issued for that purpose. When supplemental foods are provided to participants via direct distribution, the related warehouse facilities costs shall be allowable food costs. Food funds can also be used to purchase breast pumps for participants (7 CFR section 246.14(a) and (b)). Effective March 27, 2007, Federal program funds may not be used to pay for retroactive benefits to participants (7 CFR section 246.14(a)(2)).
- b. Funds allocated for NSA must be used for the costs incurred by the State or local agency to provide participants with nutrition education, breast-feeding promotion and support, and referrals to other social and medical service providers; and to conduct participant certification, caseload management, food benefit delivery, vendor management, voter registration, and program management (42 USC 1786(h)(1)(C)(ii); 7 CFR sections 246.14(c) and (d)).

### 2. *Exceptions*

- a. Funds allocated for food costs may be converted (be applied to NSA costs): (1) as a result of a State's plan to exceed participation levels projected by the Federal funding formula; or (2) after recovery as vendor or participant collections. Conversion due to planned participation increases is allowed only if such increases are expected to result from an approved cost containment plan (7 CFR sections 246.14(e) and 246.16(f)).
- b. Funds allocated for NSA costs but not needed for such costs may be applied to food costs (7 CFR section 246.14(a)(2)).

### 3. *Distinguishing WIC from Non-WIC Services*

Under no circumstances may the WIC NSA grant component be charged for costs that are demonstrably outside the scope of the WIC Program. WIC services may include: (a) some screening (excluding laboratory tests other than the blood work [hematological test] described below, which is required for determining WIC eligibility); (b) referrals for other medical/social services, such as immunizations, prenatal (before birth) care, perinatal care (near the time of birth from the 28th week of pregnancy through 28 days following birth), and well child care and/or family planning; and (c) follow-up on participants referred for such services. However, the cost of the services performed by other health care or social service providers to which the participant has been referred shall not be charged to the WIC grant. For example, the cost to screen, refer, and follow-up on immunizations for WIC participants may be charged to the WIC grant, but, the

cost to administer the shot, or to purchase the vaccine or vaccine-related equipment, may not be charged to the WIC grant.

A hematological test for anemia, such as a hemoglobin, hematocrit, or free erythrocyte protoporphyrin test, is the only laboratory test required to determine a person's eligibility for WIC (7 CFR section 246.7(e)(1)). Accordingly, the cost of hematological tests for anemia is the only laboratory cost that may be charged to a WIC grant.

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

### *1. Applicable Credits*

The following items are credits against current vendor billings or prior expenditures:

- a. *Rebates* - Rebates are credits against prior expenditures for food costs, made during the month in which the rebate was earned.
- b. *Vendor Collections* - Post-payment vendor collections are funds collected through claims assessed against food vendors for errors and overcharges. Pre-payment vendor collections are improper payments prevented as a result of reviews of FIs prior to payment; they are credits against vendor billings.
- c. *Participant Collections* - These are recoveries of improperly issued food benefits as the result of a participant, guardian or caretaker intentionally making a false or misleading statement or withholding information.
- d. *Local Agency Collections* – These are funds collected as a result of claims assessed against local agencies for program funds that were misused or otherwise diverted from program purposes due to local agency negligence or fraud.

A State agency must recognize, use, and account for these items in accordance with program regulations. At its discretion, the State agency may credit vendor, participant, and local agency collections against expenditures for food and/or NSA costs. The State agency may apply vendor, participant, and local agency collections to food and/or NSA expenditures of: (1) the fiscal year in which the initial obligation was made; (2) the fiscal year in which the claim arose; (3) the fiscal year in which the collection is received; or (4) the fiscal year following the fiscal year in which the collection is received (42 USC 1786(f)(21); 7 CFR section 246.14(e)).

## 2. *Capital Expenditures*

- a. FNS has authorized WIC State and local agencies to charge the full acquisition cost of non-computer equipment costing less than \$25,000 per unit without obtaining prior FNS approval, and to allow local agencies under their oversight to do likewise. FNS regional offices retain the discretion to apply a lower dollar threshold to an individual State agency and to the local agencies under its oversight, provided certain requirements apply and the State agency receives written notice.

- b. *Automated Data Processing (ADP) Projects*

FNS requires WIC State agencies to obtain prior approval to incur costs for certain ADP projects and to provide notification and/or documentation for others (7 CFR section 246.14(d)). Approval procedures are in FNS Handbook 901, *Advance Planning Document Handbook*, 2007 edition, section 4.0.1 (available at [http://www.fns.usda.gov/apd/Handbook\\_901\\_2007/Final\\_FNS\\_Handbook\\_901.pdf](http://www.fns.usda.gov/apd/Handbook_901_2007/Final_FNS_Handbook_901.pdf)).

Approval levels are as follows:

- (1) A State agency must notify the applicable FNS regional office within 60 days of the initial expenditure or contract award for an ADP project costing in excess of \$4,999 but less than \$100,000; and
  - (2) A State agency must receive prior approval for (a) an ADP project that has a cost greater than \$99,999 or (b) any ADP project associated with planning, developing, or deploying a new automation system.
- c. *Other Capital Assets* - Purchases of other capital assets, such as buildings, land and improvements to buildings or land that materially increase their value or useful life, costing more than \$5000 continue to require prior approval from FNS (7 CFR section 3016.22).

## C. **Cash Management**

The WIC program is subject to the provisions of the Cash Management Improvement Act (CMIA). However, rebates held in State accounts are exempt from the interest provisions of the CMIA (42 USC 1786(h)(8)(J); 7 CFR section 246.15(a)).

## **E. Eligibility**

### **1. Eligibility for Individuals**

Applicants for WIC Program benefits are screened at WIC clinic sites to determine their WIC eligibility. To be certified eligible, they must meet the following eligibility criteria (7 CFR sections 246.7(c), (d), (e), (g), and (l)):

- a. *Categorical* - Eligibility is restricted to pregnant, postpartum, and breast-feeding women, infants, and children up to their fifth birthday (7 CFR sections 246.2 (definition of each category) and 246.7(c)).
- b. *Identity and Residency* - Except in limited circumstances, WIC applicants must be physically present for eligibility screenings and must provide proof of identity. An applicant must also meet the State agency's residency requirement. Except in the case of Indian State agencies, the applicant must reside in the jurisdiction of the State. Indian State agencies may require applicants to reside within their jurisdiction. All State agencies may designate service areas for any local agency, and may require that applicants reside within the service area. A State agency must establish procedures, in accordance with guidance from FNS, to prevent the same individual from receiving duplicate benefits through participation at more than one local agency. Except under limited circumstances, WIC applicants must present proof of identity and residency at certification. Documentation of these determinations may consist of descriptions of documents evidencing the applicants' identities and residency, copies of the documents themselves, and/or the applicants' written statements when no other documentation exists. Certification procedures prescribed by the State agency set conditions for relying on these different forms of documentation (42 USC 1786(f)(23); 7 CFR sections 246.7(c)(1), 246.7(i)(3) and (4), and 246.7 (l)(2)).
- c. *Income* - An applicant must meet an income standard established by the State agency or be determined to be automatically (adjunctively) income-eligible based on documentation of his/her eligibility, or certain family members' eligibility, for the following Federal programs: (1) Temporary Assistance for Needy Families (formerly Aid To Families With Dependent Children); (2) Medicaid; or (3) Food Stamps. State agencies may also determine an individual automatically income-eligible, based on documentation of his/her eligibility for certain State-administered programs. With limited exceptions, applicants who are not adjunctively or automatically income eligible for WIC must provide documentation of family income at their initial or subsequent certification (42 USC 1786(d)(3)(D); 7 CFR sections 246.2 (definition of "family"), 246.7(c), and 246.7(d)).

*Income Guidelines* - The income standard established by the State agency may be up to 185 percent of the poverty income guidelines issued annually by HHS or State or local income guidelines used for free and reduced-price health care. However, in using health care guidelines, the income guidelines for WIC must be between 100 and 185 percent of the poverty income guidelines. Local agency income guidelines may vary as long as they are based on the guidelines used for free and reduced-price health care (7 CFR section 246.7(d)(1)). Effective March 27, 2007, income determinations based on State or local health care guidelines are subject to the definition of “family” in 7 CFR section 246.2, the definition of “income” in 7 CFR section 246.7(d)(2)(ii), and the exclusions from income in 7 CFR section 246.7(d)(2)(iv) (7 CFR sections 246.2 and 246.7(d)(2)). The WIC income eligibility guidelines are issued each year in the *Federal Register* and are available on FNS’s WIC web site (<http://www.fns.usda.gov/wic>).

*Income Eligibility Determination* - Except for applicants determined to be automatically income-eligible, income is based on gross income and other cash readily available to the family or economic unit. Certain Federal payments and benefits, listed at 7 CFR section 246.7(d)(2)(iv), are excluded from the computation of income. In addition, the State agency may exclude housing allowances received by military services personnel residing off military installations or in privatized housing, whether on or off-base (7 CFR section 246.7(d)(2)(iv)(A)(1)). The State agency also may exclude any cost-of-living allowance provided to military personnel who are on duty outside the contiguous States of the United States (7 CFR section 246.7(d)(2)(iv)(A)(2)).

At a minimum, in-stream (away from home base) migrant farm workers and their families with expired Verification of Certification cards shall meet the State agency’s income standard provided that the income of the family is determined at least once every 12 months (7 CFR section 246.7(d)(2)(ix)).

An Indian State agency, or a State agency acting on behalf of an Indian local agency, may submit reliable data that proves to FNS that the majority of Indian households in a local agency service area have incomes at or below the State agency’s income guidelines. In such cases, FNS may authorize the State agency to permit the use of an abbreviated income screening process whereby an applicant affirms, in writing, that his/her family income is within the State agency’s prescribed guidelines (7 CFR section 246.7(d)(2)(viii)).

State agencies may instruct local agencies to consider family income over the preceding 12 months or the family's current rate of income, whichever indicator more accurately reflects the family's income status. However, applicants in which an adult member is unemployed shall have income determined based on the period of unemployment. A State or local agency may require verification of information which it determines necessary to confirm income eligibility (7CFR sections 246.7(d)(2)(i) and (v)).

- d. *Nutritional Risk* - A competent professional authority (e.g., physician, nutritionist, registered nurse, or other health professional) must determine that the applicant is at nutritional risk. While the broad guidelines for determining nutritional risk are set forth in WIC legislation and regulations, the specific allowable nutritional risk criteria are defined in WIC policy guidance, which is updated periodically. Each State agency may choose which allowable nutritional risk criteria will be used to determine eligibility. At a minimum, the certifying agency must perform and/or document measurements of each applicant's height or length and weight. In addition, a hematological test for anemia must be performed or documented at certification if the applicant has no nutritional risk factor prescribed by the State agency other than anemia. Certified applicants with qualifying nutritional risk factors other than anemia must also be tested for anemia within 90 days of the date of certification. Program regulations set several exceptions to these general rules. The determination of nutritional risk may be based on current referral data provided by a competent professional authority who is not on the WIC staff (7 CFR sections 246.2 (definitions of "competent professional authority" and "nutritional risk") and 246.7(e)).

When an applicant meets all eligibility criteria, he/she is determined by WIC clinic staff to be eligible for program benefits. Certification periods are assigned to each participant based on categorical status for women, infants, and children (7 CFR section 246.7(g)).

A WIC local agency assigns each eligible person a priority classification according to the classification system described in 7 CFR section 246.7(e)(4). A person's priority assignment reflects the severity of his/her nutritional risk. If the local agency cannot immediately place the person on the program for lack of an available caseload slot, the person is placed on a waiting list. Caseload vacancies are filled from the waiting list in priority classification order. State agencies are expected to target program outreach and caseload management efforts toward persons at greatest nutritional risk (i.e., those in the highest priority classifications).



Pregnant women are certified for the duration of their pregnancy and for up to six weeks postpartum. Breast-feeding women may be certified approximately every 6 months, or up to one year postpartum or until the woman ceases breastfeeding, whichever occurs first (42 USC 1786(d)(3)). Infants are certified at intervals of approximately six months, except that infants under six months of age may be certified for a period extending up to the child's first birthday, provided the quality and accessibility of health care services are not diminished. Children are certified for 6-month intervals ending with the end of the month in which the child reaches the fifth birthday. Non-breast-feeding women are certified for up to 6 months postpartum. Effective November 27, 2006, all categories of participants may be certified up to the last day of the last month of the certification period (7 CFR section 246.7(g)(1)).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

**3. Eligibility for Subrecipients**

A State agency may award WIC subgrants only to organizations meeting the regulatory definition of "local agency." Such organizations include public or private non-profit health agencies, human service agencies that provide health services, IHS health units, and Indian tribal groups described in the WIC program regulations (See definition of "local agency" in 7 CFR section 246.2.).

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

1. *Spend-Forward Option* - A State agency may spend NSA funds up to an amount equal to three percent of its total WIC formula grant for NSA costs of the following Federal fiscal year. With prior approval from its FNS regional office, the State agency may also spend NSA funds in an amount that does not exceed one-half of one percent of its total WIC formula grant, for management information systems development costs during the following Federal fiscal year. Food funds may not be "spent forward" (42 USC 1786(i)(3)(A)(ii)(I); 7 CFR section 246.16(b)(3)(ii)).
2. *Backspend Option* - A State agency may:
  - a. Spend up to one percent of the food component of its grant for food costs of the Federal fiscal year preceding the fiscal year for which the grant was awarded. This backspend authority may be raised as high as three percent with prior approval from FNS.
  - b. Spend up to one percent of its NSA grant component for food and/or NSA costs of the Federal fiscal year preceding the fiscal year for which the grant was awarded (7 CFR section 246.16(b)(3)(i)).

**J. Program Income**

The State agency may use current year program income for costs incurred in the current fiscal year and, with the approval of FNS, for costs incurred in previous or subsequent fiscal years. Currently, the following are the only funds FNS is aware of that WIC State agencies receive that are classified as program income: (1) royalties from printed publications; (2) nominal fees, not to exceed costs, for reproducing or mailing publications, videotapes, posters, etc.; (3) interest earned on rebate funds for infant formula and other foods; (4) general grants not tied directly to foods purchased, but made for inclusion of food items in a State's food package (such as certain grants from the private sector); and (5) money received by the State agency as a result of civil money penalties or fines assessed against a vendor, and any interest charged in the collection of these penalties and fines. A State agency may use program income for any combination of food and NSA costs or other costs that further the broad objectives of the program (7 CFR section 246.15(b)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. FNS-798, *WIC Financial Management and Participation Report (OMB No. 0584-0045)* - A State agency is required to submit monthly financial and program performance (participation) data (7 CFR section 246.25(b)).

Each WIC State agency uses the FNS-798 to report projected and actual Federal food expenditures and participation for each month of the fiscal year. Participation for any given month equals the number of individuals who received supplemental foods or FIs during that month plus the number of infants who received no supplemental foods or FIs, but were breast-fed by participating women during that month.

WIC State agencies also use the FNS-798 to provide the data FNS needs to conduct the annual grant reconciliation and closeout required by 7 CFR part 3016. The FNS-798 presents the status of the report year grant and costs adjusted by the spending options (described under III.H, "Period of Availability of Federal Funds"), which allow State agencies to shift a small portion of the WIC grant funds between Federal fiscal years. The FNS-798 closeout report is the State's official declaration of the final status of its grant and costs for the report year.

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

- (1) Line 1 *Adjusted Gross Obligations* - reflects the amount of money, net of all credits used to fund food outlays except rebates, that a State agency estimates it will spend for each month's food orders or FI issuances.
  - (2) Line 2 *Estimated Rebates* - reflects the amount of money that a State agency estimates it will receive for rebates.
  - (3) Line 7 *Rebates Billed* - reflects the dollar value of bills or invoices submitted by the State to food manufacturers, such as infant formula companies, for rebate payments.
  - (4) Line 12 *Net Federal Outlays and Unliquidated Obligations* - reflects the amount of payments, net of rebates billed, program income, post-payment vendor collections, participant collections, local agency collections, and other credits. The State's WIC program food cost ledger account should support this amount.
  - (5) Line 18 *Total Participation* - reflects the actual number of federally supported participants for elapsed months. The participation counts should be supported by FI issuance records and participant files.
  - (6) Line 26 *Net Federal Outlays and Unliquidated Obligations for NSA Costs* - reflects gross outlays and unliquidated obligations minus program income, post-payment vendor collections, participant collections, local agency collections, and other credits.
- f. FNS-798A, *Addendum to WIC Financial Management and Participation Report - NSA Expenditures (OMB No. 0584-0045)* - State agencies prepare the FNS-798A annually to report: (1) NSA expenditures by function for the fiscal year being closed out; (2) the method by which NSA expenditures were charged as indirect costs; and (3) the method by which the indirect cost amount was determined. FNS uses the amounts reported in nutrition education and breast-feeding promotion and support, two of the four functional categories on the FNS-798A, to determine whether the State agencies met the statutory minimum spending level for those functions.

*Key Line Items:*

- (1) The following line items and columns contain critical information for *State-level* activities:
  - (a) Line 5a *Federal Outlays* - Column (03) - *State-Level Nutrition Education* - represents total outlays and

- unliquidated obligations made for State-level nutrition education costs supported by Federal grant funds and program income.
- (b) Line 5a *Federal Outlays* - Column (04) - *State-Level Breast-feeding Promotion and Support* - represents total outlays and unliquidated obligations made for State-level breast-feeding promotion and support costs supported by Federal grant funds and program income.
  - (c) Line 5b *State Outlays* - Column (03) - *State-Level Nutrition Education* - represents total outlays and unliquidated obligations made for State-level nutrition education costs supported by State-appropriated funds plus the dollar value of any in-kind contributions received from any Federal, State or local funding source.
  - (d) Line 5b *State Outlays* - Column (04) - *State-Level Breast-feeding Promotion and Support* - represents total outlays and unliquidated obligations made for State-level breast-feeding promotion and support costs supported by State-appropriated funds plus the dollar value of any in-kind contributions received from any Federal, State or local funding source.
- (2) The following line items and columns contain critical information for *local-level* activities (Outlays and unliquidated obligations made by local agencies or made by the State agency for local clinics or other units in local communities that directly provide benefits to participants).
- (a) Line 5a *Federal Outlays* - Column (07) - *Local-Level Nutrition Education* - represents total outlays and unliquidated obligations made for local-level nutrition education costs supported by Federal grant funds and program income.
  - (b) Line 5a *Federal Outlays* - Column (08) - *Local-Level Breast-feeding Promotion and Support* - represents total outlays and unliquidated obligations made for local-level breast-feeding promotion and support costs supported by Federal grant funds and program income.
  - (c) Line 5b *State Outlays* - Column (07) - *Local-Level Nutrition Education* - represents total outlays and unliquidated obligations made for local-level nutrition education costs supported by State-appropriated funds plus

the dollar value of any in-kind contributions received from any Federal, State or local funding source.

- (d) Line 5b *State Outlays - Column (08) - Local-Level Breast-feeding Promotion and Support* - represents total outlays and unliquidated obligations made for local-level breast-feeding promotion and support costs supported by State-appropriated funds plus the dollar value of any in-kind contributions received from any Federal, State or local funding source.

(Refer to 7 CFR section 246.14(c))

- g. *Subrecipient Reporting* - A State agency may require local agencies under its oversight to report financial information the State agency needs to prepare reports identified above. These reports should be tested during audits of subrecipients.

**2. Performance Reporting - Not Applicable**

**3. Special Reporting - Not Applicable**

**M. Subrecipient Monitoring**

State agencies must establish an ongoing management evaluation system which includes at least the monitoring of local agency operations, the review of local agency financial and participation reports, the development of corrective action plans, the monitoring of the implementation of corrective action plans, and on-site reviews. The on-site reviews of local agencies shall include evaluation of management, certification, nutrition education, civil rights compliance, accountability, financial management systems, and food delivery systems. These reviews must be conducted on each local agency at least once every two years, including on-site reviews of a minimum of 20 percent of the clinics in each local agency or one clinic, whichever is greater (7 CFR section 246.19(b)).

**N. Special Tests and Provisions**

**1. Food Instrument Disposition**

**Compliance Requirement** – Prior to March 27, 2007, a State agency was required to account for the disposition of all FIs within 150 days of the FI's first valid date for participant use. That time frame was reduced to 120 days for all FIs issued on or after March 27, 2007. The State agency must identify all FIs as either issued or voided; and identify issued FIs as either redeemed or unredeemed. Redeemed FIs must be identified as one of the following: (1) validly issued, (2) lost or stolen, (3) expired, (4) duplicate, or (5) not matching valid enrollment and issuance records. State agencies generally do this by analyzing computer reports that provide detailed issuance and redemption information on each FI (7 CFR section 246.12(q)).

**Audit Objective** - Determine whether the State agency's FI disposition process complies with the foregoing requirement.

**Suggested Audit Procedures**

- a. Obtain an understanding of the State agency's process for tracking FIs. At a minimum, this includes ascertaining how the State agency:
  - (1) Identifies the ultimate disposition of every FI; and
  - (2) Follows up on redeemed FIs that cannot be matched with valid issuances (State agencies do this by contacting the issuing local agencies and by other means).
- b. Ascertain whether the State agency provides written guidance to local agencies on how to follow up on issued FIs (redeemed and unredeemed).
- c. Inspect disposition reports to ascertain that the State agency:
  - (1) Reconciled its records to issued FIs on a one-to-one basis within the time frame set by regulation (150 or 120 days, as applicable, from the FI's first valid date for participant use);
  - (2) Followed-up on redeemed FIs that were not validly issued and validly used, in order to determine their ultimate disposition;
  - (3) Obtained explanations for identified discrepancies; and
  - (4) Adjusted its accounting records and external reports in order to reflect the results of the disposition process.
- d. Using State agency disposition reports for one or more months of the audit period, verify the State agency's non-reconciliation rate for redeemed FIs. The State agency should use the following steps in performing the non-reconciliation rate calculation:
  - (1) Determine total FIs redeemed
  - (2) Determine total redeemed FIs initially identified as unreconciled (listed as redeemed with no record of issuance on exception report)
  - (3) Determine total redeemed FIs finally identified as unreconciled (after follow-up with local agencies/clinics)
  - (4) Calculate the unreconciled rate (#3 divided by #1)
  - (5) Calculate total value of FIs redeemed
  - (6) Calculate total value of FIs finally identified as unreconciled

## 2. Review of Food Instruments to Enforce Price Limitations and Detect Errors

**Compliance Requirement** – A State agency operating a retail food delivery system must take the following actions to ensure that payments of WIC food funds to vendors conform to program regulations and the State agency’s vendor agreement:

- a. *FI Review Process* - The State agency must have in place a process for reviewing all, or a representative sample of, FIs submitted by vendors for redemption. The review is done on an aggregate basis rather than on a vendor basis. Because of the wide disparity in the number of FIs processed by State agencies, there are no criteria for determining what constitutes a representative sample, other than that it must be a representative sample of FIs submitted. At a minimum, this process must be able to detect:
  - (1) Redeemed monetary amounts that exceed the maximum monetary purchase amounts established by the State agency for each type of FI.
  - (2) Other errors, including purchase price missing; participant, parent/caretaker, or proxy signature missing; vendor identification missing; FIs transacted or redeemed after the specified time period; and altered purchase price.
  - (3) Questionable FIs which, while they may not clearly contain errors, nevertheless require follow-up to determine if an error has occurred.
- b. *Follow-up on Erroneous or Questionable FIs* - The State agency must follow up on FIs containing errors and other questionable FIs detected through this process within 120 days following detection. Regulations at 7 CFR sections 246.12(k)(2) through (k)(5) describe appropriate follow-up actions (7 CFR section 246.12(k)).

**Audit Objective** – Determine whether the State agency’s system for reviewing FIs detects and follows up on erroneous or questionable FIs.

### Suggested Audit Procedures

- a. Obtain an understanding of the State agency’s process for detecting erroneous or questionable FIs.
- b. Review the State agency’s reports or other documentation of the review process, showing the results for individual FIs during the audit period. Select a sample of FIs redeemed that are covered by this documentation and analyze it to identify any FIs containing errors. If the State agency does not review all FIs, then draw the sample from only those FIs the State agency did review. Compare the FIs containing errors per the State agency’s documentation against the results of analyzing the sample in order to determine whether the State agency’s review process detected all erroneous or questionable FIs.

- c. Determine that the State agency followed up on all FIs for which its review process detected errors or questionable items within the required 120-day timeframe.

### 3. Compliance Investigations of High-Risk Vendors

**Compliance Requirement** - A State agency operating a retail food delivery system must conduct compliance investigations, which consist of inventory audits and/or compliance buys, on a minimum of 5 percent of the vendors authorized as of October 1 of each year. A State agency must conduct compliance investigations on its high-risk vendors up to the 5 percent minimum. High-risk vendors are identified at least once annually using criteria developed by FNS, and/or other statistically based criteria developed by the State agency and approved by FNS. If the number of high-risk vendors exceeds 5 percent of the total, then the State agency must prioritize vendors for investigative purposes based on their potential for noncompliance and/or loss. If the number of high-risk vendors falls short of 5 percent of the total, the State agency must randomly select enough additional vendors to meet the 5 percent requirement. When a compliance investigation discloses vendor violations, the State agency must take appropriate action against the vendor. Such action includes delaying payment or establishing a claim if a violation affects payment to the vendor; imposing sanctions mandated by program regulations for certain stated violations; and imposing other, less severe sanctions prescribed by the State agency's sanction schedule for lesser violations (7 CFR sections 246.2 (definitions of "compliance buy," "high-risk vendor" and "inventory audit"), 246.12(j)(4)(i) through (iii), 246.12(k)(2) through (4), and 246.12(l)(1) and (2)).

**Audit Objective** – Determine whether the State agency made required compliance investigations and took appropriate actions against vendors.

#### Suggested Audit Procedures

- a. Inspect the State agency's vendor files or database to identify the vendors designated as high risk, and to determine the total number of vendors for which compliance investigations were required during the audit period.
- b. Inspect records to determine whether the State agency made the required compliance investigations and established claims against vendors or took other appropriate action based on the findings.

### 4. Authorization of Above-50-Percent Vendors

**Compliance Requirement** - Vendors that derive more than 50 percent of their annual food sales revenue from WIC FIs, and new vendor applicants expected to meet that criterion, are referred to as "above-50-percent vendors" (7 CFR section 246.2). Program regulations set restrictions on a State agency's authorization of such vendors to accept WIC FIs, and on the State agency's authority to disburse Federal WIC funds to them. The purpose of these restrictions is to ensure that the average price per FI type that above-50-percent vendors charge WIC participants does not exceed the price charged by regular vendors, either within their peer groups or statewide. FI types are the unique



grouping of food items and quantities. The outcome should be that the State agency's use of above-50-percent vendors does not result in higher total food costs if WIC participants transact their FIs at such vendors rather than at regular vendors.

A State agency using above-50-percent vendors must:

- a. Obtain FNS certification of its vendor cost containment system according to one of the following timeframes:
  - (1) By September 30, 2006, if the State had authorized any above-50-percent vendors (FNS initially set December 30, 2005 as the deadline for meeting this requirement, but subsequently extended it to September 30, 2006); or
  - (2) Within 90 days of determining it has above-50-percent vendors, if the State had not authorized any above-50-percent vendors as of September 30, 2006 (7 CFR section 246.12(g)(4)(i)).
- b. Ensure that the prices of above-50-percent vendors are not included with the prices of regular vendors for purposes of determining the competitive price selection criteria and maximum allowable reimbursement amounts for all vendors. (7 CFR section 246.12(g)(4)(i)(D)); and
- c. At least quarterly, conduct statewide cost neutrality assessments by calculating and comparing the average redemption amounts for FIs (by type) redeemed by regular vendors against those of above-50-percent vendors (7 CFR section 246.12(g)(4)(i)(D)).

**Audit Objective** – Determine whether the State agency obtained the required FNS certification on the use of above-50-percent vendors and observed regulatory restrictions on the use of such vendors.

#### **Suggested Audit Procedures**

- a. Determine if the State agency currently has agreements with any above-50-percent vendors.
- b. If so, inspect records to verify that the State agency had identified and authorized those vendors.
- c. Verify that FNS certification of the State vendor cost containment system was within the required time frames.
- d. Inspect State agency records to determine that the State agency conducted the required quarterly cost neutrality assessments.

- e. Obtain an understanding of how the State agency ensures that the prices charged by above-50-percent vendors are not included with the prices of regular vendors for purposes of determining the competitive price selection criteria and maximum allowable reimbursement amounts for all vendors. Inspect records of the State agency's competitive price selection criteria and maximum allowable reimbursement levels to determine that the State agency did not include the prices of above-50-percent vendors in these calculations.

## UNITED STATES DEPARTMENT OF AGRICULTURE

### CFDA 10.558 CHILD AND ADULT CARE FOOD PROGRAM (CACFP)

#### I. PROGRAM OBJECTIVES

The CACFP assists States, through grants-in-aid and donated foods, to initiate and maintain non-profit food service programs for eligible children and adults in nonresidential day care settings.

#### II. PROGRAM PROCEDURES

##### General Overview

The U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) administers the CACFP through grants-in-aid to States. The program is administered within most States by the State educational agency. In a few States, it is administered by an alternate agency, such as the State department of health or social services. At the discretion of the Governor, different agencies within a State may administer the program's child care and adult day care components. In Virginia, the CACFP is directly administered by the FNS Mid-Atlantic Regional Office (MARO). For purposes of this discussion, State agencies and the MARO are referred to collectively as "administering agencies."

CACFP benefits consist of nutritious meals and snacks served to eligible children and adults who are enrolled for care at participating child care centers, adult day care centers, outside-school-hours care centers, at-risk afterschool programs, family and group day care homes, and emergency shelters. These entities are discussed in more detail below. Child and adult day care centers and outside-school-hours care centers (often referred to collectively in this discussion as "centers"), as well as at-risk afterschool programs and emergency shelters, may operate independently under agreements with their administering agencies, or they may participate under the auspices of sponsoring organizations. Day care homes may participate only through sponsoring organizations. An entity with which an administering agency enters into an agreement for the operation of the CACFP, be it an independent center or a sponsoring organization, is known as an "institution."

A sponsoring organization usually does not provide child-care services itself. Rather, it assumes administrative and financial responsibility for CACFP operations in centers and day care homes under its sponsorship. In that capacity, sponsoring organizations generally pass Federal funds received from their administering agencies through to their homes and centers; in some cases, however, sponsoring organizations provide meals to their centers in lieu of cash reimbursement.

##### *Child-Care Centers*

Eligible child-care centers include public, private non-profit, and certain for-profit child care centers, Head Start programs, and other entities which are licensed or approved to provide day care services.

### *Adult-Day Care Centers*

Public, private non-profit, and for-profit adult day care facilities which provide structured, comprehensive services to nonresidential adults who are functionally impaired, or aged 60 and older, may participate in CACFP.

### *Outside-School-Hours Care Centers*

Outside-school-hours care centers include public, private non-profit and for-profit organizations, licensed or approved to provide nonresidential child care services to enrolled children outside of school hours.

### *At-Risk Afterschool Programs*

At-risk afterschool programs are structured, supervised programs that: are organized primarily to provide care to at-risk children through age 18 after school hours and on weekends and holidays during the school year; provide educational or enrichment activities; and are located in low income areas. Examples of organizations that typically offer such programs include boys' and girls' clubs, and the YMCA. In areas where Federal, State or local licensing or approval is not required, operators of these afterschool programs are required to comply with State or local health and safety requirements.

### *Emergency Shelters*

Public and private non-profit emergency shelters which provide residential and food services to homeless families are eligible to participate in CACFP. Eligible shelters may receive reimbursement for serving up to three meals each day to homeless children who reside there.

### *Day Care Homes*

A family or group day care home is a private home licensed or approved to provide day care services. As noted above, the provider of such services must sign an agreement with a sponsoring organization to participate in CACFP; a day care home cannot enter into an agreement directly with the administering agency.

### *Program Funding*

Federal assistance to institutions takes the form of cash reimbursement for meals served, and USDA donated commodities or cash in lieu of commodities. An institution's entitlement to cash reimbursement is generally computed by multiplying the number of meals served, by category and type, by prescribed per-unit payment rates called "reimbursement rates." "Type" refers to the kind of meal service for which the institution seeks reimbursement (breakfast, lunch, supplement, supper). For meals served in centers, "category" refers to the economic need of the child or adult to whom a meal is served; such meals are categorized as "paid," "reduced price," or "free." Meals served in day care homes are categorized by the tiering structure (tier I or II) described in III.E.1, "Eligibility - Eligibility for Individuals" below. Under this formula, an institution's entitlement to funding from its administering agency is a function of the categories

and types of services provided. An institution establishes its entitlement to reimbursement payments by submitting claims for reimbursement to its administering agency.

Independent centers, sponsors of centers, and sponsors of day care homes may be approved to claim reimbursement for up to two reimbursable meals (breakfast, lunch or supper) and one snack, or two snacks and one meal, per child per day. Operators of at-risk afterschool programs may claim reimbursement for one snack per child per day (except that operators of such programs in the States of Delaware, Illinois, Michigan, Missouri, New York, Oregon, Pennsylvania, and West Virginia may also claim reimbursement for supper). Homeless shelters may claim up to three meals served to each residential child each day. The specific types of meals for which an institution may claim reimbursement payments are stated in its agreement with its administering agency.

Sponsoring organizations of family day care homes also receive administrative funds related to the documented costs they incur in planning, organizing, and managing CACFP. They are the only CACFP institutions that may receive such assistance. Sponsoring organizations of centers do not receive separate administrative cost reimbursement parallel to that received by sponsors of family day care homes; instead, program regulations allow them to retain for their administrative costs a portion of the meal reimbursement payments generated by their centers.

In addition to cash assistance, USDA makes donated commodities or cash-in-lieu of commodities available for use by institutions in operating the CACFP (7 CFR section 226.5). FNS enters into agreements with State distributing agencies for the distribution of commodities to CACFP institutions; the distributing agencies, in turn, enter into agreements with the institutions. The distributing agency may be the CACFP administering agency or a separate State agency.

### *Documentation Requirements*

An institution operating the CACFP must have procedures in place to collect and maintain the documentation required at 7 CFR section 226.15(e). Examples of such documentation include: (1) the institution's application and supporting documents submitted to its administering agency; (2) records of enrollment of each CACFP participant; (3) records supporting the free and reduced price eligibility determinations for children and adults enrolled in centers and for providers' children in day care homes; (4) daily records indicating the number of children and adults in attendance and the number of meals served by type and category; (5) copies of receipts, invoices and other records of CACFP costs and income required by the administering agency; (6) copies of claims for reimbursement submitted to the administering agency; and (7) documentation of non-profit operation of food service.

### **Pricing of Program Meals**

Child care, adult day care, and outside-school-hours care centers may charge a single fee to cover tuition, meals, and all other day care services; such arrangements are called nonpricing programs. Alternatively, they may operate pricing programs, in which separate fees are charged for meals. An institution must describe its pricing policy in a free and reduced price policy statement submitted to its administering agency. The vast majority of these centers operate

nonpricing programs. Nevertheless, institutions must determine the eligibility of children and adults enrolled at these centers for free or reduced price meals because such determinations affect the reimbursement rates for meals served to the participants. At-risk afterschool programs, emergency shelters, and family day care homes are prohibited from charging separately for meals.

### **Federal Assistance to States**

Program funds are provided to States through letters of credit issued under the FNS Agency Financial Management System. The States, in turn, use the funds to reimburse institutions for costs of CACFP operations, as described above, and to support State administrative expenses.

#### *Funding Program Benefits*

FNS provides a cash payment (called a “national average payment”) to each State agency for each meal served under the CACFP. A State’s entitlement to national average payments is determined by substantially the same performance-based (meals-times-rates) formula used by administering agencies to compute reimbursement payments to institutions. From the State’s standpoint, all funds received via this formula are pass-through funds that the State must use for reimbursement payments to institutions under its oversight.

FNS adjusts the national average payment rates on July 1 of each year. National average payments for meals served in centers are adjusted to reflect changes in the *Food Away From Home* series of the Consumer Price Index. Adjustments in national average payments for meals served in day care homes are adjusted on the basis of changes in the *Food at Home* series of the Consumer Price Index.

The State’s level of commodity assistance or cash in lieu of commodities is based on the numbers of lunches and suppers served in centers in the preceding year, multiplied by the national average payment for donated foods. Commodity assistance rates are also adjusted every July 1 to reflect changes in the *Food Used in Schools and Institutions* series of the Consumer Price Index.

#### *Funding State-Level Administrative Costs*

FNS makes State Administrative Expense (SAE) funds available to State agencies for administrative expenses incurred in supervising and giving technical assistance to institutions participating in CACFP. SAE requirements are prescribed at 7 CFR part 235.

Additional funds are also available to States to help State agencies and institutions comply with Federal audit requirements, and to fund costs associated with performing administrative reviews of institutions after the audit requirements have been met. A State receives such assistance in an amount equal to one and one-half percent (the percentage is reduced to one percent for fiscal years 2005 through 2007) of the payments FNS made to the State for CACFP program reimbursement to institutions during the second fiscal year preceding the year for which the funds are to be made available (42 USC 1766(i)).

## Source of Governing Requirements

The CACFP is authorized at section 17 of the Richard B. Russell National School Lunch Act (NSLA) (42 USC 1766), as amended. The program regulations are codified at 7 CFR part 226. Regulations at 7 CFR part 250 provide general rules for the receipt, custody, and use of USDA donated commodities provided for use in the CACFP.

## Availability of Other Program Information

Additional program information is available from the FNS web site at <http://www.fns.usda.gov/cnd/>. Information on the distribution of USDA-donated commodities for the CACFP is available from the FNS Food Distribution web site at <http://www.fns.usda.gov/fdd/programs/schcnp/>.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. *Reimbursement for Operating Costs of Child and Adult Care Centers* - The administering agency determines whether centers and sponsors of centers under its oversight shall be reimbursed solely according to the meals-times-rates formula outlined in II Program Procedures, or at the lesser of meals-times-rates or actual, documented costs. Costs claimed by the institution as operating costs must be related to preparing and serving meals to children and/or adults under the CACFP (7 CFR section 226.11(c) and definition of “operating costs” in 7 CFR section 226.2).
2. *Reimbursement for Sponsoring Organizations’ Administrative Costs* - Administrative costs are costs related to planning, organizing, and managing a food service under the CACFP (7 CFR section 226.2).
  - a. *Sponsoring Organizations of Centers* - There is no provision for sponsoring organizations of centers to receive reimbursement for administrative costs. However, a sponsor may retain a portion of a center’s meal reimbursement, not to exceed 15 percent, for its own administrative expenses (42 USC 1766(f)(2)(C)(i); 7 CFR section 226.16(b)(1)). The method to determine the portion a sponsoring organization may retain is described in III.G.3, “Matching, Level of Effort, Earmarking - Earmarking.”

- b. *Sponsoring Organizations of Family Day Care Homes* - In addition to their meal reimbursement payments, sponsoring organizations of family day care homes may receive reimbursement for their administrative costs (7 CFR section 226.12). The formula a State agency must use to determine a sponsoring organization's entitlement to administrative payments is also described in III.G.3, "Matching, Level of Effort, Earmarking - Earmarking."
3. *Use of Reimbursements* - Reimbursement payments shall be used solely for the conduct of the food service operation or to improve such food service operations, principally for the benefit of the enrolled participants (7 CFR section 226.15(e)(13)).

### **C. Cash Management**

A sponsoring organization must disburse advance and meal reimbursement payments to centers and day care homes under its sponsorship within five working days of receiving them from its administering agency (7 CFR sections 226.16(g) and (h)).

### **E. Eligibility**

#### **1. Eligibility for Individuals**

##### *a. General Eligibility*

Any individual meeting the definition of "children" or "adult participant" at 7 CFR section 226.2, and who is enrolled in a participating nonresidential institution (or, with respect to children, an emergency shelter), may receive meals under the CACFP. These definitions are:

- (1) "Children" means (a) persons 12 years of age and under; (b) children of migrant workers 15 years of age and under; (c) persons through age 18 that are enrolled in at-risk afterschool programs (except that children who turn 19 during the school year remain eligible for the duration of the school year) or in emergency shelters; and (d) mentally or physically handicapped persons, as defined by the State, enrolled in an institution or a child care facility serving a majority of persons 18 years of age and under (42 USC 1766(r) and (t)(5)(A); definitions of "children" and "enrolled child" are available at 7 CFR section 226.2).
- (2) "Adult participant" means "a person enrolled in an adult day care center who is functionally impaired ... or 60 years of age or older" (Definitions of "adult participant" and "enrolled participant" are available at 7 CFR section 226.2).



b. *Eligibility for Free or Reduced Price Meals*

- (1) *Children and Adults Enrolled in Centers* - While an independent center or sponsoring organization of centers receives Federal cash reimbursement for all meals served in centers, it receives higher levels of reimbursement for meals served to children and adults who meet Income Eligibility Criteria published by FNS for meals served free or at reduced price. Participants from households with incomes at or below 130 percent of poverty are eligible for free meals; and participants with household incomes between 130 percent and 185 percent of poverty are eligible for reduced price meals. The Income Eligibility Guidelines and Reimbursement Rates are published in the *Federal Register* and on the FNS web site at <http://www.fns.usda.gov/cnd>. Institutions must determine each enrolled participant's eligibility for free and reduced price meals in order to claim reimbursement for the meals served to that individual at the correct rate (7 CFR sections 226.17(b)(7), 226.19(b)(7)(i), 226.17(c), and 226.19a(b)(8)).

A participant's eligibility may be established by the following methods:

- (a) *General Rule: Household Application* - The participant's household may submit an income eligibility statement that provides information about household size and income. The information submitted by each household is compared with USDA's published Income Eligibility Guidelines. A household is not required to furnish documentation to support the information given in its income eligibility statement; however, that information is subject to verification under 7 CFR 226.23(h) (7 CFR sections 226.23(e)(1)(ii) and (iii), and 226.23(e)(4)).
- (b) *Exception: Categorical Eligibility* - Children and adults may be determined categorically eligible for free and reduced price meals by virtue of their participation in certain other programs. For children, such programs include the Food Stamp Program, Food Distribution Program on Indian Reservations (FDPIR), or State programs funded through Temporary Assistance for Needy Families (TANF). Categorically eligible adults include those who receive Food Stamp Program, FDPIR, Supplemental Security Income (SSI), or Medicaid benefits. Categorically eligible participants must indicate on the income eligibility statement the other program for which they are eligible. No income eligibility statement is required for children participating in the Head Start

Program or for pre-kindergarten children participating in the Even Start Programs, nor is any eligibility determination required beyond documenting their participation in Head Start or Even Start (7 CFR sections 226.23 (e)(1)(iv) and (v); 42 USC 1766(c)(6)).

- (2) *Children Enrolled in Family Day Care Homes* - A tiering structure prescribed by program statute and regulations forms the basis for meal reimbursement payments to sponsoring organizations of day care homes. A home is classified as tier I or tier II, depending on the home's location or the provider's income eligibility.

Tier I day care homes are those operated by providers whose households meet the income standards for free or reduced price meals, as outlined above; or those located in low-income areas. A low-income area is one where at least 50 percent of the children are eligible for free or reduced price school meals. Sponsoring organizations may use elementary school enrollment data (or census data in some special cases) to determine if a home is located in a low-income areas (7 CFR sections 226.2 (definitions of "low-income area" and "tier I day care home") and 226.15 (e)(3) and (f)).

Tier II homes are those day care homes which do not meet the location or provider income criteria for a tier I home. Per-meal reimbursement rates for meals served in tier II homes are lower than corresponding rates for tier I homes. The provider in a tier II home may nevertheless elect to have the sponsoring organization determine the income-eligibility of enrolled children, so that meals served to those children who qualify for free and reduced price meals would be reimbursed at the higher tier I rate (7 CFR section 226.23(e)(1)(i)).

Meals served to a day care home provider's own children are not reimbursable unless all of the following conditions are met: (a) such children are enrolled and participating in the CACFP during the time of the meal service; (b) enrolled, nonresidential children are present and participating in the CACFP; and (c) the provider's own children are eligible for free or reduced price meals (7 CFR section 226.18(e)).

- (3) *Children Enrolled in At-Risk Afterschool Programs* - Eligible afterschool programs must be located in geographical areas where 50 percent or more of the children are eligible for free or reduced price meals under the School Nutrition Programs (CFDA 10.553 and 10.555), as demonstrated by the free and reduced price eligibility data maintained by the school serving the area.

Individual eligibility determinations for children attending these programs are not required (42 USC 1766(r)).

- (4) *Children Residing in Emergency Shelters* - Children residing in emergency shelters are categorically eligible to receive meals at no charge (42 USC 1766(t)(5)(C)).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

**3. Eligibility for Subrecipients**

- a. Administering agencies may disburse CACFP funds only to those organizations that meet the eligibility requirements stated in the following program requirements: (1) generic requirements for all institutions at 7 CFR section 226.15 and 42 USC 1766(a)(6) and (d)(1); (2) additional requirements for sponsoring organizations at 7 CFR section 226.16; (3) additional requirements for child care centers (whether independent or sponsored) at 7 CFR section 226.17; (4) additional requirements for day care homes (which must be sponsored) at 7 CFR section 226.18; (5) additional requirements for outside-school-hours centers at 7 CFR section 226.19; (6) additional requirements for adult day care centers (whether independent or sponsored) at 7 CFR section 226.19a; (7) additional requirements for at-risk afterschool programs at 42 USC 1766(r); and (8) additional requirements for emergency shelters at 42 USC 1766(t).
- b. For-profit child care and outside-school-hours care centers may participate in the CACFP if they meet either of the following two criteria: (1) at least 25 percent of the enrolled children or 25 percent of the licensed capacity, whichever is less, are funded under Title XX of the Social Security Act; or (2) at least 25 percent of the children in their care are eligible for free or reduced price meals. Children who participate only in the at-risk afterschool component of the program must not be considered in determining whether the institution met this 25 percent threshold (42 USC 1766(a)(2)(B); 7 CFR section 226.11(c)(4)).
- c. For-profit adult day care centers may be eligible for CACFP if at least 25 percent of their participants receive benefits under Title XIX or Title XX of the Social Security Act (7 CFR section 226.2 (definition of “for-profit center”)).

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

1. **Matching** - Not Applicable

2. **Level of Effort** - Not Applicable

3. **Earmarking**

- a. *Sponsoring Organizations of Day Care Homes* - Administrative cost reimbursement to sponsoring organizations of day care homes is limited to the lesser of the following factors on a cumulative year-to-date basis: (1) the sponsoring organization's approved administrative budget; (2) actual administrative costs less income to the program; or (3) the appropriate monthly rates per home, multiplied by the number of operating homes in each month. In addition, during any fiscal year, administrative payments to a sponsoring organization may not exceed 30 percent of the total amount of administrative payments and program (meal reimbursement) payments for day care home operations (7 CFR section 226.12(a))
- b. *Sponsoring Organizations of Centers* - There is no provision for sponsoring organizations of centers to receive a separate reimbursement for administrative costs. However, sponsors may retain up to 15 percent from a center's reimbursement for its administrative expenses. State agencies may waive this limit if certain regulatory criteria are met (7 CFR sections 226.6(f)(1)(vi) and 226.16(b)(1)).

**I. Procurement and Suspension and Debarment**

1. *Procurement* - Regardless of whether the State elects to follow State or Federal rules in accordance with the A-102 Common Rule, the following requirements must be followed for procurements initiated on or after October 1, 2000:
  - a. A State agency or institution shall not award a contract to a firm it used to orchestrate the procurement leading to that contract. Examples of services that would disqualify a firm from receiving the contract include preparing the specifications, drafting the solicitation, formulating contract terms and conditions, etc. (7 CFR sections 3016.60(b) and 3019.43).
  - b. A State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts (7 CFR section 3016.60(c)).
2. *Suspension and Debarment* - Mandatory awards by pass-through entities to subrecipients are excluded from the suspension and debarment rules (7 CFR section 3017.215(h)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. *Subrecipient Financial Reporting* - A State agency may require subrecipients to report information the State agency needs to prepare the financial reports identified above. Such subrecipient reports should be tested during audits of the subrecipients.

### **2. Performance Reporting** - Not Applicable

### **3. Special Reporting**

- a. *State Agency Special Reporting*

FNS-44, *Report of the Child and Adult Care Food Program (OMB No. 0584-0078)* - To receive CACFP funds, a State agency administering the program compiles the data gathered on its subrecipients' claims for reimbursement into monthly reports to its FNS regional office. Such reports present the number of meals served, by category and type, in institutions under the State agency's oversight during the report month.

An initial monthly report, which may contain estimated participation figures, is due 30 days after the close of the report month. A final report containing only actual participation data is due 90 days after the close of the report month. A final closeout report is also required, in accordance with the FNS closeout schedule. Revisions to the data presented in a 90-day report must be submitted by the last day of the quarter in which they are identified. However, the State agency must immediately submit an amended report if, at any time following the submission of the 90 day report, identified changes to the data cause the State agency's level of funding to change by more than (plus or minus) 0.5 percent.

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

- (1) *Part A - No. Homes*
  - (a) Line 6 - *No. of sponsoring organizations of day care homes administering between (ranges for numbers of homes given in columns)*
  - (b) Line 7 - *No. of homes for which sponsors are eligible to receive reimbursement based on rate for (ranges for numbers of homes given in columns)*
- (2) *Part E*
  - (a) Lines 22 through 30 - *Breakfasts*
  - (b) Lines 31 through 39 - *Lunches*
  - (c) Lines 40 through 48 - *Suppers*
  - (d) Lines 49 through 57 - *Supplements*
  - (e) Lines 58 through 60 - *Total Free, Reduced Price, and Paid Meals Served (Respectively)*

b. *Subrecipient Special Reporting*

To receive reimbursement payments for meals served, an institution must submit claims for reimbursement to its administering agency. A claim must include the number of meals served by category and type during the period (generally a month) covered by the claim. All meals claimed for reimbursement must be of types authorized by the institution's administering agency; must be served to eligible children or adults; and must be supported by accurate meal counts and records indicating the number of meals served by category and type. Reimbursement is not allowed for meals served to a participant who is not enrolled for care, meals served in excess of an institution's licensed or authorized capacity, meal types that are not approved in the institution's agreement with its administering agency, or meals served in excess of the maximum number of approved meal services (7 CFR sections 226.10(c), 226.15(h), 226.17(b)(4), 226.19(b)(5), and 226.19a(b)(6)).

- (1) *Meals Served in Child and Adult Care Centers* - Several variants are available for reporting participation under the meals-times-rates reimbursement formula. They include: (a) reporting actual meal counts by category and type; (b) applying "blended per-meal rates" to actual counts of meals served by type; and (c) applying the center's "claiming percentage" for each category to its actual

count of each type of meal served. The claiming percentage for each category is the ratio of enrolled persons eligible for meals in that category to all enrolled persons. The institution's agreement with its administering agency identifies the variant to be used (7 CFR sections 226.9(b) and 226.11(b)).

- (2) *Meals Served in Day Care Homes* - Like a sponsor of centers, a day care home sponsor must claim reimbursement for meals by category and type. With respect to day care homes, however, "category" refers to the tiering structure (tier I or tier II) rather than to an individual's income eligibility, as described under III.E.1, "Eligibility - Eligibility for Individuals," (7 CFR section 226.13(b)).

To develop the information needed to prepare a claim, the sponsoring organization requires each day care home under its sponsorship to report the number of reimbursable meals served during each claim month. The sponsoring organization collects the number of meals served, by type, from tier I homes and from tier II homes that elect not to request the sponsoring organization to make individual income eligibility determinations for enrolled children (7 CFR sections 226.13(d)(1) and (2)). If a tier II day care home provider has elected to have its sponsoring organization make individual income eligibility determinations, program regulations provide several options for reporting the number of meals eligible for reimbursement at the tier I and II rates, respectively (7 CFR section 226.13(d)(3)).

The reimbursement rates for lunches and suppers served in day care homes whose sponsoring organizations have elected to receive USDA donated commodities are reduced by the value of the commodities (7 CFR section 226.13(c)).

- (3) *Meals Served in At-Risk Afterschool Programs* - Reimbursement payments for snacks served to children in at-risk afterschool programs are limited to one snack per child per day. In the States of Delaware, Illinois (effective November 28, 2001), Michigan, Missouri, New York, Oregon, and Pennsylvania, however, operators may also claim one supper per child per day. Snacks and suppers served in at-risk afterschool programs are provided at no charge and reimbursed at the "free" rate (42 USC 1766(r)).
- (4) *Meals Served in Emergency Shelters* - A shelter or its sponsoring organization may claim reimbursement only for three meals, or two meals and one supplement, per child per day. All such meals are provided at no charge and reimbursed at the free rate (42 USC 1766(t)(5)(B) and (C)).

An institution must report such information, in addition to meal counts, as its administering agency determines necessary to support the reimbursement claimed. For centers and sponsors of centers in States that elect to reimburse at the lesser of meals-times-rates or documented costs, such information includes their operating (meal production) costs. For sponsors of day care homes, such information includes their administrative costs (7 CFR sections 226.7(m), 226.9(c) and (d), 226.10(c), 226.11(d), and 226.12(a)). This aspect of the claiming process is discussed in III.A, “Activities Allowed or Unallowed.”

## **M. Subrecipient Monitoring**

The administering agency is responsible for monitoring the institution’s non-profit status to ensure that all reimbursements shall be used solely for the conduct of the food service operation or to improve such food service operations, principally for the benefit of the enrolled participants (7 CFR section 226.7(b)) and 42 USC 1766 (d)(1)(B)).

The administering agency is required to assess institutional compliance by performing on-site reviews of independent centers, sponsoring organizations of centers, and sponsoring organizations of day care homes, including reviews of new organizations, in accordance with a schedule prescribed in 7 CFR section 226.6(m) and 42 USC 1766 (d)(2)(A).

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

### **1. Accountability for Commodities**

#### **Compliance Requirement**

The following compliance requirements do not apply to recipient agencies (as defined at 7 CFR section 250.3), including CACFP institutions. Auditors making audits of recipient agencies are not required to test compliance with these requirements.

#### *a. Maintenance of Records*

Distributing and subdistributing agencies (as defined at 7 CFR section 250.3) must maintain accurate and complete records with respect to the receipt, distribution, and inventory of donated foods including end products processed from donated foods. Failure to maintain records required by 7 CFR section 250.16 shall be considered prima facie evidence of improper distribution or loss of donated foods, and the agency, processor, or entity may be required to pay USDA the value of the food or replace it in kind (7 CFR sections 250.16(a)(6) and 250.15(c)).



b. *Physical Inventory*

Distributing and subdistributing agencies and institutions shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency which contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR section 250.14(e)).

**Audit Objective** - Determine whether an appropriate accounting was maintained for donated food commodities, that an annual physical inventory was taken, and that the physical inventory was reconciled with inventory records.

**Suggested Audit Procedures**

- a. Determine storage facility, processing, and end use locations of all donated food commodities, including end products processed from donated foods. Ascertain the commodity records maintained by the entity and obtain a copy of procedures for conducting the required annual physical inventory. Obtain a copy of the annual physical inventory results.
- b. Perform analytical procedures, obtain explanation and documentation for unusual or unexpected results. Consider the following:
  - (1) Compare receipts, distributions, losses and ending inventory of donated foods for the audit period to the previous period.
  - (2) Compare distribution by entity for the audit period to the previous period.
- c. Ascertain the validity of the required annual physical inventory. Consider performing the following steps, as appropriate:
  - (1) Observe the annual inventory process at selected locations and recount a sample of commodity items.
  - (2) If the annual inventory process is not observed, select a sample of significant commodities on hand as of the physical inventory date and, using the commodity records, "roll forward" the balance on hand to the current balance observed.
  - (3) On a test basis, recompute physical inventory sheets and related summarizations.
  - (4) Ascertain that the annual physical inventory was reconciled to commodity records. Investigate any large adjustments between the physical inventory and the commodity records.

- d. On a sample basis, test the mathematical accuracy of the commodity records and related summarizations. From the commodity records, vouch a sample of receipts, distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including correct quantity, proper period and, if applicable, correct recipient agency.

#### **IV. OTHER INFORMATION**

FNS no longer requires recipient agencies to inventory commodities separately from purchased food. However, the value of commodities used during a State or recipient agency's fiscal year is considered Federal awards expended in accordance with the OMB Circular A-133 §\_\_.105, definition of Federal financial assistance and should be valued in accordance with §\_\_.205(g). Therefore, recipient agencies must determine the value of commodities used. FNS recommends that recipient agencies use the value of commodities delivered to them during the audit period for this purpose.

## UNITED STATES DEPARTMENT OF AGRICULTURE

### CFDA 10.566 NUTRITION ASSISTANCE FOR PUERTO RICO

#### I. PROGRAM OBJECTIVES

The objective of the Puerto Rico Nutrition Assistance Program (NAP) is to help needy residents of the Commonwealth of Puerto Rico (PR) meet their nutritional needs.

#### II. PROGRAM PROCEDURES

##### Administration

Funds for the NAP are appropriated annually. The Food and Nutrition Service (FNS) of the USDA provides an annual block grant to the PR Department of the Family to cover the full cost of program benefits and 50 percent of the costs of administering the program. As a condition of receiving the grant, PR must submit an annual plan of operation for review and approval by FNS. FNS provides monthly increments to PR's NAP letter-of-credit authorization on the basis of budget estimates contained in the approved plan. FNS also monitors program operations to assure program integrity. These monitoring activities include reviewing financial reports and making on-site management reviews of selected program operations (7 CFR sections 285.2(a) and 285.3).

##### Benefits

Under the NAP, participating households receive nutritional benefits to supplement their incomes. They must use these program benefits to purchase foods for preparation and consumption at home. The amount of a household's monthly benefit payment depends on the household's characteristics, financial circumstances, and the funds available for distribution. PR establishes the eligibility and benefit levels for the program. The benefits are revised October 1 of each year to consider the nutritional needs of PR's needy population and to provide for the distribution of available block grant funds.

A household receives its monthly benefit payment electronically. PR issues each client household a debit card with which to access the benefits. Since September 2001, 75 percent of each household's monthly benefit has been designated for use in making food purchases at retailers authorized by PR. The remaining 25 percent is a cash benefit. Clients may use their debit cards to obtain cash at ATMs, or to combine their cash and non-cash benefits in food purchases from authorized retailers. PR monitors retailer and household compliance.

##### Benefit Redemption

NAP benefits are administered through an electronic benefit transfer (EBT) system. PR establishes a benefit account to control the issuance and use of each household's benefits. Benefit issuance takes the form of posting monthly increments to the client's account: 75 percent to the non-cash account and 25 percent to the cash account. ATM transactions generate charges against the client's cash account. Purchases at authorized retailers generate on-line charges against the client's non-cash account; these are resolved by crediting the retailers for the amount

of client purchases. PR must reconcile the funds exiting the EBT system and paid to retailers with amounts drawn from its EBT benefit account with the Government Development Bank (GDB). Cash drawn from PR's letter-of-credit is used to settle accounts with the GDB. A service provider is used to process NAP EBT transactions.

PR obtains an examination by an independent auditor of the EBT service provider (service organization) regarding the issuance, redemption, and settlement of benefits in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 70, Service Organizations.

### **Employment Services for NAP Participants**

Since October 1988, PR's annual plan of operation has called for using a prescribed portion of its NAP grant for program components designed to move NAP participants who are able to work into the workforce. PR initially met this need through the Special Wage Incentive Program (SWIP). Beginning in May 2005, PR began phasing out SWIP.

The PR Department of the Family operated SWIP through contracted sponsoring agencies, which performed job placement services for NAP participants. PR reimbursed the sponsoring agencies for 50 percent of the costs they incurred completing each job placement, and employers for 50 percent of the wages they paid employees recruited through SWIP. These employers entered into wage contracts with PR. Although PR ceased making SWIP placements on May 6, 2005, some existing contracts are expected to remain in effect through May 6, 2008 (PR Annual Plan of Operation for Fiscal Year 2005, Section D (*SWIP Attachments*)).

### **Source of Governing Requirements**

The NAP is authorized by section 19 of the Food Stamp Act of 1977 (7 USC 2028), amended by the Farm Security and Rural Investment Act of 2002 (Pub. L. No. 107-171, 116 Stat. 134 *et seq.*, May 13, 2002). USDA regulations pertaining to NAP are found in 7 CFR part 285. Many program requirements are established through PR's approved annual plan of operation.

## **III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look at Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

The annual plan of operation submitted by the PR Department of the Family must include a description of PR's program for providing nutrition assistance to needy persons and the eligible SWIP activities. The nutrition assistance PR actually provides must conform to the approved plan (7 CFR section 285.3(b)(3); PR Annual Plan of Operation).

**E. Eligibility****1. Eligibility for Individuals**

- a. The PR Department of the Family is required to identify in its annual plan the population eligible for NAP benefits. In testing the propriety of eligibility determinations and disbursements for NAP benefits, the auditor shall apply the eligibility criteria established by the PR Department of the Family and identified in the annual plan (7 CFR section 285.3(b)(2)).
- b. Individuals placed in the SWIP must be NAP participants (PR Annual Plan of Operation for Fiscal Year 2005, Section D (*SWIP Attachments*)).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable****3. Eligibility for Subrecipients - Not Applicable****G. Matching, Level of Effort, Earmarking****1. Matching**

- a. The NAP grant provided by FNS is intended to cover 100 percent of PR's expenditures for NAP benefits and 50 percent of the related administrative expenses. PR must provide funds for its 50 percent share of the administrative expenses (7 CFR section 285.2(a)).
- b. Sponsoring agencies must provide 50 percent of their SWIP administrative costs.

**2. Level of Effort - Not Applicable****3. Earmarking - Not Applicable****H. Period of Availability of Federal Funds**

Payments received by PR for a fiscal year may not exceed the amount authorized for the grant or the total NAP cost eligible for funding, whichever is less, for that fiscal year. Funds for payments for any prior fiscal year expenditures must be claimed against the funding for that fiscal year; however, funds collected from claims are credited to the fiscal year in which the collection occurred (7 USC 2027(e); 7 CFR section 285.2(b)).

For fiscal year 2002 and each fiscal year thereafter, PR may carry forward not more than two percent of its grant for use in the following fiscal year (7 USC 2028(a)(2)(D); Section 4124 of Pub. L. No. 107-171, 116 Stat. 325-326, May 13, 2002).

**L. Reporting****1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

**2. Performance Reporting** - Not Applicable**3. Special Reporting** - Not Applicable**N. Special Tests and Provisions****1. EBT Reconciliation**

**Compliance Requirement** - PR must perform all the following:

- a. Record and compare payments to the Daily Activity File and the Daily Payments Summary File prepared by the EBT Services provider for the Department of the Family (PR Annual Plan of Operation, G., Program Administration, 2.I.(a), Reconciliation System (EBT)).
- b. Perform the following reconciliations (PR Annual Plan of Operation, G., Program Administration, 2.I.(a), Reconciliation System (EBT)):
  - (1) Benefits authorized equal benefits posted.
  - (2) Benefits accessed by recipients (net EBT account debits/credits) equal benefit amount transactions approved by the EBT services provider.
  - (3) Net EBT account debits/credits equal amount paid to merchants and financial institutions (plus/minus authorized adjustments).
  - (4) Amount paid to merchants and financial institutions equal funds requested by the EBT services provider (plus/minus authorized adjustments).

PR's EBT service provider maintains transaction trails that document the cycle of household transactions from the posting of point-of-sale transactions at retailers through the settlement of retailer credits (PR Annual Plan of Operation, F., Criteria for Distribution of Funds, 4, Electronic Benefit Transfer System - EBT Family Card, and G., Program Administration, 2.I.(a), Reconciliation System (EBT)).

**Audit Objective** - Determine whether PR performs the required comparisons and reconciliations.

**Suggested Audit Procedures**

- a. Ascertain if PR has a process in place to perform the required comparisons and reconciliations.
- b. Test a sample of comparisons and reconciliations to ascertain if they are properly performed and that there is proper follow-up and resolution of discrepancies.

**UNITED STATES DEPARTMENT OF AGRICULTURE****CFDA 10.568 EMERGENCY FOOD ASSISTANCE PROGRAM (ADMINISTRATIVE COSTS)****CFDA 10.569 EMERGENCY FOOD ASSISTANCE PROGRAM (FOOD COMMODITIES)****I. PROGRAM OBJECTIVES**

The objective of the Emergency Food Assistance Program (TEFAP) Cluster is to provide U.S. Department of Agriculture (USDA)-donated commodities to low-income households for home consumption, and to provide hot meals prepared from USDA donated commodities to needy persons in congregate settings.

**II. PROGRAM PROCEDURES**

The Food and Nutrition Service (FNS) of the USDA administers TEFAP. FNS enters into agreements with State distributing agencies for the distribution of USDA donated commodities, and provides funding for the administrative costs these organizations incur in performing this function. The State distributing agencies with which FNS makes agreements for the operation of TEFAP are generally the same State agencies that administer other USDA commodity programs, such as State departments of agriculture, education, etc.

At the local (subrecipient) level, the program is operated by Eligible Recipient Agencies (ERAs). ERAs include public and private non-profit organizations that operate Emergency Feeding Organizations (EFOs), charitable institutions such as hospitals and retirement homes, summer camps for children, and child nutrition programs providing food service, nutrition programs under the Older Americans Act of 1965 (Pub .L. No. 89-73), and disaster relief programs. EFOs include public and private non-profit organizations that provide nutrition assistance to relieve situations of emergency and distress through the provision of food to needy persons, such as food banks, food pantries, soup kitchens, etc.

An ERA may receive a TEFAP subgrant directly from the State agency, or from another ERA. In designating ERAs, a State agency may give priority to existing food bank networks and other organizations whose primary function is to facilitate the distribution of food to low-income households, including food from sources other than USDA. A State may delegate its storage and distribution functions to one or more food banks or other ERAs.

USDA provides commodities to State agencies, and the State agencies arrange for their delivery to ERAs. State agencies are prohibited from charging ERAs any type of fee for providing this service (7 CFR section 251.9(d); 7 USC 7511). FNS also awards each State agency a cash grant for the administrative cost of carrying out its TEFAP food delivery and oversight functions. The State agency, in turn, awards subgrants to its ERAs and/or incurs administrative costs on their behalf. The value of TEFAP entitlement commodities and the amount of administrative funds a State agency may receive are determined through an allocation formula described at 7 CFR section 251.3(h). USDA may provide bonus commodities in addition to the formula-generated entitlement commodities.



To gain access to its commodities and administrative funds, a State agency must have a distribution plan and a Federal-State Agreement on file with the applicable FNS regional office. The distribution plan gives the State agency's criteria for awarding subgrants to ERAs and for certifying households eligible for TEFAP benefits. Both the Federal-State Agreement and the State agency's agreements with its ERAs may be amended at any time due to program changes or at the request of either party.

Determinations of households' eligibility for TEFAP benefits are generally made by ERAs in accordance with the criteria and procedures established by the State agency in its distribution plan. ERAs may issue commodities to members of eligible households in quantities suitable for meal preparation at home or they may use the commodities in the operation of feeding sites that serve prepared meals.

The ERAs that conduct these issuance and congregate feeding activities are known as "distribution sites." In some cases, distribution sites are operated by separate organizations as sub-subrecipients of other ERAs. Some distribution sites use mostly paid employees to carry out their missions, while others rely heavily on the services of volunteers.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 incorporated into TEFAP a previously separate program entitled Commodities for Soup Kitchens and Food Banks (CFDA 10.571). Activities formerly conducted under that program are now deemed TEFAP activities, and residual stocks of commodities originally made available for that program are now deemed TEFAP commodities. Accordingly, CFDA 10.571 should not appear in a State's or subrecipient's Schedule of Expenditures of Federal Awards.

### **Source of Governing Requirements**

TEFAP is authorized by the Emergency Food Assistance Act of 1983 (Pub. L. No. 98-8) (7 USC 7501-16), as amended by the Hunger Prevention Act of 1988 (Pub. L. No. 100-435) and the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Pub. L. No. 104-193). Program regulations are found at 7 CFR parts 250 and 251.

### **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

**A. Activities Allowed or Unallowed**

1. A State agency or ERA must use its administrative cost grant or subgrant for activities intrinsic to the processing, transportation, and distribution of TEFAP commodities within its State or service area. Such activities are listed at 7 CFR section 251.8(e)(1)(i) through (v). Under certain circumstances, a State agency may also use these funds for transporting TEFAP commodities to other States and transporting non-USDA foods in from other States (7 USC 7505(d)).
2. An ERA that receives USDA non-program commodities and TEFAP commodities may use its administrative cost subgrant for the distribution of both classes of commodities. In addition, a State agency or ERA may use its administrative funds for certain activities associated with the distribution of non-USDA foods donated by private individuals and organizations (7 CFR section 251.8(e)(1)).

**B. Allowable Costs/Cost Principles**

While regulations issued under previous legislation had required State agencies and ERAs to use TEFAP administrative funds solely for direct costs, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 expressly identified State level indirect costs as allowable costs (Personal Responsibility and Work Opportunity Reconciliation Act of 1996, section 202A(c)(1)).

**E. Eligibility****1. Eligibility for Individuals**

- a. *Receipt of Commodities for Household Use* - An EFO certifies households eligible to receive TEFAP commodities for household consumption by applying income eligibility criteria established by the State agency (7 CFR section 251.5(b)). These criteria are approved in advance by FNS as part of the State agency's distribution plan (7 CFR section 251.6(a)).
- b. *Receipt of Prepared Meals* - There is no means test for eligibility of persons receiving prepared meals. Their eligibility is derived from the ERA's eligibility to receive and use TEFAP commodities.

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable.****3. Eligibility for Subrecipients**

To receive commodities and TEFAP administrative funds, a public or non-profit private organization must have entered into an agreement with the State agency, or with another ERA, binding it to perform the duties of an ERA. The State agency's distribution plan identifies the classes of organizations with which it will enter into such agreements.

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

### **1. Matching**

- a. A State agency must match each Federal dollar expended for State-level TEFAP administrative costs with a dollar from non-Federal sources (7 CFR section 251.9(a)).
  - (1) *Exceptions* - The following States are exempted from the matching requirement in any fiscal year in which their respective required matching contributions would have fallen below \$200,000: American Samoa, Guam, the Virgin Islands, and the Commonwealth of the Northern Marianas (7 CFR section 251.9(b)).
  - (2) *Acceptable Matching Contributions* - Acceptable matching contributions include:
    - (a) Cash expenditures by the State agency for allowable State- or local-level TEFAP administrative costs (7 CFR section 251.9(c)(1)); and
    - (b) Certain non-cash contributions. These may include: (i) the value of goods and services specifically identifiable with allowable State administrative costs; (ii) the value of goods and services contributed by the State agency to an ERA, which are specifically identifiable with allowable local-level administrative costs; and (iii) the value of third-party in-kind contributions, provided such contributions support functions meeting criteria stated in the program regulations (7 CFR section 251.9(c)(2)).

### **2. Level of Effort - Not Applicable**

### **3. Earmarking**

A State agency must use at least 40 percent of its TEFAP administrative cost grant for costs that benefit ERAs that are EFOs. The State agency may do this by awarding subgrants directly to EFOs and/or by incurring costs the EFOs would otherwise have had to pay themselves (7 CFR section 251.8(e)(4)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. FCS-667, *Report of the Emergency Food Assistance Program (TEFAP) Administrative Costs (TEFAP) (OMB No. 0584-0293)* - This report captures the status of a State's TEFAP administrative cost grant in a manner that identifies the portions applied to State level costs, costs paid by the State on behalf of ERAs, and costs paid by the ERAs themselves. It thus facilitates the monitoring of a State's compliance with the State matching and 40 percent pass-through requirements (7 CFR section 251.10(d)).

*Key line items* - The following line items contain critical information:

- (1) Line c. - *Net Outlays to Date*
- (2) Line f. - *Total State Agency's Share of Net Outlays*
- (3) Line k. - *Total Federal Share*

**2. Performance Reporting** - Not Applicable

**3. Special Reporting** - Not Applicable

**M. Subrecipient Monitoring**

A State agency must make on-site reviews of ERAs under its oversight and of distribution sites operated by such ERAs, in accordance with its distribution plan. At a minimum, the State agency's annual review coverage must include 25 percent of the ERAs that operate TEFAP as a subrecipient of the State agency and one-tenth or 20 (whichever is less) of the ERAs that operate TEFAP as subrecipients of other ERAs in the State. To the maximum extent practicable, review scheduling should enable State agency staff to observe TEFAP commodity issuance and prepared meal service operations (7 CFR section 251.10(e)).

**N. Special Tests and Provisions**

**1. Accountability for Commodities**

**Compliance Requirement** - Accurate and complete records shall be maintained with respect to the receipt, distribution/use, and inventory of donated foods, including end products processed from donated foods. Failure to maintain records required by 7 CFR section 250.16 shall be considered prima facie evidence of improper distribution or loss of donated foods, and the agency, processor, or entity is liable for the value of the food or replacement of the food in kind (7 CFR sections 250.16(a)(6) and 250.15(c)).

Distributing and recipient agencies shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency which contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR section 250.14(e)).

**Audit Objective** - Determine whether an appropriate accounting was maintained for donated food commodities, that an annual physical inventory was taken, and the physical inventory was reconciled with inventory records.

### **Suggested Audit Procedures**

- a. Determine storage facility, processing, and end use locations of all donated food commodities, including end products processed from donated foods. Determine the commodity records maintained by the entity and obtain a copy of procedures for conducting the required annual physical inventory. Obtain a copy of the annual physical inventory results.
- b. Perform analytical procedures, obtain explanation and documentation for unusual or unexpected results. Consider the following:
  - (1) Compare receipts, usage/distribution, losses and ending inventory of donated foods for the audit period to the previous period.
  - (2) If auditing at the State distributing agency level, compare distribution by entity for the audit period to the previous period.
  - (3) If auditing at the ERA level, compare relationship of usage of donated foods to production, meals served, or similar activity reports for the audit period to the same relationship for the previous period.
- c. Ascertain the validity of the required annual physical inventory. Consider performing the following steps, as appropriate:
  - (1) Observe the annual inventory process at selected locations and recount a sample of commodity items.
  - (2) If the annual inventory process is not observed, select a sample of significant commodities on hand as of the physical inventory date and, using the commodity records, "roll forward" the balance on hand to the current balance observed.
  - (3) On a test basis, recompute physical inventory sheets and related summarizations.

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- (4) Ascertain that the annual physical inventory was reconciled to commodity records. Investigate any large adjustments between the physical inventory and the commodity records.
- d. On a sample basis, test the mathematical accuracy of the commodity records and related summarizations. From the commodity records, vouch a sample of receipts, usage/distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including correct quantity, proper period and, if applicable, correct ERA.

## DEPARTMENT OF AGRICULTURE

### CFDA 10.665 SCHOOLS AND ROADS - GRANTS TO STATES CFDA 10.666 SCHOOLS AND ROADS - GRANTS TO COUNTIES

#### I. PROGRAM OBJECTIVES

The objective of this program is to share receipts from the national forests with the States in which the national forests are situated. Generally, these funds are to be used for the benefit of public schools and public roads of the county or counties in which the national forest is situated.

#### II. PROGRAM PROCEDURES

##### General

Since the early 1900s, the Congress has enacted laws directing that a State or county be compensated for the presence of Federal lands in the State. The compensation may be based on Federal acreage or a county's population, but in most instances, the payments relate to a percentage of the receipts generated on Federal land. Federal laws requiring payments to States, based on national forest receipts, provide the basis and methodology of the compensation payments to the States but allow States to prescribe how the funds are spent for schools and roads in the county or counties in which the national forest is situated. All disbursement transactions are processed through the U.S. Treasury.

##### Program Operation

*25-Percent Payment* - 25 percent of gross receipts generated on Forest Service lands during the fiscal year is distributed to the States. Payments are to be used to benefit public schools and public roads of the county or counties in which the national forest is situated. Two payments are made to the States: an interim payment is made in October on the basis of estimated third-quarter operating results, and a final payment is made in December, providing the balance of the actual receipts due to the counties. The Forest Service calculates both payments and sends letters to the States advising them of the amount and of each county's historic percentage of the payment based on the county's acreage in the national forest. The Forest Service notifies the U.S. Treasury of the amounts to be paid, and the funds are electronically transmitted to the States. The States verify the amount of each deposit with information received from the Forest Service, then distribute the funds to the counties in which the national forests are situated.

*Full Payment Amount (Secure Rural Schools and Community Self-Determination Payment)* - This payment is made in relation to the State's 25-Percent Payment. Each eligible county elects to receive either its share of the 25-Percent Payment, as described above, or its share of the State's "Full Payment Amount." Such payments are authorized for Federal Fiscal Years (FY) 2001 through 2007. For purposes of making the FY01 payment, the full payment amount for each eligible State, and the share thereof for each eligible county that elects to receive it, is stated in the Forest Service document entitled "Pub. L. No. 106-393, Secure Rural Schools and Community Self-Determination Act," dated July 31, 2001. For purposes of making the payments required in Federal FYs 2002 through 2007, the Forest Service shall annually adjust the amounts stated in that document in accordance with section 751(b) of Pub. L. No. 107-76

(115 Stat. 739, November 28, 2001) and section 5401 of Pub. L. No. 110-28 (121 Stat. 165, May 25, 2007).

*Quinault Special Payment* - 45 percent of the gross receipts generated by the Quinault Special Management Area is distributed to the State of Washington for the benefit of public roads and public schools. This amount is combined with the 25-Percent Payment to Washington State to make one payment. Washington State distributes Quinault payments to the counties as part of its 25-Percent Payment.

*Arkansas Smoky Quartz Payment* - 50 percent of the receipts from the sale of quartz mined on the Ouachita National Forest in Arkansas is distributed to Arkansas for the benefit of public roads and public schools of the counties in which the forest is situated. The Forest Service calculates these payments by subtracting the quartz receipts from the forest receipts and applying the 50 percent rate to these quartz receipts. The quartz payment is added to the State's 25-Percent Payment and distributed in one lump sum.

*Payments to Minnesota* - Three-quarters of 1 percent of the fair appraised value of specified national forest lands in Cook, Lake, and St. Louis Counties is paid to the State. The Forest Service adds this amount to the 25 Percent Payment for the remainder of Minnesota and makes one payment to the State. The State distributes funds to Cook, Lake, and St. Louis counties according to the fair appraised value of the specified national forest lands in each county.

*National Grasslands Payment* - 25 percent of net revenues from national grasslands and land utilization projects (LUPs) administered under Title III of the Bankhead-Jones Farm Tenant Act (grazing receipts collected by the Forest Service and mineral receipts collected by the Minerals Management Service and transmitted to the Forest Service for distribution) is distributed to the 80 counties containing Forest Service national grasslands. Payments are made directly to the counties where the national grasslands and LUPs are located.

### **Source of Governing Requirements**

*25 Percent Fund* - 16 USC 500

*Secure Rural Schools and Community Self-Determination Act Payments* - 16 USC 500 note; Section 751 of Pub. L. No. 107-76 (115 Stat. 739, November 28, 2001)

*U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007* – Section 5401 of Pub. L. 110-28 (May 25, 2007)

*Quinault Special Payment* - Pub. L. No. 100-638, section 4(b)(2)

*Arkansas Smoky Quartz Payment* - Pub. L. No. 100-446, section 323

*Payments to Minnesota* - 16 USC 577g and 577g-1

*National Grasslands Payment* - 7 USC 1012



## Availability of Other Program Information

Program information may be found on the Internet at <http://www.fs.fed.us>.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. *25-Percent Payment* funds must be used for public roads and public schools of the county or counties in which the national forest is situated (16 USC 500 note section 102).
2. *Full Payment Amount* funds must be used for public roads and public schools of the county in which the national forest is situated (Title I), special projects on Federal lands (Title II), or county projects (Title III) (16 USC 500 note sections 102, 202, and 302).
3. *Quinault Special Payment* funds must be used for public schools and roads of the county or counties in which the national forest is situated (Pub. L. No. 100-638, section 4(b)(2)).
4. *Arkansas Smoky Quartz Payment* funds must be used for public roads and public schools in the counties in which the Ouachita National Forest is located (Pub. L. No. 100-446, section 323).
5. *Payments to Minnesota* funds have no restrictions on use (16 USC 577g and g-1).
6. *National Grasslands Payment* funds must be used for roads or schools in the county in which the land is located (7 USC 1012).

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

1. **Matching** - Not Applicable
2. **Level of Effort** - Not Applicable
3. **Earmarking**

A county that elects to receive its share of the *Full Payment Amount* and that share is \$100,000 or more must:

- a. Use at least 80 percent, but not more than 85 percent of the funds, for public roads and public schools (16 USC 500 note section 102(d)).

- b. Use the balance of the funds for any combination of the following:
- (1) Reserve for special projects on Federal lands in which case the funds are deposited in a special account in the U.S. Treasury (16 USC 500 note sections 102(d), 202).
  - (2) Search, rescue, and emergency services; community service work camps; easement purchases; forest related educational opportunities; fire prevention and county planning; and community forestry (16 USC 500 note sections 102(d) and 302).
  - (3) Return to the U.S. Treasury (16 USC 500 note sections 102(d) and 402).

## UNITED STATES DEPARTMENT OF AGRICULTURE

### CFDA 10.760 WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES

#### I. PROGRAM OBJECTIVES

The Water and Waste Program is designed to assist rural communities in obtaining safe drinking water and adequate waste facilities, which are prerequisites for economic growth. In recent years, water and waste systems have been subject to increasingly stringent regulation under the Safe Drinking Water Act and the Clean Water Act. This program is instrumental in providing the financing to build or upgrade rural water and waste facilities.

#### II. PROGRAM PROCEDURES

Under this program, the United States Department of Agriculture's (USDA) Rural Utilities Service (RUS) awards direct loans, loan guarantees, and project grants for new and improved water and waste systems serving rural areas where financing is not available from commercial sources at reasonable rates and terms. The Water and Waste Program is authorized to provide loan and grant assistance to eligible applicants for water and waste disposal facilities in rural areas and towns of up to 10,000 people.

Eligible applicants include: (1) a public body, such as a municipality, district, county, authority, Indian tribe, or other political subdivision of a State, territory or commonwealth (7 CFR sections 1780.7(a)(1) and (a)(3)); or (2) an organization operated on a not-for-profit basis, such as a cooperative, association, or private corporation (7 CFR section 1780.7(a)(2)).

#### **Direct Loans for Water and Waste Disposal Systems**

To establish its eligibility for a loan, an applicant must demonstrate to RUS that it cannot finance the proposed project from its own resources or obtain sufficient credit to do so at reasonable terms or rates. In addition, the applicant must have the legal authority to construct, operate, and maintain the proposed facility, and to give security for and repay the proposed loan. (7 CFR section 1780.7) A loan is repayable in not more than 40 years or the useful life of the facility, whichever is less. Interest is charged at a poverty rate, intermediate rate, or market rate depending on the circumstances (7 CFR section 1780.13).

#### **Project Grants for Water and Waste Disposal Systems**

RUS makes grants in conjunction with direct loans for water and waste disposal projects servicing the most financially needy communities in order to reduce user costs to a reasonable level. Grant amounts are based on a graduated scale that provides higher amounts for projects in communities that have lower income levels; however, a grant amount may never exceed 75 percent of a project's eligible development costs. To establish grant eligibility, an applicant must demonstrate to RUS that it serves a rural area whose median household income (MHI) falls below the statewide nonmetropolitan median household income (NMHI) (7 CFR section 1780.10).

## **Guaranteed Loans for Water and Waste Disposal Systems**

RUS generally guarantees 80 percent of the loan amount but may, in extraordinary circumstances, guarantee a higher level not to exceed 90 percent. The interest rate for guaranteed loans is negotiated between the recipient and the lender (7 CFR sections 1980.819 and 1980.823).

### **Source of Governing Requirements**

The program is authorized by under Section 306 of the Consolidated Farm and Rural Development Act (7 USC 1926). Implementing regulations are at 7 CFR part 1780.

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

RUS maintains a home page on the Internet (<http://www.usda.gov/rus/water/>), which provides general information about this program.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

1. Loan and grant funds may be expended on eligible project costs, as approved by RUS. These expenditures include items such as land acquisition, water rights, legal fees, engineering fees, construction costs, and the purchase of equipment (7 CFR section 1780.9).
2. Loan and grant funds may not be used for the following (7 CFR section 1780.10):
  - a. Facilities which are not modest in size, design, and cost.
  - b. Loan or grant finder's fees.
  - c. The construction of any new combined storm and sanitary sewer facilities.
  - d. Any portion of the cost of a facility which does not serve a rural area.
  - e. That portion of project costs normally provided by a business or industrial user, such as wastewater pretreatment, etc.
  - f. Rental for the use of equipment or machinery owned by the applicant.
  - g. For other purposes not directly related to operating and maintaining the facility being installed or improved.

**G. Matching, Level of Effort, Earmarking****1. Matching**

Borrowers may be required to provide funds from other sources as required in the grant agreement and the letter of conditions issued by RUS (7 CFR sections 1780.44(d) and (f)).

**2. Level of Effort** - Not Applicable

**3. Earmarking** - Not Applicable

**L. Reporting Requirements****1. Financial Reporting**

- a. SF-269 - *Financial Status Report* - Not Applicable
- b. SF-270 - *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271 - *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272 - *Federal Cash Transactions Report* - Not Applicable
- e. Form RD 442-2, *Statement of Budget, Income and Equity (OMB No. 0575-0015)* - This report covers financial operations relating to the borrower's water or waste disposal project.
- f. Form RD 442-3, *Balance Sheet (OMB No. 0575-0015)* - This report presents the financial status of the borrower's water or waste disposal project.

**2. Performance Reporting** - Not Applicable

**3. Special Reporting** - Not Applicable

**IV. OTHER INFORMATION***Interim Financing*

After RUS has made a commitment on a loan, the borrower may obtain interim financing from commercial sources (e.g., a bank loan) for the construction period (7 CFR section 1780.30(d)). Expenditures from these commercial sources that will be repaid from the proceeds of the RUS loan should be considered Federal awards expended, included in determining Type A programs, and reported in the Schedule of Expenditures of Federal Awards.

*Status of Outstanding Loan Balance After Project Completion*

In years after the program funds are expended and construction is completed, and the only ongoing financial activity of the program is the payment of principal and interest on outstanding loan balances, the prior loan balances are not considered to have continuing compliance requirements under OMB Circular A-133 § \_\_\_\_.205(d). Prior loans that do not have continuing compliance requirements other than to repay the loans are not considered Federal awards expended and, therefore, are not required to be audited under OMB Circular A-133.

However, this does not relieve the borrower of the requirement to file financial reports on these loans (which are not required to be audited) or otherwise comply with program requirements (e.g., maintaining insurance, depositing funds in federally insured banks, obtaining prior approval for sales of plant).

## UNITED STATES DEPARTMENT OF AGRICULTURE

### CFDA 10.766 COMMUNITY FACILITIES LOANS AND GRANTS

#### I. PROGRAM OBJECTIVES

The objective of the Community Facilities (CF) direct loan, guaranteed loan, and grant programs is to provide loan or grant funds for the development of essential community facilities for public use in rural communities. Funds may be used to construct, enlarge, extend, or otherwise improve essential community facilities providing essential services primarily to rural residents and rural businesses. Funds are made available to public bodies, non-profit organizations, and federally recognized Indian tribes that are providing essential services to rural communities when financing is not available from their own resources or from commercial credit at reasonable rates and terms.

#### II. PROGRAM PROCEDURES

These programs are administered at the headquarters level by the United States Department of Agriculture (USDA) Rural Housing and Community Facilities Programs and in the field by USDA Rural Development field offices. Funds are made available directly to local governments, non-profit organizations, and Indian tribal organizations in the form of direct loans, guaranteed loans, and grants. Funds are used for the development of essential community facilities in rural areas and towns of up to 20,000 population.

An essential community facility is one that: (a) supports a function customarily provided by a local unit of government; (b) is a public improvement needed for orderly development of a rural community; (c) does not include private affairs, commercial, or business undertakings (except for limited authority for industrial parks); (d) is operated on a non-profit basis; and (e) is within the area of jurisdiction or operation for the public bodies eligible to receive assistance or a similar local rural service area of a not-for-profit organization owning and operating an essential community facility. A community may be a small city or town, county, or multi-county area depending on the type of essential community facility.

#### **Guaranteed Loans**

The purpose of the CF guaranteed loan program is to improve, develop, or finance essential community facilities in rural areas. This purpose is achieved through bolstering the existing private credit structure through the guarantee of quality loans that will provide lasting community benefits. Guaranteed loans are loans made and serviced by a lender and guaranteed by Rural Development. The processing of the loan and ensuring that the requirements placed on the borrower are met are the lender's responsibility.

## **CF Grants**

Grant funds may be used to assist in the development of essential community facilities for health care, public safety, and community and public services in rural areas. Grants are targeted to the neediest communities that meet population criteria for loans and have a median household income below the higher of the poverty line or the eligible percentage (60, 70, 80, or 90 percent) of the State non-metropolitan median household income. The amount of CF grant funds provided for a facility may not exceed 75 percent of the cost of developing the facility.

## **Administration**

RHS authorizes, monitors, and provides funding for administration of CF loans and grants. The USDA Rural Development State, local, district, and area offices monitor and evaluate the progress of the CF programs.

## **Certification**

Eligibility for CF direct and guaranteed loan and grant assistance is based on: (a) the type of organization applying for the loan (public body, non-profit organization, or federally recognized Indian tribe); (b) whether the applicant can demonstrate that it is unable to finance the proposed project from its own resources or from commercial credit at reasonable rates and terms; (c) whether the applicant has authority to develop, own, and operate the proposed facility; and (d) whether the applicant can legally borrow money and make payments on debts obligated. In the case of CF grants, there are additional requirements based on the median household income of the community.

## **Assessing Need**

Applicants must have the legal authority to borrow and repay loans, pledge security for loans, and construct, operate, and maintain the facility. They must also be financially sound and able to organize and manage the facility effectively. Repayment of the loan must be based on tax assessments, revenues, fees, or other sources of money sufficient for operation and maintenance of reserves and debt retirement. The amount of CF grant assistance must be the minimum amount sufficient for feasibility purposes, which will provide for facility operation and maintenance, reasonable reserves, and debt repayment. The applicant's excess funds must be used to supplement eligible project costs.



## Source of Governing Requirements

The program is authorized under the Consolidated Farm and Rural Development Act of 1972 (7 USC 1926).

Implementing regulations are:

CF Direct Loans	7 CFR part 1942, subpart A
CF Fire and Rescue Loans	7 CFR part 1942, subpart C
CF Guaranteed Loans	7 CFR part 3575, subpart A
CF Grant Programs	7 CFR part 3570, subpart B.

## Availability of Other Program Information

Program regulations, administrative notices, and other program literature can be found on the USDA web site at <http://www.rurdev.usda.gov/regs>.

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. *Activities Allowed* - Funds may be used to construct, enlarge, extend, or otherwise improve essential community facilities providing essential services primarily to rural residents and rural businesses. Examples of essential community facilities are fire, rescue, and public safety facilities; health services facilities; facilities providing community, social, or cultural services; transportation facilities such as streets, roads, and bridges; hydroelectric generating facilities; and recreation facilities (guaranteed loans only). Funds are used to pay reasonable fees and costs associated with the loan, interest on loans for up to two years, and the costs of acquiring interest in land and rights. Under certain circumstances, funds may also be used to purchase or lease equipment, pay initial operating expenses, refinance debts, and pay obligations for construction incurred before issuance of conditional commitment. The projects (including costs) are described in a project summary prepared by USDA Rural Development (7 CFR sections 1942.17(d), 3575.24, and 3570.61(b)).
2. *Activities Unallowed* - Loan funds may not be used to finance: (a) on-site utility systems or businesses; (b) industrial buildings in connection with industrial parks; (c) community antenna television services; (d) electric generation except for hydroelectric or transmission facilities and telephone systems; (e) facilities which are not modest in size, design, or cost; and (f) loan or grant finder's fee (7 CFR sections 1942.17(d)(2) and 3575.25).

**L. Reporting Requirements****1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271 - *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272 - *Federal Cash Transactions Report* - Not Applicable
- e. RD 442-2, *Statement of Budget, Income, and Equity (OMB No. 0575-0015)* - This report covers financial operations relating to the borrower's CF project.
- f. RD 442-3, *Balance Sheet (OMB No. 0575-0015)* - This report presents the financial status of the borrower's CF project.

**2. Performance Reporting** - Not Applicable**3. Special Reporting** - Not Applicable**IV. OTHER INFORMATION***Interim Financing*

After USDA has made a commitment on the loan, the borrower may obtain interim financing from commercial sources (e.g., a bank loan) during the construction period (7 CFR section 1942.17(n)(3)). Expenditures from these commercial loans which will be repaid from a CF loan should be considered Federal awards expended, included in determining Type A programs, and reported in the Schedule of Expenditures of Federal Awards.

*Years after Project Completion*

In years after the program funds are expended and construction is completed, and the only ongoing financial activity of the program is the payment of principal and interest on outstanding balances, the prior loan (including loan guarantees) balances are not considered to have continuing compliance requirements under OMB Circular A-133 § \_\_.205(d). Prior loans that do not have continuing compliance requirements other than to repay the loans are not considered Federal awards expended and, therefore, are not required to be audited under OMB Circular A-133.

However, this does not relieve the non-Federal entity of its obligation to file financial reports (which are not required to be audited) or otherwise comply with program requirements (e.g., maintaining insurance, depositing funds in federally insured banks, obtaining prior approval for sales of the facility).

## DEPARTMENT OF COMMERCE

### CFDA 11.300 GRANTS FOR PUBLIC WORKS AND ECONOMIC DEVELOPMENT FACILITIES

### CFDA 11.307 ECONOMIC ADJUSTMENT ASSISTANCE

#### I. PROGRAM OBJECTIVES

The Economic Development Administration (EDA) awards grants through its Public Works and Economic Development (Public Works) program to assist the Nation's most distressed communities: (1) revitalize and expand their physical and economic infrastructure and (2) provide support for the creation or retention of jobs for area residents by helping eligible recipients with their efforts to promote the economic development of their local economies. The primary goal of these awards is the creation of new, or the retention of existing, long-term private sector job opportunities in communities experiencing significant economic distress as evidenced by high unemployment, underemployment, low per capita income, outmigration, or a special need arising from actual or threatened severe unemployment or severe changes in local economic conditions. Public Works grants may include construction and related activities, such as acquisition, design and engineering, and related machinery and equipment.

The objective of EDA's Economic Adjustment Assistance program is to address the needs of communities experiencing adverse economic changes that may occur suddenly or over time, including, but not limited to, those caused by military base closures or realignments, depletion of natural resources, Presidentially-declared disasters or emergencies, or international trade. Economic Adjustment Assistance awards may be used to develop a comprehensive economic development strategy (CEDS) or other strategy to alleviate long-term economic deterioration or a sudden and severe economic dislocation, or to fund a project implementing that CEDS or other strategy, including grants for construction and grants for Revolving Loan Funds (RLFs). EDA grants to capitalize or recapitalize RLFs are most commonly used for business lending, but may also fund public infrastructure or other authorized purposes involving lending.

#### II. PROGRAM PROCEDURES

A recipient of a Public Works or Economic Adjustment Assistance grant is required to provide a matching share. The required matching share varies on a grant-by-grant basis and is set forth in the grant award. Prior to EDA approving the matching share, the recipient must demonstrate to EDA's satisfaction that the matching share is committed to the project, available as needed, and not conditioned or encumbered in any way that would preclude its use consistent with the requirements of the grant award (42 USC 3144-3146; 13 CFR sections 300.3 and 301.5).

Section 302 (42 USC 3162) of the Public Works and Economic Development Act of 1965, as amended (PWEDA, 42 USC 3121 *et seq.*), sets forth a CEDS requirement for Public Works and Economic Adjustment Assistance grants, except for planning projects (i.e., strategy grants) under the Economic Adjustment Assistance program.

RLF recipients must manage RLFs in accordance with an RLF Plan approved by EDA. The RLF Plan must be approved by the RLF recipient's governing board prior to the initial

disbursement of EDA funds. RLF recipients are responsible for ensuring that borrowers are aware of and comply with applicable Federal statutory and regulatory requirements.

### **Source of Governing Requirements**

The programs are authorized by PWEDA, as amended by the Economic Development Administration Reauthorization Act of 2004 (Pub. L. No. 108-373). All section citations contained herein refer to EDA's regulations as codified at 13 CFR Chapter III.

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

Other program information is available on the Internet at <http://www.eda.gov>.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

#### *1. Activities Allowed*

The grant budget and grant agreement will specify the purpose or use of funds which include the following:

- a. Construction grants can be made for the acquisition or development of land and improvements for use for a public works, public service, or development facility. Construction grants can also be made for the acquisition, design and engineering, construction, rehabilitation, alteration, expansion, or improvement of such a facility, including related machinery and equipment (42 USC 3141; 42 USC 3149; and 13 CFR sections 305.2(a) and 307.3).
- b. RLF grants may be made for the establishment or recapitalization of an RLF, usually for business development, but RLF grants may also fund public infrastructure or other authorized purposes involving lending (42 USC 3149; and 13 CFR section 307.7).
- c. Other activities that can be funded under the Economic Adjustment Assistance program (in addition to grants for construction and RLFs) are grants for CEDS (or other strategy) development and grants for CEDS (or other strategy) implementation, which include market or industry research and analysis, technical assistance, public services, training, and other activities as justified by the strategy which meet applicable statutory and regulatory requirements (42 USC 3149; and 13 CFR section 307.3).

- d. A recipient of a Public Works grant may directly expend the grant funds or, with prior EDA approval, may redistribute such grant assistance in the form of a subgrant to another eligible recipient to fund required components of the scope of work approved for the project (42 USC 3154c; 13 CFR section 309.1).
- e. A recipient of an Economic Adjustment Assistance grant may directly expend the grant funds or, with prior EDA approval, may redistribute such grant assistance in the form of (i) a subgrant to another eligible recipient that qualifies for an Economic Adjustment Assistance award or (ii) a loan or other appropriate assistance to non-profit and private for-profit entities (42 USC 3154c; 13 CFR section 309.2).

2. *Activities Unallowed*

RLF capital (as defined in 13 CFR section 307.8) may not be used to:

- a. Acquire an equity position in a private business (13 CFR section 307.17(b)(1)).
- b. Subsidize interest payments on an existing RLF loan (13 CFR section 307.17(b)(2)).
- c. Provide the equity contribution required of borrowers under other Federal loan programs (13 CFR section 307.17(b)(3)).
- d. Enable an RLF borrower to acquire an interest in a business unless there is a sufficient justification and documentation showing the need for RLF financing (13 CFR section 307.17(b)(4)).
- e. Provide RLF loans to a borrower for the purpose of investing in interest-bearing accounts or other investments not related to the RLF (13 CFR section 307.17(b)(5)).
- f. Refinance existing debt unless (i) the RLF recipient sufficiently demonstrates in the loan documentation a “sound economic justification” for the refinancing (e.g., the refinancing will support additional capital investment intended to increase business activities); for this purpose, reducing the risk of loss to an existing lender(s) or lowering the cost of financing to a borrower shall not, without other indicia, constitute a “sound economic justification”; or (ii) RLF capital will finance the purchase of the rights of a prior lien holder during a foreclosure action which is necessary to preclude a significant loss on an RLF loan (13 CFR section 307.17(b)(6)).

### **C. Cash Management**

1. Unless otherwise specified in a special award condition, the method of payment for an award for an infrastructure construction project is generally through reimbursement (using Form ED-113, *Outlay Report and Request for Reimbursement for Construction Programs*) for costs incurred. Prior to disbursing grant funds for an infrastructure construction project, EDA also must receive an invoice from the recipient. EDA may approve the disbursement of funds prior to the tender of all construction contracts if the recipient can demonstrate that a severe hardship will result without such approval (13 CFR section 305.9(b)).
2. Grant funds also are made available to RLF recipients on a reimbursement basis (when an obligation is incurred by the RLF recipient at the time of loan approval and loan announcement). An RLF recipient must request a disbursement only to close a loan or disburse RLF funds to a borrower (i.e., when the intent is to disburse the funds within fourteen (14) days of receipt). The RLF recipient must disburse the grant funds to a borrower within thirty (30) days of receipt of the funds. Any grant funds not disbursed within the thirty (30) day period must be returned to EDA. An RLF recipient is required to submit a written request for continued use of grant funds beyond a missed disbursement deadline. The amount of disbursed grant funds cannot exceed the difference, if any, between the RLF capital and the amount of a new loan, less the amount, if any, of the matching share required to be disbursed concurrent with the grant funds. However, RLF income held to cover eligible administrative expenses need not be disbursed in order to draw additional grant funds (13 CFR section 307.11).

### **D. Davis-Bacon Act**

All laborers and mechanics employed by contractors or subcontractors on construction projects receiving EDA grant assistance shall be paid at rates not less than those prevailing on similar construction in the locality, as determined by the Secretary of Labor in accordance with subchapter IV of chapter 31 of title 40, United States Code (42 USC 3212; 13 CFR section 302.13).

### **F. Equipment and Real Property Management**

Except as otherwise authorized by EDA, property acquired or improved with EDA grant assistance cannot be used to secure a mortgage or deed of trust or in any way collateralized or otherwise encumbered. An encumbrance includes but is not limited to easements, rights-of-way or other restrictions on the use of any property. (13 CFR section 314.6(a)).

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

**1. Matching**

The required matching share varies on a grant-by-grant basis and is set forth in the grant award (42 USC 3144-3146; 13 CFR sections 300.3 and 301.5).

**2. Level of Effort - Not Applicable**

**3. Earmarking - Not Applicable**

**L. Reporting**

**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* (ED-113) (OMB No. 0610-0096), which contains substantially the same information that is used in lieu of the SF-271.
- d. SF-272, *Federal Cash Transactions Report* - Applicable

**2. Performance Reporting - Not Applicable**

**3. Special Reporting**

- a. ED-209S, *Semi-Annual Report for EDA-Funded RLF Grants* and ED-209A, *Annual Report for EDA-Funded RLF Grants* (OMB No. 0610-0095) – All RLF recipients are required to submit Form ED-209S for the periods ending March 31 and September 30, unless EDA has approved the substitution of an annual Form ED-209A (covering the period ending September 30) upon the written request of the RLF recipient (13 CFR section 307.14(a)).

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

<u>ED-209S</u>	<u>ED-209A</u>	
(1) Line I-A-6	Line C-16	<i>Total Active Loans</i>
(2) Line III-C-14	Line A-6	<i>Current Level or RLF Base Capital</i>
(3) Line III-D-20	NA	<i>Current Balance Available as a Percent of Base Capital</i>



(4)	NA	Line A-11	<i>RLF Capital Utilization Rate</i>
(5)	Line V-C-9	NA	<i>Amount of RLF Income Earned in the most recent 12-month period</i>
(6)	Line V-C-11	NA	<i>Percentage of RLF Income used for Administrative Costs</i>

- b. ED-209I, *RLF Income and Expense Statement (OMB No. 0610-0095)* – RLF recipients electing to use either 50 percent or more (or more than \$100,000) of RLF income to cover all or part of an RLF’s administrative expenses must submit annually a completed Form ED-209I (13 CFR section 307.14(c)) (see also III.N.1., “Increases to RLF Capital Base”).

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

- (1) *RLF Income*
- (2) *Expenses Charged to RLF Income (2.a through 2.l)*
- (3) *Total Expenses (sum of 2.a through 2.l)*
- (4) *Net RLF Income (1 minus 3)*
- (5) *Cumulative Net RLF Income*
- (6) *Expenses as % of RLF Income (3/1)*
- (7) *For the current 12-month period, provide an estimate of projected RLF Income and the percentage expected to be used for RLF administrative expenses.*

## N. Special Tests and Provisions

### 1. Increases to RLF Capital Base

**Compliance Requirements** - RLF income includes all interest earned on outstanding loan principal, interest earned on accounts holding idle RLF funds, loan fees and other loan-related earnings. RLF income does not include repayment of RLF loan principal and any interest remitted to the U.S. Treasury pursuant to a sequestration of excess funds. When an RLF recipient receives proceeds on a defaulted RLF loan, such proceeds shall be applied in the following order of priority: (1) first, towards any costs of collection; (2) second, towards outstanding penalties and fees; (3) third, towards any accrued interest to the extent due and payable; and (4) fourth, towards any outstanding principal balance (13 CFR sections 307.8 and 307.12(c)).

RLF income may fund administrative expenses, provided the following conditions are met: (1) the RLF income and the administrative expense are earned in the same 12-month reporting period; (2) RLF income that is not used for administrative expenses during the 12-month reporting period must be added to the RLF capital base and made available for lending activities; (3) RLF income cannot be withdrawn from the RLF capital base in a subsequent reporting period for any use other than lending without the prior written consent of EDA; and (4) the recipient completes an *RLF Income and Expense Statement* (13 CFR section 307.12(a)).

RLF capital includes the aggregate amount of cash held by the RLF recipient from any of the following sources: grant funds, matching share, repayment of principal from RLF loans, and RLF income. Generally, RLF capital must be used for the purpose of making RLF loans that are consistent with an RLF Plan or other purposes approved by EDA (13 CFR sections 307.8 and 307.17(a)).

**Audit Objective** - Determine whether (1) all the conditions for RLF income to be used to fund administrative expenses were satisfied; (2) RLF income not used for administrative expenses was added to the RLF capital base for lending activities; and (3) repayments of principal on RLF loans were placed in the RLF capital base for re-lending.

### **Suggested Audit Procedures**

- a. Verify that the amounts recorded in the financial records include RLF income and repayments of principal on RLF loans.
- b. Ascertain if RLF income not used for administrative expenses was added to the RLF capital base.
- c. Ascertain if repayments of principal on RLF loans were placed into the RLF capital base.

## **2. Loan Requirements**

**Compliance Requirements** - The following requirements apply to RLF loans:

- a. RLFs must operate in accordance with generally accepted accounting principles (GAAP). Within sixty (60) days prior to the initial disbursement of EDA funds, an independent accountant familiar with the RLF recipient's accounting system must certify to EDA and the RLF recipient that such system is adequate to identify, safeguard and account for all RLF capital, outstanding RLF loans and other RLF operations (13 CFR sections 307.15(a) and (b)).

- b. Prior to the disbursement of any EDA funds, the RLF recipient must certify that standard RLF loan documents necessary or advisable for lending are in place and that these documents have been reviewed by its legal counsel for adequacy and compliance with the terms and conditions of the grant and applicable State and local law. The standard loan documents include, at a minimum, the (1) loan application, (2) loan agreement, (3) promissory note, (4) security agreement(s), (5) deed of trust or mortgage (if applicable), (6) agreement of prior lien holder (if applicable), and (7) guaranty agreement (for officers or owners of corporate borrowers, if applicable) (13 CFR section 307.15(b)(2)).
- c. An RLF recipient must make loans to implement and assist economic activity only within its EDA-approved lending area, as defined in the special terms and conditions of the grant award and the RLF Plan (13 CFR section 307.18).
- d. Unless otherwise provided in the grant agreement or modified in writing by EDA, a borrower is not eligible for RLF financing if credit is otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed. The RLF recipient is responsible for determining that each borrower meets this requirement and for documenting the basis for its determination in the loan documents for each RLF loan (13 CFR section 307.17(c)).

**Audit Objective** - Determine whether (1) the required standard loan documents were completed for the RLF loans; (2) an independent accountant certified to EDA and to the RLF recipient that the accounting system is adequate to identify, safeguard and account for all RLF operations; (3) the financed activity is located in an EDA-approved lending area; and (4) there is loan documentation to support that credit was not otherwise available to the borrower.

### **Suggested Audit Procedures**

Test a sample of RLF loan files and ascertain if:

- a. The standard loan documents were properly completed.
- b. The financed activity is located in an EDA-approved lending area.
- c. The RLF recipient documents in the RLF loan file that credit was not otherwise available to the borrower.

### **3. Addition of Lending Areas; Merger of RLFs**

- a. An RLF recipient may add an additional lending area to its existing lending area to create a new lending area only with EDA's prior written approval and subject to the following conditions: (1) EDA has disbursed the full amount of the award to the RLF recipient; (2) the additional lending area must fulfill the economic distress criteria for Economic Adjustment Assistance grants; (3) prior to EDA's disbursement of additional funds to the RLF recipient, EDA determines a new

grant rate for the new lending area; (4) the RLF recipient shows that the additional lending area is consistent with its CEDS, or modifies its CEDS for any additional lending area; (5) the RLF recipient modifies its RLF Plan to incorporate the additional lending area and revises its lending strategy; and (6) the RLF recipient fulfills any other conditions reasonably requested by EDA (42 USC 3149; and 13 CFR section 307.18(a)).

- b. EDA may provide written approval for a single RLF recipient to merge its RLFs, provided the following conditions are satisfied: (1) it meets the requirements to obtain annual report status; (2) it demonstrates a rational basis for undertaking the merger and the borrower criteria identified in the different RLF Plans are compatible, or will be compatible, for all RLFs to be consolidated; (3) it amends and consolidates its RLF Plan to account for the merger of RLFs; (4) it fulfills any other conditions reasonably requested by EDA; and (5) prior to EDA's disbursement of additional funds, EDA determines a new grant rate for the new lending area (42 USC 3149; and 13 CFR section 307.18(b)(1)).
- c. EDA may provide written approval for multiple RLF recipients to merge their RLFs, provided the following conditions are satisfied: (1) the surviving RLF recipient meets the requirements to obtain annual report status; (2) the surviving RLF recipient amends and consolidates its RLF Plan to account for the merger of RLFs; (3) prior to EDA's disbursement of additional funds to the surviving RLF recipient, EDA determines a new grant rate for the new lending area; (4) EDA provides written approval of the merger agreement(s), modifications and revisions to the RLF Plans; (5) all applicable RLF grant assets of the discharging RLF recipient(s) transfer to the surviving RLF recipient as of the merger's effective date; and (6) the surviving RLF recipient becomes fully responsible for administration of the RLF grant assets transferred and fulfills all surviving RLF grant requirements and any other conditions reasonably requested by EDA (42 USC 3149; and 13 CFR section 307.18(b)(2)).

**Audit Objectives** - Determine whether (1) EDA has provided prior written approval to an RLF recipient, permitting it to (a) create a new lending area or (b) merge two or more of its EDA-funded RLFs into one surviving RLF; (2) the applicable preconditions have been fulfilled; and (3) EDA has provided prior written approval to two or more RLF recipients to consolidate their EDA-funded RLFs into one surviving RLF.

### **Suggested Audit Procedures**

- a. Verify that the RLF recipient has evidence of EDA's prior written approval for the creation of a new lending area or the merger of RLFs.
- b. Ascertain if the RLF recipient has modified its CEDS to account for an additional lending area, if necessary.
- c. Ascertain if the RLF recipient has amended and/or consolidated, as necessary, its RLF Plan to account for a new lending area or merger of RLFs.

#### 4. RLF Loan Portfolio Sales and Securitizations

With prior approval from EDA, an RLF recipient may enter into a sale or a securitization of all or a portion of its RLF loan portfolio, provided it: (1) uses all the proceeds of any sale or a securitization to make additional RLF loans; and (2) requests EDA to subordinate its interest in all or a portion of any RLF loan portfolio sold or securitized (42 USC 3149; and 13 CFR section 307.19).

**Audit Objectives** – In the event an RLF recipient has sold or securitized RLF loans, verify whether it (1) requested EDA’s prior approval and (2) used all the proceeds from the sale or securitization to make additional RLF loans.

#### Suggested Audit Procedures

- a. Verify that the RLF recipient has a written record demonstrating EDA’s approval to sell or securitize all or a portion of its RLF loan portfolio.
- b. Ascertain that all the proceeds from the sale or securitization (net of reasonable transactions costs) were used to make additional RLF loans.

#### IV. OTHER INFORMATION

For an RLF grant under the Economic Adjustment Assistance program, the calculation of Federal awards expended for determining when an audit is required under OMB Circular A-133 and determining Type A programs shall consider the following:

1. Balance of RLF loans outstanding at the end of the fiscal year, *plus*
2. Cash and investment balance in the RLF at the end of the fiscal year, *plus*
3. Administrative expenses paid out of RLF income during the fiscal year.

Only the Federal share (which excludes the matching share) of the RLF shall be used in this determination. The Federal share of a recipient’s RLF is calculated as follows: [(sum of all EDA dollars from all of the grantee’s RLF awards) ÷ (sum of all project dollars for all of the grantee’s RLF awards)] x recipient’s RLF capital base. If this figure exceeds the OMB Circular A-133 audit threshold, or if this figure when accumulated with expenditures under other federal awards or programs exceeds that threshold, the recipient must have an audit conducted in accordance with OMB Circular A-133 requirements.

## DEPARTMENT OF COMMERCE

### CFDA 11.555 PUBLIC SAFETY INTEROPERABLE COMMUNICATIONS GRANT PROGRAM

#### I. PROGRAM OBJECTIVES

The Public Safety Interoperable Communications (PSIC) Grant Program is a one-time formula-based, 3-year matching grant program intended to enhance interoperable communications for voice, data, and/or video signals. This program provides public safety agencies with the opportunity to achieve meaningful and measurable improvements to the state of public safety communications interoperability through the full and efficient use of all telecommunications resources.

#### II. PROGRAM PROCEDURES

Section 3006 of the Deficit Reduction Act of 2005 (Pub. L. No. 109-171), as amended by Section 2201 of Pub. L. No. 110-53 and Section 4 of the Call Home Act of 2006, Pub. L. No. 109-459, directed the National Telecommunications and Information Administration (NTIA), in consultation with the Department of Homeland Security (DHS), to establish and implement a grant program to assist public safety agencies in the planning and coordination associated with, the acquisition of, deployment of, or training for the use of interoperable communications systems that:

- utilize reallocated public safety spectrum for radio communications;
- enable interoperability with communications systems that can utilize reallocated public safety spectrum for radio communication; or
- otherwise improve or advance the interoperability of public safety communications systems that utilize other public safety spectrum bands.

States and Territories are required to submit an Investment Justification (IJ) for each proposed PSIC Investment (project). Up to 10 Investment Justifications will be accepted per State or Territory. A portfolio review of each State's or Territory's Investment Justifications will include a statewide Investment summary, which will include the following:

- Summary of PSIC Investments;
- Summary of how the Investments collectively relate to the statewide strategy/plan—the Statewide Communications Interoperability Plan (SCIP);
- Description of the process used to identify, prioritize, and select Investments included in the Investment Justification; and
- Description of the stakeholders involved in the evaluation and selection of proposals.

These Investments should strongly align with the goals and gaps set forth in the SCIP and the PSIC criteria. The statewide Investment summary of a State's or Territory's IJs must cumulatively account for the total amount of PSIC funding allocated to the State or Territory, not including any funds (up to 5 percent) already dedicated to statewide planning efforts. Each IJ must be a separate and unique project from any efforts currently under way. For example, a State may use its funding to support an existing statewide communications system; however, this funding must be a unique component of this system that does not receive funding from another federal grant program.

The Department of Commerce, through the NTIA, is authorized to make grants only through the end of fiscal year 2010. The PSIC grant has been awarded to the 50 States, the District of Columbia, Puerto Rico, American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands. The Governor of each State and Territory has designated a State Administrative Agency (SAA), which applied for and administers the funds under the PSIC Grant Program. A recipient must be a public safety agency that is a State, local, or tribal government entity or nongovernmental organization authorized by such entity, whose sole or principal purpose is to protect safety of life, health, or property (Pub. L. No. 109-171, Section 3006(d)(1), 120 Stat. at 24).

The PSIC Grant Program period of performance began on October 1, 2007 and continues until September 30, 2010. A special condition has been placed on each grant award indicating that the applicant cannot drawdown, obligate, or expend Federal funds until approval of the SCIP and IJs. From the period between October 1, 2007 and the approval in early 2008, applicants can (at their own risk) incur matching costs associated with the acquisition, deployment, and management and administration (M&A) of the interoperability project. Applicants should not obligate federal dollars prior to NTIA approval of the Investment.

the PSIC Grant Program encourages the development and implementation of voluntary consensus standards for interoperable communications to the greatest extent possible. Public safety agencies may also use PSIC funds for interim- or long term Internet Protocol-based interoperable solutions. (Pub. L. No. 110-53, Section 2201(a)(2), 121 Stat. 537).

### **Source of Governing Requirements**

The PSIC Grant Program is authorized by Section 3006 of the Deficit Reduction Act of 2005, Pub. L. No. 109-171, as amended by Section 2201 of Pub. L. No. 110-53, and Section 4 of the Call Home Act of 2006, Pub. L. No. 109-459.

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

Other program information is available on the Internet at <http://www.ntia.doc.gov/psic>.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

## **A. Activities Allowed or Unallowed**

Funds may be used for the following activities:

1. Planning and coordination associated with the use of interoperable communications equipment, software and systems.
2. Acquisition of interoperable communications equipment, software and systems. Acquisition activities may also include technical and financial planning, as well as procurement and system design activities.
3. Deployment costs of interoperable communications equipment, software and systems. Deployment activities may also include the development of deployment procedures for use and the establishment of service level agreements for its use.
4. Training for the use of interoperable communications equipment, software, and systems, both technical and operational (Pub. L. No. 109-171, Section 3006(a)(1), as amended by Section 2201 of Pub. L. No. 110-53, 121 Stat. 537).

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

### **1. Matching**

SAs must provide, from non-federal sources, not less than 20 percent of the costs of acquiring and deploying the interoperable communications systems funded under the grant program (Pub. L. No. 109-171, Section 3006(c), 120 Stat. at 24). The SAA is required to track and report the 20 percent matching requirement for acquisition, deployment, and management and administrative costs.

- a. A match is not required for each Investment, as long as the aggregated State-level costs associated with the overall acquisition, deployment, and management and administrative cost categories have met the minimum 20 percent matching requirement.
- b. Costs for planning and coordination and training activities do not require a match.
- c. As provided in 48 USC 1469a, the requirement for local matching funds under \$200,000 (including in-kind contributions) is waived for the Territorial governments in Guam, American Samoa, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands.

### **2. Level of Effort – Not Applicable**

### **3. Earmarking – Not Applicable**



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

All PSIC grant funds that are not expended by September 30, 2010 must be returned to the U.S. Treasury (Section 3006 of the Deficit Reduction Act of 2005, Pub. L. No. 109-171, Section 3006(a)(2), 120 Stat. at 24 (2006)).

**L. Reporting****1. Financial Reporting**

- a. SF-269, *Financial Status Report* due quarterly - Applicable
- b. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- d. SF-272, *Federal Cash Transactions Report* – Not Applicable

**2. Performance Reporting** – Not Applicable**3. Special Reporting** – Not Applicable**IV. OTHER INFORMATION**

The PSIC Grant Program is closely related to the DHS Homeland Security Grant Program (CFDA 97.067). The auditor should be certain that the allowable expenditures under the awards for each of these grant programs are properly allocated and that the specific requirements of each program are followed.

## DEPARTMENT OF DEFENSE

### CFDA 12.401 NATIONAL GUARD MILITARY OPERATIONS AND MAINTENANCE (O&M) PROJECTS

#### I. PROGRAM OBJECTIVES

The National Guard Bureau (NGB) enters into cooperative agreements (CA) for Army National Guard (ARNG) Facilities Programs (FP) and Air National Guard (ANG) Facility Operations & Maintenance Activities (FOMA) with States to provide Federal support for services provided by the State Military Departments for authorized facilities for leases, facilities operations, and sustainment, restoration, and modernization, including operations and maintenance (O&M) and minor construction costs (NGR 5-1/ANGI 63-101).

#### II. PROGRAM PROCEDURES

NGB, a joint Bureau of the Department of the Army (DA) and the Department of the Air Force (AF), enters into a CA with a State when NGB transfers something of value, through funding or otherwise, to the State to support the State ARNG FP and ANG FOMA instead of acquiring (by purchase, lease, or barter) property or services for the direct benefit or use of the ARNG or ANG and substantial involvement is expected between the NGB and the State when carrying out the activity contemplated in the agreement (NGR 5-1/ANGI 63-101, chapter 1-1).

Generally, a CA consists of two parts, the agreement and appendices (Master Cooperative Agreement (MCA) and as many Appendices as apply to that State). Policies and procedures to be followed for cooperative agreements with States are contained in National Guard Grants and Cooperative Agreements NGR 5-1/ANGI 63-101. The MCA includes standard terms and conditions applicable to all Appendices under the MCA and the required signatures of the parties. There will be a separate Appendix for each CA functional area applicable to the State. Each Appendix shall contain terms and conditions, allowable costs, reports, approved budget, management controls, and administrative information applicable only to that functional area (NGR 5-1/ANGI 63-101, chapter 2-1).

The Adjutant General (TAG) and the United States Property & Fiscal Officer (USPFO) are responsible for the execution of the MCA and Appendices. A CA is the means of providing all financial assistance and other support to States for the operation of the National Guard except for financial assistance and support provided under separate authority (e.g., military and technician pay and the military supply system). Single-purpose CAs will specify the responsible parties (NGR 5-1/ANGI 63-101, chapter 2-1).

The sum of Federal reimbursements and program income may not exceed the requirements listed for each program in the approved budget. The State Military Department must have prior written USPFO approval of an amended budget before it may request a reimbursement or receive program income that would bring its receipts above the maximum program funding level. Funding transfers into the FP (chapter 13-1e) or FOMA (chapter 33-3b) programs or funding transfers within each program do not require prior written approval of the appropriate NGB program managers. However, funding may not be transferred from the FP (chapter 13-1d) or FOMA (chapter 33-3c) programs without a signed modification to the Appendix that includes

justification for the transfer from FP or without the prior written approval of the FOMA program manager for the transfer from FOMA.

### **Source of Governing Requirements**

The NGB and States are authorized to enter into CAs under: (1) 31 USC, Subtitle V, General Assistance Administration, Chapter 63, Using Procurement Contracts and Grant and Cooperative Agreements; (2) 31 USC Subtitle V, General Assistance Administration, Chapter 61, Program Information, and Chapter 65, Intergovernmental Cooperation; (3) 32 USC National Guard, Chapter 1, Organization; (4) 32 USC Section 101 (19); and (5) 32 USC Section 106/107, which authorizes the NGB to contribute funds for the support of the operation/training of the ARNG/ANG. The MCA is a CA within the meaning of 31 USC sections 6301 through 6308.

DoD Grant and Cooperative Agreement Regulations (DoDGARs), 3210.6R, Part 21, DoD Grant and Agreements, General Matters, implements the preceding Federal statutes.

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

The National Guard Internal Review Office (which reports to the USPFO) can provide information about risk assessments and audits performed by their office which may be helpful in planning the audit. Contact Vincent Latona, National Guard Headquarters Internal Review Office, at 703-607-0476 (direct) and 703-607-0730 (main) or by e-mail to [latonav@ngb.ang.af.mil](mailto:latonav@ngb.ang.af.mil) for information on the Internal Review Offices for a particular state.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

1. Federal funding under the CA shall be on a requirements basis within Federal budget limitations and funding availability. Funding shall be provided to support those items designated in the CA or facilities authorized support in the Facilities Inventory and Support Plan (FISP). Facilities used in excess of those authorized shall be supported with other than Federal funds (NGR 5-1/ANGI 63-101 chapters 13-5a, 33-5a, 33-4b, and 33-6a).
2. FP (NGR 5-1/ANGI 63-101 chapter 13-5c) and FOMA (NGR 5-1/ANGI 63-101 chapter 33-6a and 33-6b ) Appendix support shall be provided within available funding limitations for authorized facilities and supporting elements such as sidewalks, fire hydrants, gasoline and diesel fuel dispensing systems, flammable materials buildings, roads, utilities systems, fencing and hard stand. Sustainment, restoration, and modernization, facilities operations, and minor construction support is provided for space or facilities as detailed in the NGR 5-1/ANGI 63-101 chapter 13-3a(2)-(4), 33-4(a), and 33-4(b).

3. Funds may be used for sustainment/restoration/modernization or construction of real property and facilities if authorized on the FISP. Construction is the erection, installation, or assembly of a new facility; the relocation of a facility; the complete replacement of an existing facility; or the addition, expansion, alteration, or conversion (to a new type use) of an existing facility. This includes equipment (but not fixed or moveable personal property) installed and made a part of a facility and related site preparation, excavation, filling and landscaping, or other land improvements. It also includes increases in components of facilities for functional reasons and the extension of utilities to areas not previously reserved. The State may complete these projects with employees reimbursed under the FP Appendix or they may subcontract with a private firm or another governmental agency to do the work.

If the estimated cost to restore/modernize a facility exceeds 50 percent of the cost to construct a replacement facility, a new facility should be constructed. If the State elects to do a repair project, if the estimated cost to repair the facility exceeds 50 percent of the cost to construct a replacement facility, and if the project costs exceeds \$750,000, then the TAG must request approval through NGB-ARI to the Assistant Secretary of the Army (Installations and the Environment) (NRG 5-1/ANGI 63-101, chapter 13-5k(5)). The Federal share of project costs cannot exceed the statutory ceiling in 10 USC 18233b (NRG 5-1/ANGI 63-101, chapter 13-5l(1)).

4. Unallowable activities are those activities that are described as unauthorized charges and detailed in the NGR 5-1/ANGI 63-101, chapters 13-6 and 33-7.

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

1. *Budget* - Costs must be in accordance with any restrictions, limitations, or instructions contained in the CA budget (NRG 5-1/ANGI 63-101, chapter 13-4 and 33-5).
2. *Indirect costs are unallowable* - Indirect costs, except fringe benefits, are unallowable (NRG 5-1/ANGI 63-101, chapter 5-4).
3. *Employee compensation* - Individual employee compensation comprises a significant portion of total costs charged to CA appendices. The auditor should give particular attention to the allocability of these costs. The distribution of individual employee compensation to projects must follow applicable Federal cost principles, NGR 5-1/ANGI63-101, and the terms and conditions in agreement appendices. Therefore, the auditor's testing should include tests of the time and effort reporting system to support the distribution of compensation costs.
4. *Fringe benefits* - Fringe benefits for which the State does not bill the State Military Department directly, such as workmen's compensation, unemployment compensation, State sponsored life and health insurance, and retirement benefits are allowable if they are part of the State's Central Service Cost Allocation Plan

approved by the Department of Health and Human Services (HHS). However, for these costs to be reimbursable, all of the following conditions have to be met (NGR 5-1/ANGI 63-101 chapter 5):

- a. The individual cost items have to be reimbursable under the terms of individual appendices.
- b. Fringe benefit costs for which the State does not bill the State Military Department directly shall be reimbursable by applying a fringe benefit rate to the costs of actual salaries paid to employees.
- c. Fringe benefits which are neither direct costs nor included in the billed central services section of the State's Central Service Cost Allocation Plan approved by HHS are not reimbursable.

**D. Davis-Bacon Act**

The Davis-Bacon Act applies only to environmental remediation construction subject to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended. Environmental remediation construction is that portion of the remedial work which calls for excavation, substantial earth moving, removal of contaminated soil, and the actual mobilization of the incinerator followed by restoration of the landscape, regardless of whether such activities are performed with any other construction activities done any other buildings or other structures at the cleanup site (NGR 5-1/ANGI 63-101 chapter 14-1c).

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

**1. Matching**

The rate of reimbursement to the State for all authorized charges, unless expressly stated otherwise, shall be based on the FISP support code for the facility generating the expenditure. For example, employee, repair, supplies, equipment, utility, etc. costs directly and exclusively associated with a facility authorized 75 percent support shall be reimbursed to the State Military Department 75 percent. Costs that are generated for facilities that are authorized at several different support levels shall be reimbursed at a rate that reflects the actual level of effort. However, nothing shall preclude the State Military Department from requesting reimbursement at a rate less than what is authorized (NGR 5-1/ANGI 63-101, chapter 13-5).

**2. Level of Effort - Not Applicable**

**3. Earmarking - Not Applicable**

## H. Period of Availability of Federal Funds

1. National Guard Operations and Maintenance agreements are funded with one year appropriations and, as such, State obligations may not be incurred against Federal funds for a specified year before or after the Federal fiscal year in which the funds were appropriated. State obligation means any action under State law or procedure requiring payment by the State. A representation by competent authority within a State that it obligated funds under State law may be relied upon (NGR 5-1/ANGI 63-101, chapters 12-1, 12-6, 32-1, and 32-6).
2. A CA shall be executed by the USPFO and the TAG prior to any request for reimbursement or advance payment. The State shall also have an approved Appendix covering each functional area for which the reimbursement or an advance is requested. The State shall not request reimbursement for any expenditures it made before the date that all required parties execute the MCA and the covering Appendices unless the MCA or appropriate Appendix expressly authorize expenditures made during the funding period, but prior to the date of final signature (NGR 5-1/ANGI 63-101, chapter 2-1).
3. Work or task performance must serve a bona fide need that exists in the fiscal year in which the work or tasking is issued; otherwise, a valid obligation is not accomplished. It is not intended that the rule of bona fide need of the fiscal year rule be construed to preclude lead time. Thus, where materials, for example, cannot be obtained in the same fiscal year in which they are needed, a provision for delivery in the subsequent fiscal year does not violate the bona fide need rule so long as the time intervening between placing of the order and delivery is not excessive and the work order is not for standard commercial items readily available from other sources. Bona fide need generally is a determination of the NGB activity and not that of the State performing the activity. The State shall prepare and the USPFO shall review and approve a bona fide need determination (NGR 5-1/ANGI 63-101, chapter 2-2b) and finding to reflect this need. A State performing the activity should, however, refuse to accept a work order if it is obvious that the work order does not serve a need existing in the fiscal year in which issued (NGR 5-1/ANGI 63-101, chapter 2-2).
4. Within 90 days after the end of the Federal fiscal year or upon termination of the CA, whichever is earlier, the State Military Department shall promptly deliver to the USPFO, as a representative of NGB, a final accounting of all funding and disbursements under the agreement for the fiscal year (NGR 5-1/ANGI 63-101, chapters 12-6 and 32-6).
5. If unliquidated claims and undisbursed obligations arising from the State's performance of the agreement will remain 90 days after the close of the fiscal year, the State Military Department shall provide a detailed listing of uncleared obligations and a projected timetable for their liquidation and disbursement no later than 31 December. The USPFO shall then set an appropriate new timetable for the State Military Department to submit their final accounting.

6. Costs incurred in a fiscal year which are not disclosed by the State Military Department within 90 days of the end of the fiscal year, except costs associated with unliquidated claims and undisbursed obligations arising from the State's performance of the agreement which the State Military Department has reported per paragraph 12-6c, shall not be eligible for reimbursement by NGB. The USPFO may extend the 90 day limit for good cause shown.

## **J. Program Income**

Program income in an NGB CA shall mean the gross income, received by a State Military Department from fees for services performed and from the use, rental, or sale of real or personal property, the operation and maintenance of which is supported under the CA. The following exceptions are applicable (NGR 5-1/ANGI 63-101, chapter 7):

1. Income received from the use or rental of State-owned, federally supported armories is not program income. However, the State must fulfill its obligations under 10 USC 18236(c) on the use of these funds. 10 USC 18236(c) permits States to rent out armories if the State uses the rental income to maintain the armory. In addition, as a condition for continued Federal support, the State must increase its contribution to the CA by at least the amount of all Identifiable Incremental Costs (IIC), as defined in NGR 5-1/ANGI 63-101, chapter 7-3b(2), for which it receives Federal support (e.g., utilities).
2. Reimbursements made to NGB by another Federal agency for the use of an NGB-supported National Guard facility are not program income but are considered to be direct reimbursement of costs incurred. However, they will increase the maximum funding limitations of the appropriate appendices to the CA.
3. Amounts paid directly to a State Military Department by a Federal agency, a State agency, or any other user for the use of a State Military Department-owned, leased, or licensed real property (exclusive of armories) or equipment acquired or supported under an NGB CA pursuant to a direct relationship between the Federal or State agency, or other user and the State Military Department are program income.

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Applicable

- 2. Performance Reporting - Not Applicable**
- 3. Special Reporting - Not Applicable**



**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT****CFDA 14.157 SUPPORTIVE HOUSING FOR THE ELDERLY (SECTION 202)****I. PROGRAM OBJECTIVES**

The objective of Supportive Housing for the Elderly is to provide Federal capital advances and project rental assistance under Section 202 of the National Housing Act of 1959 for development of housing projects serving elderly households.

**II. PROGRAM PROCEDURES****Prior to 1991 - Elderly and Disabled***Loans*

Prior to 1991 the Department of Housing and Urban Development (HUD) provided direct loans to finance the construction or rehabilitation of supportive housing for the elderly and disabled, including the cost of real property acquisition, conversion, demolition, relocation, and other related expenses.

*Assistance*

The project-based rental assistance is provided under Section 8 (not part of this CFDA 14.157) and is the calculation of project operating costs including debt servicing. Hence, the rental assistance includes payments to principal and interest on the direct loan. The Fair Market Rent (FMR) is used as an upper limit constraint on the amount of rental assistance. Generally, the rental assistance may not exceed FMR unless the project obtains HUD approval to apply a factor of up to 120 percent of gross rent.

The borrower receives assistance from HUD on vacant rental assistance units at a rate 80 percent of the contract rent under for the first 60 days of vacancy, given certain conditions are met (24 CFR section 891.650). For vacancies exceeding 60 days, the owner may apply for payment in an amount equal to the debt servicing principle and interest payments required to amortize that portion of the debt service attributable to the vacant unit (24 CFR section 891.650).

**Subsequent to 1990 - Elderly Only***Capital Advances*

After 1990, under Pub. L. No. 101-625 (November 28, 1990), HUD capital advances replaced the direct loan method of funding project construction and the assistance to projects for the disabled were moved to CFDA 14.181 Supportive Housing for Persons with Disabilities (Section 811). The capital advances are awarded to non-profit organizations and are used to finance the construction or rehabilitation of supportive housing for the elderly, including the cost of real property acquisition, conversion, demolition, relocation, and other related expenses.

The owner-entity is required to put up a minimum capital investment under the capital advance program. This amount is one-half of one percent of the HUD-approved capital advance. The owner's investment may not exceed \$10,000, or \$25,000 if the owner has a national sponsor or co-sponsor (24 CFR section 891.145).

The amount of the capital advance approved by HUD may not exceed an appropriate development cost limit, determined by HUD. Owners incurring total development costs under this limit may retain 50 percent of this difference, which is required to be deposited into a reserve for replacement account. A 75 percent retention is allowed where the owner adds energy efficiency features (24 CFR section 891.140).

HUD holds a non-amortizing mortgage on the property under the terms of the Capital Advance. No repayment is required so long as the owner complies with the Regulatory Agreement with HUD to make available rental housing to very low-income elderly persons for 40 years (24 CFR section 891.170). Failure to comply with the terms of the Capital Advance and HUD's business agreements may result in foreclosure under the mortgage.

### *Rental Assistance*

The project-based rental assistance is provided under a Project Rental Assistance Contract (PRAC) and is calculated based on operating cost standards established by HUD (24 CFR section 891.150). The owner submits monthly vouchers to HUD for payment of rental assistance. The total amount of assistance equals total HUD-approved operating expenses for the project minus the tenant payments received for all units (PRAC paragraph 2.4(f)(1)).

Tenants are generally required to pay rent, which is the highest of 30 percent of adjusted gross income, 10 percent of gross income, or the portion of welfare assistance designated to meet housing costs (42 USC 1437a).

The owner receives assistance from HUD on vacant rental assistance units at a rate of 50 percent of Operating Expense for a unit under PRAC (PRAC paragraph 2.4 b) for the first 60 days of vacancy, given certain conditions are met (24 CFR section 891.445).

### **Source of Governing Requirements**

This program is authorized under Section 202 of the Housing Act of 1959, as amended, which is codified at 12 USC 1701q. Implementing regulations for this program are 24 CFR part 891, subparts A, B, and D.

### **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a federal program, the auditor should first look to Part 2, Matrix of Compliance requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

**A. Activities Allowed or Unallowed**

1. The project shall provide the necessary services for the occupants, which may include, but not limited to, health, education, welfare, informational, recreational, homemaking, meals, counseling, and referral services (12 USC 1701q; 24 CFR sections 891.225 and 891.500).
2. Project funds may be used only for expenses that are reasonable and necessary to the operation of the project as provided for in the Regulatory Agreement between HUD and the project owner.
3. Project facilities may not include infirmaries, nursing stations, or spaces for overnight care (24 CFR section 891.220).
4. Project must be modest in design and as such, the following are not to be funded with capital advance funds: individual unit balconies or decks, dishwashers, washers, dryers, trash compactors, swimming pools, saunas, and jacuzzis. Sponsors may include certain excess amenities but these must be paid for with other than capital advance funds. Associated operating costs must also be paid for by sources other than the project rental assistance contract (24 CFR section 891.120).

**D. Davis-Bacon Act**

All laborers and mechanics (other than volunteers under the conditions set out in 24 CFR part 70) employed by contractors and subcontractors in the construction (including rehabilitation) of housing with 12 or more units assisted under this program shall be paid wages at rates not less than those prevailing in the locality, as determined by the Secretary of Labor in accordance with the Davis-Bacon Act. A group home for persons with disabilities is not covered by these labor standards (24 CFR section 891.155(d)).

**E. Eligibility****1. Eligibility for Individuals**

Section 202 (CFDA 14.157) of the National Housing Act was designed to provide housing for the elderly and disabled (prior to 1991). Section 811 (CFDA 14.181) of the National Housing Act was created to provide separate funding for housing for persons with disabilities (subsequent to 1990).

To qualify as elderly, one or more members of the household must be 62 years of age or more at the time of initial occupancy (24 CFR section 891.205).

To qualify as disabled (prior to 1991 Section 202's), the household must consist of at least one person who is an adult (18 years or older) with a disability, two or more persons with disabilities living together, or a surviving household member under certain circumstances (42 USC 1437a(b)(3); 24 CFR section 891.505).

Very low-income eligibility applies to the elderly subsequent to 1990 and the owner is responsible to annually reexamine incomes for households occupying assisted units or residential space and make appropriate adjustments to the tenant payment and the project rental assistance payment (24 CFR section 891.410). Assistance applicants shall submit signed consent forms upon initial application and at reexamination (24 CFR section 5.230).

2. **Eligibility of Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients** - Not Applicable

#### **L. Reporting**

1. **Financial Reporting** - Not Applicable
2. **Performance Reporting**

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)* – For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

##### *Key Line Items –*

- a. 3. Dollar Amount of Award
- b. 8. Program Code
- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts
  - (1) A. Total dollar amount of construction contracts awarded on the project
  - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 2. Non-Construction Contracts
  - (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity

- (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
- (3) D. Total number of Section 3 businesses receiving non-construction contracts

### 3. Special Reporting - Not Applicable

## N. Special Tests and Provisions

### 1. Use of Project Funds

**Compliance Requirement** - Owners are required to establish and maintain a separate project account in federally insured depository. All rents, charges, income, and revenues arising from the project operation shall be deposited into this account. Project funds must be used for the operation of the project (including required insurance coverage), to make required principal and interest payments on the Section 202 loan, and to make required deposits to replacement reserve and the residual receipts accounts (24 CFR sections 891.400(e) and 891.600(e)).

**Audit Objectives** - Determine whether the project fund was properly established, required deposits were made into this fund, and disbursements were only for allowed purposes.

#### Suggested Audit Procedures

- a. Ascertain if the project funds receipts account has been established in a federally insured depository.
- b. Perform tests to ascertain if all rents, charges, income, and revenues arising from the project operation were deposited into the fund.
- c. Test a sample of disbursements from the fund ascertain if they were used only for the operation of the project or to make required deposits to the replacement reserve or the residual receipts account.

### 2. Replacement Reserve

**Compliance Requirement** - Owners shall establish and maintain a replacement reserve to aid in funding extraordinary maintenance and repair and replacement of capital items. The replacement reserve funds must be deposited in a federally insured depository in an interest-bearing account. All earnings including interest on the reserve must be added to the reserve. An amount as required by HUD will be deposited monthly in the reserve fund (Regulatory Agreement, item 5 A). All disbursements from the reserve must be approved by HUD (24 CFR sections 891.405 and 891.605).

**Audit Objectives** - Determine whether the replacement reserve was properly established, required monthly deposits were made, and disbursements were only for HUD approved purposes.

**Suggested Audit Procedures**

- a. Ascertain if a replacement reserve account has been established in a federally insured depository in an interest bearing account.
- b. Ascertain if the required monthly deposits have been made to the replacement reserve account.
- c. Ascertain if interest earnings from the reserve were retained in the replacement reserve account.
- d. Test a sample of disbursements from the replacement reserve account and ascertain if they were approved by HUD and were made for the approved purpose.

**3. Residual Receipts Account**

**Compliance Requirement** - Any funds in the project funds account (including earned interest) at the end of the fiscal year shall be deposited in a federally insured account within 60 days following the end of the fiscal year. Withdrawals from this account may be made only for project purposes and with the approval of HUD (24 CFR sections 891.400(e) and 891.600(e)).

**Audit Objectives** - Determine whether the residual receipts account was properly established, the required deposit was made within 60 days following year-end, and disbursements were only for project purposes and the approval of HUD.

**Suggested Audit Procedures**

- a. Ascertain if residual receipts account has been established in a federally insured depository.
- b. Ascertain if the required annual deposit was made within 60 days following year-end.
- c. Test a sample of disbursements from the residual receipts account and ascertain if they were used for project purposes and approved by HUD.

**IV. OTHER INFORMATION**

To protect its interest in a capital advance, HUD requires a note and mortgage, generally for a 40-year term. The owner is not required to repay the principal or pay interest and the note is forgiven at maturity, as long as the owner provides housing for the designated class of people in accordance with applicable HUD requirements. However, the full outstanding balance on the note should be considered Federal awards expended, included in determining Type A programs, and reported as loans on the Schedule of Expenditures of Federal Awards or accompanying notes in accordance with OMB Circular A-133.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### CFDA 14.169 HOUSING COUNSELING ASSISTANCE PROGRAM

#### I. PROGRAM OBJECTIVES

The Housing Counseling Assistance Program supports the delivery of a wide variety of housing counseling services to homebuyers, homeowners, low- to moderate-income renters, and the homeless. The primary objectives of the program are to expand homeownership opportunities and improve access to affordable housing. Counselors provide guidance and advice to help families and individuals improve their housing conditions and meet the responsibilities of tenancy and home ownership. Counselors also help borrowers avoid inflated appraisals, unreasonably high interest rates, unaffordable repayment terms, and other conditions that can result in a loss of equity, increased debt, default, and eventually foreclosure. Applicants funded through this program may also provide Home Equity Conversion Mortgage (HECM) counseling to elderly homeowners who want to convert equity in their homes into income that can be used to pay for home improvements, medical costs, living expenses, or other expenses.

#### II. PROGRAM PROCEDURES

This program has two distinct components: (1) HUD-approval and (2) housing counseling grants. To participate in the program, organizations must first be approved by HUD as counseling agencies. Approval entails meeting various requirements relating to experience and capacity. Currently there are approximately 730 approved local housing counseling agencies (LHCAs), which have 580 branch offices. Additionally, there are 23 HUD-approved national and regional intermediaries with approximately 450 affiliates and 100 branches. Approved agencies use HUD's approval to receive referrals and market their services. Approved agencies are provided training (depending on available resources), and are eligible to apply for a housing counseling grant. The application and approval process is provided on HUD's website at <http://www.hud.gov/offices/hsg/sfh/hcc/hccprof13.cfm>.

Additionally, HUD issues a yearly Notice of Funding Availability (NOFA) in the *Federal Register*, under which there is a competition for housing counseling grants. The Housing Counseling Assistance Program provides funds to HUD-approved LHCAs; HUD-approved national and regional intermediaries; and State Housing Finance Agencies (SHFAs). LHCAs are funded directly by HUD to provide services within their communities. Intermediaries and SHFAs manage the use of HUD housing counseling funds by subgrantees, including local affiliates and branches.

#### Source of Governing Requirements

HUD's Housing Counseling Assistance Program is authorized by Section 106 of the Housing and Urban Development Act of 1968 (12 USC 1701x). There are no regulations governing this program.



### Availability of Other Program Information

Pertinent information regarding the Housing Counseling Program is available on HUD's website, at [http://www.hud.gov/offices/hsg/sfh/hcc/hcc\\_home.cfm](http://www.hud.gov/offices/hsg/sfh/hcc/hcc_home.cfm).

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a federal program, the auditor should first look to Part 2, Matrix of Compliance requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. .... Activities Allowed or Unallowed

*The NOFA published on March 8, 2006 (71 FR 11800 – 11813) contains detailed information regarding the activities for which grantees and sub-grantees can be reimbursed. Section 106 of the Housing and Urban Development Act of 1968 (12 USC 1701x) also addresses allowable and unallowable activities. Only the following activities generally are allowed under the statute:*

1. Individual counseling or group education or classes regarding:
  - a. Pre-purchase/home buying;
  - b. Resolving or preventing mortgage delinquency or default;
  - c. Non-delinquency post-purchase;
  - d. Locating, securing, or maintaining residence in rental housing; and
  - e. Shelter or services for the homeless.
2. Home equity conversion mortgage counseling.
3. Marketing and outreach initiatives.
4. Training.
5. Computer equipment/systems.
6. Administrative costs.

#### J. Program Income

The auditor should be alert to the fact that, in the performance of the award, the recipient may be being reimbursed directly or indirectly from other sources for services provided. This reimbursement generally should be treated as program income using the deduction method. Recipients may include in their vouchers only that portion of its services for which it does not receive reimbursement from any other funding source.

**L. Reporting****1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

**2. Performance Reporting** - Not Applicable**3. Special Reporting** - Not Applicable

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### CFDA 14.181 SUPPORTIVE HOUSING FOR PERSONS WITH DISABILITIES (SECTION 811)

#### I. PROGRAM OBJECTIVES

The objectives of Supportive Housing for Persons with Disabilities are to: (1) provide Federal capital advances under Section 811 of the National Affordable Housing Act (NAHA) for development of housing projects serving persons with disabilities; and (2) provide tenant-based rental assistance to low income persons with disabilities for payment of housing on the private market.

#### II. PROGRAM PROCEDURES

##### Capital Advances

After 1990, under Pub. L. No. 101-625 (November 28, 1990), Department of Housing and Urban Development (HUD) capital advances replaced the direct loan method of funding project construction under the Section 202 of the National Housing Act (NHA) (12 USC 1702 *et seq*). Section 811 of NAHA was created as a separate program for the development of housing for persons with disabilities. Capital advances are awarded to non-profit organizations and are used to finance the construction or rehabilitation of supportive housing for persons with disabilities (24 CFR section 891.300).

HUD holds a non-amortizing mortgage on the property under the terms of the Capital Advance. No repayment is required so long as the owner complies with the Regulatory Agreement with HUD to make available rental housing to very low-income persons with disabilities for at least 40 years (24 CFR section 891.170). Failure to comply with the terms of the Capital Advance and HUD's business agreements may result in foreclosure under the mortgage.

##### Rental Assistance

Project rental assistance is used to cover the difference between the HUD-approved operating costs of the project and the tenants' contributions toward rent (24 CFR section 891.410).

Project rental assistance is provided under a Project Rental Assistance Contract (PRAC) and is calculated based on operating cost standards established by HUD (24 CFR section 891.150). The owner submits monthly vouchers to HUD for payment of rental assistance. The total amount of assistance equals total HUD-approved operating expenses for the project minus the tenant payments received for all units (PRAC paragraph 2.4(f)(1)).

Tenants are generally required to pay rent in accordance with the Housing Assistance Payment Contract.

The owner receives assistance from HUD on vacant rental assistance units at a rate of 50 percent of Operating Expense for a unit under PRAC (PRAC paragraph 2.4b) for the first 60 days of vacancy, given certain conditions are met (24 CFR section 891.445).

## Source of Governing Requirements

This program is authorized under Section 811 of the National Affordable Housing Act (42 USC 8013). Implementing regulations for this program are 24 CFR part 5, subpart H, and part 891, subparts A, C, and D.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a federal program, the auditor should first look to Part 2, Matrix of Compliance requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. Project funds may be used only for expenses that are reasonable and necessary to the operation of the project as provided for in the Regulatory Agreement between HUD and the project owner (24 CFR section 891.400(e)).
2. Project facilities may not include infirmaries, nursing stations, spaces dedicated to the delivery of medical treatment or physical therapy, padded rooms, or space for respite care or sheltered workshops, even if paid for from sources other than the HUD capital advance. Except for office space used by the owner exclusively for the administration of the project, project facilities may not include office space. (24 CFR section 891.315).
3. Project must be modest in design and, as such, the following are not to be funded with capital advance funds; individual unit balconies or decks, dishwashers, washers, dryers, trash compactors, swimming pools, saunas, or jacuzzis. Sponsors may include certain excess amenities but these must be paid for with other than capital advance funds. Associated operating costs must also be paid for by sources other than the project rental assistance contract (24 CFR section 891.120).

#### D. Davis-Bacon Act

All laborers and mechanics (other than volunteers under the conditions set out in 24 CFR part 70) employed by contractors and subcontractors in the construction (including rehabilitation) of housing with 12 or more units assisted under this program shall be paid wages at rates not less than those prevailing in the locality, as determined by the Secretary of Labor in accordance with the Davis-Bacon Act. A group home for persons with disabilities is not covered by these labor standards (24 CFR section 891.155(d)).

**E. Eligibility****1. Eligibility for Individuals**

Section 202 (CFDA 14.157) of the National Housing Act was designed to provide housing for the elderly and disabled (prior to 1991). Section 811 (CFDA 14.181) of the National Housing Act was created to provide separate funding for housing for persons with disabilities (subsequent to 1990) (42 USC 8013).

To qualify as disabled (prior to 1991 Section 202), the household must consist of at least one person who is an adult (18 years or older) with a disability, two or more persons with disabilities living together, or a surviving household member under certain circumstances (42 USC 1437a(b)(3); 24 CFR section 891.505).

Very low-income eligibility applies to persons with disabilities subsequent to 1990 and the owner is responsible to annually reexamine incomes for households occupying assisted units or residential space and make appropriate adjustments to the tenant payment and the project rental assistance payment (24 CFR section 891.410). Assistance applicants shall submit signed consent forms upon initial application and at reexamination (24 CFR section 5.230).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable****3. Eligibility for Subrecipients - Not Applicable****L. Reporting****1. Financial Reporting - Not Applicable****2. Performance Reporting**

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)* – For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

*Key Line Items –*

- a. 3. Dollar Amount of Award
- b. 8. Program Code
- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts

- (1) A. Total dollar amount of construction contracts awarded on the project
  - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 2. Non-Construction Contracts
- (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
  - (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving non-construction contracts

### 3. Special Reporting - Not Applicable

## N. Special Tests and Provisions

### 1. Use of Project Funds

**Compliance Requirement** - Owners are required to establish and maintain a separate project account in federally insured depository. All rents, charges, income, and revenues arising from the project operation shall be deposited into this account. Project funds must be used for the operation of the project (including required insurance coverage), and to make required deposits to replacement reserve and the residual receipts accounts (24 CFR section 891.400(e)).

**Audit Objectives** - Determine whether the project fund was properly established, required deposits were made into this fund, and disbursements were only for allowed purposes.

#### Suggested Audit Procedures

- a. Ascertain if the project funds receipts account has been established in a federally insured depository.
- b. Perform tests to ascertain if rents, charges, income, and revenues arising from the project operation were deposited into the fund.
- c. Test a sample of disbursements from the fund to ascertain if they were used only for the operation of the project or to make required deposits to the replacement reserve or the residual receipts account.

## 2. Replacement Reserve

**Compliance Requirement** - Owners shall establish and maintain a replacement reserve to aid in funding extraordinary maintenance and repair and replacement of capital items. The replacement reserve funds must be deposited in a federally insured depository in an interest-bearing account. All earnings including interest on the reserve must be added to the reserve. An amount as required by HUD will be deposited monthly in the reserve fund (Regulatory Agreement, item 5 (a)). All disbursements from the reserve must be approved by HUD (24 CFR section 891.405).

**Audit Objectives** - Determine whether the replacement reserve was properly established, required monthly deposits were made, and disbursements were only for HUD-approved purposes.

### Suggested Audit Procedures

- a. Ascertain if a replacement reserve account has been established in a federally insured depository in an interest bearing account.
- b. Ascertain if the required monthly deposits have been made to the replacement reserve account.
- c. Ascertain if interest earnings from the reserve were retained in the replacement reserve account.
- d. Test a sample of disbursements from the replacement reserve account and ascertain if they were approved by HUD and were made for the approved purpose.

## 3. Residual Receipts Account

**Compliance Requirement** - Any funds in the project funds account (including earned interest) at the end of the fiscal year shall be deposited in a federally insured account within 90 days following the end of the fiscal year. Withdrawals from this account may be made only for project purposes and with the approval of HUD (24 CFR section 891.400(e)).

**Audit Objectives** - Determine whether the residual receipts account was properly established, the required deposit was made within 90 days following year-end, and disbursements were only for project purposes and the approval of HUD.

### Suggested Audit Procedures

- a. Ascertain if residual receipts account has been established in a federally insured depository.
- b. Ascertain if the required annual deposit was made within 90 days following year-end.

- c. Test a sample of disbursements from the residual receipts account and ascertain if they were used for project purposes and approved by HUD.

#### **IV. OTHER INFORMATION**

To protect its interest in a capital advance, HUD requires a note and mortgage, generally for a 40-year term. The owner is not required to repay the principal or pay interest and the note is forgiven at maturity, as long as the owner provides housing for the designated class of people in accordance with applicable HUD requirements. However, the full outstanding balance on the note should be considered Federal awards expended, included in determining Type A programs and reported as loans on the Schedule of Expenditures of Federal Awards or accompanying notes in accordance with OMB Circular A-133.



**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

- CFDA 14.182 SECTION 8 NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION**
- CFDA 14.195 SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM--SPECIAL ALLOCATIONS**
- CFDA 14.249 SECTION 8 MODERATE REHABILITATION SINGLE ROOM OCCUPANCY**
- CFDA 14.856 LOWER INCOME HOUSING ASSISTANCE PROGRAM--SECTION 8 MODERATE REHABILITATION**

**I. PROGRAM OBJECTIVES**

The objective of the Section 8 rental assistance programs is to help eligible low-income families or individuals obtain decent, safe, and sanitary housing through a system of rental subsidies (24 CFR sections 880.101, 881.101, 882.401, 882.801, 883.101, 884.101, 886.101, and 886.301).

**II. PROGRAM PROCEDURES**

Under this project-based cluster, the rental subsidy is tied to a specific unit and when a family moves from the unit, it has no right to continued assistance.

Certain project-based programs are administered by State, local, or other governmental entities qualifying as Public Housing Agencies (PHAs). The Department of Housing and Urban Development (HUD) enters into annual contributions contracts with PHAs which enter into Housing Assistance Payments (HAP) contracts with private owners. The owners rent housing to eligible low-income families who typically pay rent which is the highest of 30 percent of adjusted gross income, 10 percent of gross income, or the portion of welfare assistance designated to meet housing costs. The remaining portion of the rent for the unit is paid to the owner by the PHA or HUD through the HAP contract. The PHA is then reimbursed by HUD through the annual contributions contract. HUD also provides funds for PHA administration of the Section 8 programs.

PHAs are required to maintain a HAP contract register or similar record in which to record the PHA's obligation for monthly housing assistance payments. This record shall provide information as to: the name and address of the family; the name and address of the owner; dwelling unit size; the effective and expiration dates of the lease; the monthly contract rent payable to the owner; monthly rent payable by the family; and the monthly housing assistance payment. The record shall also provide data as to the date the family vacates and the number of days the unit is vacant, if any. This requirement is applicable to PHAs that are administering Housing Assistance Payments Program Projects pursuant to the provisions of Annual Contributions Contracts. It is not applicable to Section 8 projects on which HUD has executed a HAP contract directly with an owner or PHA.

The Moderate Rehabilitation (Mod Rehab) program (including the Single Room Occupancy (SRO) program for homeless individuals) assists low income families in affording decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families. The PHA and the owner execute an Agreement to Enter into Housing Assistance Payments Contract under which the owner agrees to rehabilitate the unit to be subsidized and the PHA agrees to subsidize the units upon satisfactory completion of rehabilitation. Upon completion of the rehabilitation, the PHA and the owner execute a HAP contract. The PHA refers interested eligible families on its Section 8 waiting list to the owner to fill vacancies in moderate rehabilitation units.

Mod Rehab program assistance is considered a project-based subsidy because the assistance is tied to specific units under an assistance contract with the owner for a specified term. A family that moves from a unit with project-based assistance does not have any right to continued assistance.

Under the Mod Rehab SRO program, eligible applicants are PHAs or non-profit organizations, which must contract with a PHA to administer the rental assistance. Eligible individuals must be homeless according to HUD's definition and may be located through owner outreach as well as from the PHA waiting list (24 CFR 882.808). No single project may contain more than 100 assisted units. The SRO program is administered under an initial 10-year HAP term, with the possibility of subsequent one-year renewals. The program is administered at HUD Headquarters by the Office of Community Planning and Development (CPD).

In accordance with HUD's Uniform Financial Reporting Standards rule, annually, a PHA is required to submit its financial statement, prepared in accordance with generally accepted accounting principles (GAAP), in the electronic format specified by HUD. The unaudited financial statement is due 2 months after the PHA's fiscal year end and the audited financial statement is due 9 months after its fiscal year end (24 CFR section 5.801). The financial statement must include the financial activities of the programs in this cluster.

### **Source of Governing Requirements**

These programs (other than the Mod Rehab SRO program) are authorized by the U.S. Housing Act of 1937, as amended (42 USC 1437a, c, and f; 42 USC 3535(d); 42 USC 12701; and 42 USC 13611 through 13619). Implementing regulations are 24 CFR parts 880 through 884 and 24 CFR part 886. The Moderate Rehabilitation SRO program is authorized under section 441 of the McKinney-Vento Homeless Assistance Act, 42 USC 11401, and is subject to program regulations at 24 CFR part 882, subpart H.

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

HUD maintains a page on its web site (<http://www.hud.gov/funds/index.cfm>) that provides general information about these programs.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### E. Eligibility

##### 1. Eligibility for Individuals

- a. The PHA or owner, as applicable, must:
  - (1) Verify the eligibility of applicants by: (a) obtaining signed applications that contain the information needed to determine eligibility (including designation as elderly, disabled, or homeless, if applicable), income, rent, and order of selection; (b) conducting verifications of family income and other pertinent information (such as assets, full time student and immigration status, and unusual medical expenses) through third parties; (c) documenting inspections and tenant certifications, as appropriate; and, (d) determining that tenant income did not exceed the maximum limit set by HUD for the PHA's jurisdiction, as shown in HUD's published notice transmitting the Limits for Low-Income and Very Low-Income Families Under the Housing Act of 1937. For the Mod Rehab SRO program, eligible individuals must be homeless upon entry into the program. (24 CFR sections 880.603, 881.601, 882.514, 882.808, 833.701, 884.214, 886.119, and 886.318)
  - (2) Determine the total tenant rent payment in accordance with 24 CFR section 5.613.
  - (3) Select participants from the waiting list in accordance with the admission policies in its administrative plan and maintain documentation which shows that, at the time of admission, the family actually met the preference criteria that determined the family's place on the waiting list. For the Mod Rehab SRO program, eligible individuals may be referred to the PHA for eligibility determination as a result of the owner's/sponsor's outreach or through the PHA waiting list. (24 CFR sections 880.603, 881.601, 882.514, 882.808(b)(2), 883.701, 884.214, and 886 subparts A and C)
  - (4) Reexamine family income and composition at least once every 12 months and adjust the total rent payment and housing assistance payment, as necessary (24 CFR sections 5.617, 880.603, 881.601, 882.515, 884.218, 886.124, and 886.324).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

**3. Eligibility for Subrecipients - Not Applicable**

**L. Reporting**

**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. In lieu of the standard reports, the following reports are required on Section 8 project-based programs involving PHA/private-owners and HUD/PHA owners.
  - (1) HUD-52663, *Requisition for Partial Payment of Annual Contributions (OMB No. 2577-0169)* - submitted quarterly.
  - (2) HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169)* - submitted annually.
  - (3) HUD-52595, *Balance Sheet for Section 8 and Public Housing (OMB No. 2577-0169)* - submitted annually.

**2. Performance Reporting - Not Applicable**

**3. Special Reporting**

- a. HUD-50058, *Family Report (OMB No.2577-0083)* - The PHA is required to submit this form electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.

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

- (1) Line 2a - *Type of Action*
- (2) Line 2b - *Effective Date of Action*
- (3) Line 3b, 3c - *Names*

- (4) Line 3e - *Date of Birth*
- (5) Line 3n - *Social Security Numbers*
- (6) Line 5a - *Unit Address*
- (7) Line 5h, 5i - *Unit Inspection Dates*
- (8) Line 7i - *Total Annual Income*
- (9) Line 13h - *Contract Rent to Owner*
- (10) Line 13k or 13x - *Tenant rent*
- b. HUD-50059, *Owner's Certification of Compliance With HUD's Tenant Eligibility and Rent Procedures (OMB No. 2502-0204)* - This report is submitted electronically to HUD.
- c. For Moderate Rehabilitation SRO only: *HUD-40118, Annual Progress Report (OMB No. 2506-0145)* – This report is due from each non-Federal recipient of assistance within 90 days after the end of its operating year (24 CFR section 882.808(p)).

*Key Line Items:*

- (1) Line 4 – *Non-homeless persons*
- (2) Line 6b – *Chronically homeless persons*
- (3) Line 10 – *Prior Living Situation*
- (4) Line 11 – *Amount and Source of Monthly Income at Entry and at Exit*
- (5) Line 12a,b – *Length of Stay in Program*
- (6) Line 14 - *Destination*

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

### **1. Contract Rent Adjustments**

**Compliance Requirement** -The PHA or owner applies or ensures annual adjustments to contract rents are applied. The HAP contract specifies the method to be used to determine rent adjustments. Adjustments must not result in material differences between rents charged for assisted units and comparable unassisted units except as those differences existed at contract execution. Special adjustments to contract rents, within the original contract term, may also be made to the extent deemed necessary by the PHA

or HUD (24 CFR sections 880.609, 881.601, 882.410, 882.808(e), 883.701, 884.109, 886.112, and 886.312).

**Audit Objective** - Determine whether contract rents are being adjusted properly.

**Suggested Audit Procedures**

- a. Review the procedures for applying annual adjustment factors and handling special adjustment requests.
- b. Select a sample of contracts and the related files with annual and special rent adjustments and test the supporting data and certifications that were submitted to support the adjustments.
- c. Review the selected HAP contract files or tenant files to verify that annual and special adjustments were applied correctly and that rent adjustments did not result in material differences between the rents charged for assisted and comparable unassisted units.

**2. Tenant Utility Allowances**

**Compliance Requirement** - The PHA or owner must (a) establish or ensure tenant utility allowances based on utility consumption and rate data for various sized units, structure types, and fuel types, (b) make an annual review of tenant utility allowances to determine their reasonableness, and (c) adjust the allowances, when appropriate (24 CFR sections 5.603, 880.610, 881.601, 882.510, 882.808(k), 883.701, 884.220, 886.126, and 886.326).

**Audit Objective** - Determine whether tenant utility allowances are properly established.

**Suggested Audit Procedures**

- a. Examine the procedures used to establish and annually review utility allowances, handle adjustment requests, and notify tenants of utility allowance adjustments.
- b. Select a sample of units with tenant utility allowances and their related tenant files for review.
- c. Test owner requests, PHA determinations, and supporting documentation for utility determinations.
- d. Verify that the allowances were applied to tenants correctly.

### 3. Housing Quality Standards

**Compliance Requirement** - The PHA or owner must provide housing that is decent, safe, and sanitary. To achieve this end, the PHA must perform housing quality inspections at the time of initial occupancy and at least annually thereafter to assure that the units are decent, safe, and sanitary (24 CFR sections 880.612, 881.601, 882.516, 882.808(n), 883.701, 884.217, 886.123, and 886.323).

**Audit Objective** - Determine whether the PHA or owner performs the required inspections to assure that units meet housing quality standards.

#### Suggested Audit Procedures

- a. Examine the procedures used by the PHA or owner to identify those units on which housing quality inspections are due.
- b. Select a sample of units on which HAP contracts were executed and examine inspection reports.
- c. Examine records and ascertain that the PHA or owner assures that the inspections and any needed repairs are completed timely.
- d. Verify that the PHA reviewed the evidence of completion submitted by the owner on newly constructed or rehabilitated units accepted for occupancy.

### 4. Vacant Units

**Compliance Requirement** - The PHA or owner must reduce claims for assistance on vacant units under certain circumstances. However, there are instances where special claims are allowed for vacancy losses, unpaid rent, and tenant damages on eligible units (24 CFR sections 880.611, 881.601, 882.411, 882.808(f), 883.701, 884.106, 886.109, and 886.309).

**Audit Objective** - Determine whether payments to owners are reduced for vacant units and whether payments for special claims are proper.

#### Suggested Audit Procedures

- a. Examine the procedures used by the PHA or owner to provide the current occupancy status of the units receiving Section 8 assistance.
- b. Select a sample of units that were vacated during the audit period and verify that payments to owners were reduced, as prescribed.
- c. Select a sample of payments for special claims and verify that documentation exists to support the payments.

## 5. Replacement Reserve

**Compliance Requirement** - The owner shall establish and maintain a replacement reserve to aid in funding extraordinary maintenance and repair and replacement of capital items. The replacement reserve funds must be deposited in an interest-bearing account. All earnings including interest on the reserve must be added to the reserve. All disbursements from the reserve must be as approved or directed by HUD or the State Agency for 24 CFR part 883 projects, as applicable. An amount as required by HUD or the State Agency for 24 CFR part 883 projects, as applicable, shall be deposited monthly in the reserve fund in accordance with the Regulatory Agreement or HAP contract (24 CFR sections 880.601, 880.602, 881.601 and 883.701).

**Audit Objectives** - Determine whether the replacement reserve was properly established, required monthly deposits were made, and disbursements were only for approved purposes.

### Suggested Audit Procedures

- a. Ascertain if reserve has been established in an interest bearing account.
- b. Ascertain if the required monthly deposits have been made to the reserve.
- c. Ascertain if interest earnings from the reserve were retained in the reserve.
- d. Test a sample of disbursements from the reserve and ascertain if they were made for an approved purpose.

## 6. Residual Receipts Account

**Compliance Requirement** - Any project funds in the project funds account (including earned interest) at the end of the fiscal year shall be deposited with the mortgagee or other HUD-approved depository in an interest bearing account. For projects under 24 CFR part 883, the funds must be deposited with the State Agency or other Agency-approved depository in an interest bearing account. Withdrawals from this account may be made only for project purposes and with the approval of HUD or the State Agency for 24 CFR part 883 projects, as applicable (24 CFR sections 880.601, 881.601, and 883.701).

**Audit Objectives** - Determine whether the residual receipts account was properly established, the required deposit was made within 60 days following year-end, and disbursements were only for approved project purposes.



**Suggested Audit Procedures**

- a. Ascertain if residual receipts account has been established in an interest-bearing depository.
- b. Ascertain if the required annual deposit was made within 60 days following year-end.
- c. Test a sample of disbursements from the residual receipts account and ascertain if they were used for an approved project purpose.

**IV. OTHER INFORMATION**

See Appendix VI for program waivers related to Hurricanes Katrina and Rita.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### **CFDA 14.218 COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS**

### **CFDA 14.219 COMMUNITY DEVELOPMENT BLOCK GRANTS/SMALL CITIES PROGRAM (HUD-Administered Small Cities Program)**

#### **I. PROGRAM OBJECTIVES**

The primary objective of the Community Development Block Grant (CDBG) Entitlement Program (large cities and urban counties) (24 CFR part 570 subpart D) and HUD-Administered Small Cities Programs (24 CFR part 570 subpart F) is to develop viable urban communities by providing decent housing, a suitable living environment, and expanded economic opportunities, principally for persons of low and moderate income. This objective is to be achieved in two ways. First, a grantee can only use funds to assist eligible activities that meet one of three national objectives of the program: benefit low- and moderate-income persons, aid in the prevention or elimination of slums and blight, or meet community development needs having a particular urgency. Second, the grantee must spend at least 70 percent of its funds, over a period of up to three years as specified by the grantee in its certification, for activities that address the national objective of benefiting low- and moderate-income persons (24 CFR sections 570.200, 570.420, and 570.430).

#### **II. PROGRAM PROCEDURES**

The CDBG Entitlement Program provides grants to metropolitan cities and urban counties which must submit certain certifications and a one-year action plan as to how they propose to use the funds for community development activities. The grant amount is determined by the higher of two formulas that consider a community's population, poverty level, extent of overcrowded housing, age of housing, and growth lag (42 USC 5306(b)).

Only the State of Hawaii is an ongoing participant in the HUD-Administered Small Cities Program because this State has permanently elected to have HUD administer the non-entitlement portion of its CDBG Program. In Hawaii, HUD provides CDBG funds to non-entitlement units of general local government using a formula described in 24 CFR section 570.429. The State of New York also participated in the HUD-Administered Small Cities Program through its FY 1999 funding. In FY 2000, the State of New York began receiving and administering its own non-entitlement area funds through the State CDBG Program described under CFDA 14.228. The requirements of 14.219 as described in this supplement continue to apply to the State of New York's HUD-administered projects funded before FY 2000 and related program income. The CDBG Entitlement Program and the HUD-Administered Small Cities Program covering the State of Hawaii and pre-2000 activities for the State of New York largely share regulatory requirements in the following areas: definitions, eligible activities, grants administration, and performance reviews.

#### **Source of Governing Requirements**

These programs are authorized by Title I of the Housing and Community Development Act of 1974, as amended (42 USC 5301). Implementing regulations are located at 24 CFR part 570.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. All activities undertaken must meet one of three national objectives of the CDBG program, i.e., benefit low- and moderate-income persons, prevent or eliminate slums or blight, or meet community development needs having a particular urgency (24 CFR sections 570.200 and 570.208).
2. CDBG funds are to be used for the following activities: (a) the acquisition of real property; (b) the acquisition, construction, reconstruction, rehabilitation or installation of public works, facilities and sites, or other improvements, including removal of architectural barriers that restrict accessibility of elderly or severely disabled persons; (c) clearance, demolition, and removal of buildings and improvements; (d) payments to housing owners for losses of rental income incurred in temporarily holding housing for the relocated; (e) disposition of real property acquired under this program; (f) provision of public services (subject to limitations contained in the CDBG regulations); (g) payment of the non-Federal share for another grant program for activities that are otherwise eligible; (h) interim assistance where immediate action is needed prior to permanent improvements or to alleviate emergency conditions threatening public health and safety; (i) payment to complete a Title 1 Federal Urban Renewal project; (j) relocation assistance; (k) planning activities; (l) administrative costs; (m) acquisition, construction, reconstruction, rehabilitation, or installation of commercial or industrial buildings; (n) assistance to community-based development organizations; (o) activities related to privately-owned utilities; (p) assistance to private, for-profit businesses, when appropriate to carry out an economic development project; (q) construction of housing assisted under Section 17 of the United States Housing Act of 1937; (r) reconstruction of properties; (s) direct homeownership assistance to low and moderate income households to facilitate and expand homeownership; (t) technical assistance to public or private entities for capacity building (exempt from the planning/administration cap); (u) housing services related to HOME-funded activities; (v) assistance to institutions of higher education to carry out eligible activities; (w) assistance to public and private entities (including for-profits) to assist micro-enterprises; (x) payment for repairs and operating expenses for acquired “in Rem” properties; (y) residential rehabilitation, including code enforcement in deteriorated or deteriorating areas, lead-based paint hazard evaluation, and removal; and (z) construction or improvement of tornado-safe shelters for residents of manufactured housing and provision of assistance to non-profit and for-profit entities for such construction or improvement (42 USC 5305(a); 24 CFR sections 570.200 through 570.207).

3. Each float-funded activity must meet all of the same requirements that apply to CDBG-assisted activities generally (24 CFR section 570.301).
4. Entitlement and HUD-Administered Small Cities Program grantees may have loans guaranteed by HUD under Section 108 of the Housing and Community Development Act of 1974, (42 USC 5308). The guaranteed loan funds are to be used only for the following activities: (a) acquisition of real property; (b) housing rehabilitation; (c) rehabilitation of publicly owned real property; (d) eligible CDBG economic development activities; (e) relocation payments, (f) clearance, demolition, and removal; (g) payment of interest on Section 108 guaranteed obligations; (h) payment of issuance and other costs associated with private sector financing under this subpart; (i) site preparation related to redevelopment or use of real property acquired or rehabilitated pursuant to this subpart or for economic development purposes; (j) construction of housing by non-profit organizations for home ownership under Section 17(d) of the U.S. Housing Act of 1937 (12 USC 1715(l)) or Title VI of the Housing and Community Development Act of 1987; (k) debt service reserve; (l) acquisition, construction, reconstruction, rehabilitation or installation of public works and site or other improvements which serve “colonias” (as defined in Section 916 of the Housing Act of 1990 and amended by Section 810 of the Housing and Community Development Act of 1992); and (m) acquisition, construction, rehabilitation, or installation of public facilities (except for buildings for the general conduct of government), public streets, sidewalks, and other site improvements, and public utilities (24 CFR sections 570.700 through 570.710).
5. All the activities that a grantee undertakes during its CDBG program year must be identified in an action plan or an amended action plan (24 CFR sections 91.220 and 570.301). In the HUD-Administered Small Cities Program in New York, only non-housing activities must be included in the abbreviated consolidated plan. The State of New York’s previously approved HUD-Administered Small Cities action plans continue to control the use of FY 1999 and prior allocations under this Program. Plan amendment is only required to reflect significant changes in activities or funding decisions for these years (24 CFR sections 91.235 and 570.427).
6. CDBG funding can only be used for special economic development projects that meet the criteria in 24 CFR section 570.203. Grantees must have data to support that assistance provided to carry out special economic development projects is appropriate by meeting the public benefit standards for job creation and provision of goods and services described in 24 CFR section 570.209.
7. When CDBG funds are used to finance rehabilitation, the rehabilitation is to be limited to privately owned buildings and improvements for residential purposes, low income public housing and other publicly owned residential buildings and improvements, publicly or privately owned commercial or industrial buildings, structures, or other real property, equipment, and improvements under certain

circumstances, as well as manufactured housing when it constitutes part of the community's permanent housing stock (24 CFR sections 570.202 and 570.203).

#### **D. Davis-Bacon Act**

The requirements of the Davis-Bacon Act apply to the rehabilitation of residential property only if such property contains 8 or more units. However, the requirements do not apply to volunteer work where the volunteer does not receive compensation, or is paid expenses, reasonable benefits or a nominal fee for such services, and is not otherwise employed at any time in construction work (42 USC 5310; 24 CFR section 570.603).

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

##### **1. Matching - Not Applicable**

##### **2. Level of Effort - Not Applicable**

##### **3. Earmarking**

- a. Not less than 70 percent of the funds must be used over a period of up to three years, as specified by the grantee in its certification, for activities that benefit low- and moderate-income persons. In determining low- and moderate-income benefits, the criteria set forth in 24 CFR sections 570.200(a)(3) and 570.208(a) are used in the Entitlement Program. The criteria set forth in 24 CFR sections 570.420(e) and 570.430(e) are used in the HUD-Administered Small Cities Program.
- b. Not more than 20 percent of the total grant, plus 20 percent of program income received during a program year, may be obligated during that year for activities that qualify as planning and administration pursuant to 24 CFR sections 570.205 and 570.206 (24 CFR section 570.200(g)).
- c. The amount of CDBG funds obligated during the program year for public services must not exceed 15 percent of the grant amount received for that year plus 15 percent of the program income it received during the preceding program year, except that a non-Federal entity that obligated more CDBG funds for public services than 15 percent of its grant funded from Federal Fiscal Years 1982 or 1983 appropriations (excluding program income and any assistance received pursuant to Pub. L. No. 98-8) may obligate more CDBG funds than 15 percent as long as the amount obligated in any program year does not exceed 15 percent of the program income it received during the preceding program year plus the percentage or amount obligated in Federal Fiscal Year 1982 or 1983, whichever method of calculation yields the higher amount (24 CFR section 570.201(e)). In the HUD-Administered Small Cities Program in New York, the 15 percent public services cap applies to each year's allocation of non-entitlement funds for the State (24 CFR section 570.421).

## **J. Program Income**

1. The grantee must accurately account for any program income generated from the use of CDBG funds and must treat such income as additional CDBG funds which are subject to all program rules. Program income does not include income received in a single program year by the grantee and all of its subrecipients if the total amount of such income does not exceed \$25,000 (24 CFR sections 570.426, 570.500, 570.504, and 570.506).
2. Making loans and collecting the payments on those loans can be a significant source of program income for grantees. The use of income derived from loan payments is subject to program requirements. This carries with it the responsibility for grantees to have a loan origination and servicing system in effect which assures that loans are properly authorized, receivables are properly established, earned income is properly recorded and used, and write-offs of uncollectible amounts are properly authorized (24 CFR sections 570.500, 570.501, 570.504, 570.506, and 570.513).
3. In the HUD-Administered Small Cities Program in New York, any program income received after closeout of the grant must be accounted for under another grant if another grant was open at the time that the program income was received (24 CFR sections 570.504 and 570.506). If the grantee has another ongoing HUD-Administered Small Cities CDBG grant at the time of closeout, the program income will be considered to be program income of the ongoing grant. The grantee can choose which grant to credit the program income to if it has multiple open CDBG grants (24 CFR section 570.426(b)). If the grantee has no ongoing HUD-Administered Small Cities grant at the time of closeout, program income of less than \$25,000 will not be considered program income. Program income of \$25,000 or more will be subject to the terms of the closeout agreement (24 CFR section 570.426(c)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Applicable
- e. *Integrated Disbursement and Information System (IDIS) (OMB No. 2506-0077)* - Grantees may include reports generated by IDIS as part of their annual performance and evaluation report that must be submitted for the CDBG Entitlement Program 90 days after the end of a grantee's program

year. Auditors are only expected to test information extracted from IDIS in the following system-generated reports:

- (1) CO4PRO3 - Activity Summary Report
- (2) CO4PR26 - CDBG Financial Summary

## **2. Performance Reporting**

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons, (OMB No. 2529-0043)* – For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002. (24 CFR sections 135.3(a), 135.90, and 570.607).

*Key Line Items –*

- a. 3. Dollar Amount of Award
- b. 8. Program Code
- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts
  - (1) A. Total dollar amount of construction contracts awarded on the project
  - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 2. Non-Construction Contracts
  - (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
  - (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving non-construction contracts

## **3. Special Reporting - Not Applicable**

**M. Subrecipient Monitoring**

Before disbursing any CDBG funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient. The agreement shall include provisions concerning: the statement of work, records and reports, program income and uniform administrative requirements (24 CFR section 570.503).

**N. Special Tests and Provisions****1. Citizen Participation**

**Compliance Requirement** - Prior to the submission to HUD for its annual grant, the grantee must certify to HUD that it has met the citizen participation requirements in 24 CFR sections 91, 570.301 and 570.431, as applicable.

**Audit Objective** - To determine whether the grantee has developed and implemented a citizen participation plan.

**Suggested Audit Procedures**

- a. Verify that the grantee has a citizen participation plan.
- b. Review the plan to verify that it provides for public hearings, publication, public comment, access to records, and consideration of comments.
- c. Examine the grantee's records for evidence that the elements of the citizen's participation plan were followed as the grantee certified.

**2. Required Certifications and HUD Approvals**

**Compliance Requirement** - CDBG funds (and local funds to be repaid with CDBG funds) cannot be obligated or expended before receipt of HUD's approval of a Request for Release of Funds (RROF) and environmental certification, except for exempt activities under 24 CFR section 58.34 and categorically excluded activities under section 58.35(b) (24 CFR section 58.22).

**Audit Objective** - To determine whether the grantee is obligating and expending program funds only after HUD's approval of the RROF.

**Suggested Audit Procedures**

- a. Examine HUD's approval of the RROF and environmental certification and note dates.
- b. Review the expenditure and related records to ascertain when CDBG funds, and local funds which were repaid with CDBG funds, were first obligated or expended and ascertain if any funds were obligated or expended prior to HUD's approval of the RROF.



### 3. Environmental Reviews

**Compliance Requirement** - Projects must have an environmental review unless they meet criteria specified in the regulations that would exempt or exclude them from RROF and environmental certification requirements (24 CFR sections 58.1, 58.22, 58.34, 58.35, and 570.604).

**Audit Objective** - To determine whether environmental reviews are being conducted, when required.

#### Suggested Audit Procedures

- a. Verify through a review of environmental review certifications that the environmental reviews were made.
- b. Select a sample of projects where an environmental review was not performed and ascertain if a written determination was made that the review was not required.
- c. Test whether documentation exists that any determination not to make an environmental review was made consistent with the criteria contained in 24 CFR sections 58.34 and 58.35(b).

### 4. Rehabilitation

**Compliance Requirement** - When CDBG funds are used for rehabilitation, the grantee must assure that the work is properly completed (24 CFR section 570.506).

**Audit Objective** - To determine whether the grantee assures rehabilitation work is properly completed.

#### Suggested Audit Procedures

- a. Verify that pre-rehabilitation inspections are conducted describing the deficiencies to be corrected.
- b. Ascertain that the deficiencies to be corrected are incorporated into the rehabilitation contract.
- c. Verify through a review of documentation that the grantee inspects the rehabilitation work upon completion to assure that it is carried out in accordance with contract specifications.

## IV. OTHER INFORMATION

See Appendix VI for program waivers related to Hurricanes Katrina and Rita.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### CFDA 14.228 COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM (State-Administered Small Cities Program)

#### I. PROGRAM OBJECTIVES

The primary objective of the Community Development Block Grant (CDBG) State Program (State-Administered Small Cities Program) is the development of viable communities by providing decent housing, a suitable living environment, and expanded economic opportunities, principally for persons of low- and moderate-income. This objective can be achieved in two ways. First, funds can only be used to assist eligible activities that fulfill one or more of three national objectives. Second, the grantee must spend at least 70 percent of its funds over a period of up to three years, as specified by the grantee in its certification, for activities that address the national objective of benefiting low- and moderate-income persons (42 USC 5301(c) and 5304(b)(3)).

#### II. PROGRAM PROCEDURES

Funds are provided, according to a statutory formula, to those States that elect to administer their CDBG non-entitlement funds. The States, in turn, distribute the funds to small units of general local government (subrecipients) that do not qualify for grants under the CDBG Entitlement Program (24 CFR section 570.480).

In addition to Federal statutory requirements, each State has the authority to issue rules consistent with Federal statutes and regulations. The State rules should be reviewed before beginning the audit (24 CFR sections 570.480 and 570.481).

#### Source of Governing Requirements

This program is authorized under Title I of the Housing and Community Development Act of 1974, as amended (42 USC 5301). Implementing regulations may be found at 24 CFR part 570, subpart I.

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

##### A. Activities Allowed or Unallowed

1. Section 105(a) of the Housing and Community Development Act of 1974 lists the activities eligible under the CDBG State Program (State administered small cities program) which include: (a) the acquisition of real property; (b) the acquisition, construction, reconstruction, or installation of public works, facilities and site, or other improvements, including those that promote energy efficiency; (c) code

enforcement in deteriorated or deteriorating areas; (d) clearance, demolition, reconstruction, rehabilitation, and removal of buildings and improvements; (e) removal of architectural barriers that restrict accessibility of elderly or severely disabled persons; (f) payments to housing owners for losses of rental income incurred in temporarily holding housing for the relocated; (g) disposition of real property acquired under this program; (h) provision of public services (subject to limitations contained in the CDBG regulations); (i) payment of the non-Federal share for another grant program that is part of the assisted activities; (j) payment to complete a Title 1 Federal Urban Renewal project; (k) relocation assistance; (l) planning activities; (m) administrative costs; (n) acquisition, construction, reconstruction, rehabilitation, or installation of commercial or industrial buildings; (o) assistance to neighborhood-based non-profit organizations, local development corporations, non-profit organizations serving the development needs of communities in non-entitlement areas to carry out a neighborhood revitalization or community economic development or energy conservation project; (p) activities related to development of energy use strategies; (q) assistance to private, for-profit businesses, when appropriate to carry out an economic development project; (r) rehabilitation or development of housing assisted under Section 17 of the United States Housing Act of 1937; (s) technical assistance to public or private entities for capacity building (exempt from the planning/administration cap); (t) housing services related to HOME-funded activities; (u) assistance to institutions of higher education to carry out eligible activities; (v) assistance to public and private entities (including for-profits) to assist micro-enterprises; (w) payment for repairs and operating expenses for acquired “in Rem” properties; (x) direct home ownership assistance to facilitate and expand home ownership among persons of low- and moderate-income; (y) lead-based paint hazard evaluation, and removal; and (z) construction or improvement of tornado-safe shelters for residents of manufactured housing and provision of assistance to non-profit and for-profit entities for such construction or improvement (42 USC 5305; 24 CFR section 570.482(a)).

2. Each activity that the State funds must either benefit low- and moderate-income families; aid in the prevention or elimination of slums or blight; or meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available. The State must retain documentation justifying its certifications (24 CFR sections 570.483 and 570.490).
3. Non-entitlement local government grant recipients (subrecipients) may have loans guaranteed by HUD under Section 108 of the Housing and Community Development Act of 1974. Guaranteed loan funds may be used only for the following activities: (a) acquisition of real property; (b) housing rehabilitation; (c) rehabilitation of publicly owned real property; (d) eligible CDBG economic development activity; (e) relocation payments, (f) clearance, demolition, and removal; (g) payment of interest on Section 108 guaranteed obligations;

(h) payment of issuance and other costs associated with private-sector financing under this subpart; (i) site preparation related to redevelopment or use of real property acquired or rehabilitated pursuant to this subpart or for economic development purposes; (j) construction of housing by non-profit organizations for homeownership under Section 17(d) of the U.S. Housing Act of 1937 (12 USC 1715(l)) or Title VI of the Housing and Community Development Act of 1987; (k) debt service reserve; (l) acquisition, construction, reconstruction, rehabilitation or installation of public works and site or other improvements that serve “colonias” (as defined in Section 916 of the Housing Act of 1990 and amended by Section 810 of the Housing and Community Development Act of 1992); and (m) acquisition, construction, reconstruction, rehabilitation, or installation of public facilities (except for buildings for the general conduct of government), public streets, sidewalks, and other site improvements and public utilities (24 CFR sections 570.700 through 570.710).

#### **D. Davis-Bacon Act**

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

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

##### **1. Matching**

States are required to match the funds used for State administrative costs beyond the first \$100,000 on a one-to-one basis, as further described under III.G.3.b, “Matching Level of Effort, Earmarking - Earmarking” (24 CFR section 570.489(a)(1)).

##### **2. Level of Effort - Not Applicable**

##### **3. Earmarking**

- a. The Housing and Community Development Act of 1974 requires the State to certify that the aggregate use of the CDBG funds it receives, over a period specified by the State not to exceed three years, shall principally benefit low- and moderate-income persons. This requirement means that not less than 70 percent of the funds must be used in this manner (24 CFR section 570.484 and 42 USC 5304(b)(3)).
- b. The State may use up to \$100,000 of its grant funds for administrative purposes. In addition to this amount, up to three percent of the grant may be expended at the State level for administrative costs, provided such funds are matched from State resources on a one-to-one basis. Further, States may use three percent of program income collected, regardless of

whether at the State or local government level, for administrative costs. All administrative funds, including the State matching funds, which may be in-kind contributions, must be used to carry out the State's responsibilities. The State may use up to three percent of its grant funds to provide technical assistance to local governments and non-profit program recipients. The State may use no more than the aggregate of three percent of its grant funds for administrative purposes or technical assistance (24 CFR section 570.489(a)(1) and 42 USC 5306(d)).

- c. For planning and administrative costs, the combined expenditures of the State and units of general local governments may not exceed 20 percent of the State's total allocation plus 20 percent of any program income for any given year. Within this Statewide limit, a State may fund grants to local governments consisting entirely of planning activities (24 CFR section 570.489(a)(3)).
- d. The amount of CDBG funds used for public services must not exceed 15 percent of the grant amount received for that year plus 15 percent of the program income attributed to the year. The 15 percent public-services cap applies to each year's allocation of nonentitlement funds for the State. Individual grants to units of general local government are not subject to the public-services cap. Within this Statewide cap, a State may fund grants to local governments consisting entirely of public service activities (42 USC 5305(a)(8)).
- e. Under Section 916 of the National Affordable Housing Act of 1990 (NAHA) (Pub L. No. 101-625; 42 USC 5306 note), the States of Arizona, California, New Mexico, and Texas are required to set aside a portion of their State CDBG funds for use in colonias. The Secretary of HUD annually determines the percentage of each state's allocation (up to 10 percent) required to be set aside for this purpose. Entitlement communities in metropolitan areas of less than one million in population are eligible to receive CDBG funding from the colonias set aside in these States (42 USC 5306 note).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

- e. *Performance and Evaluation Report (OMB No. 2506-0085)* - This report is due from each grantee within 90 days after the close of its program year in a format suggested by HUD. HUD encourages the submission of the report in both paper and computerized formats. Among other factors, the report is to include a description of the use of funds during the program year and an assessment of the grantee's use for the priorities and objectives identified in its plan. The auditor is only expected to test the financial data in this report (24 CFR sections 91.520 (a) and (c)).

## 2. Performance Reporting

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons, (OMB No. 2529-0043)* – For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a), 135.90, and 570.487(d)).

### *Key Line Items –*

- a. 3. Dollar Amount of Award
- b. 8. Program Code
- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts
  - (1) A. Total dollar amount of construction contracts awarded on the project
  - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 2. Non-Construction Contracts
  - (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
  - (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving non-construction contracts

## 3. Special Reporting - Not Applicable

## N. Special Tests and Provisions

### 1. Environmental Oversight

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

**Audit Objective** - Determine whether the State carries out its environmental oversight responsibilities and functions.

#### Suggested Audit Procedures

- a. Examine the State's approval of the RROF and environmental certification, and note dates.
- b. Verify that the State obtained certifications and that the State's records provide evidence that the funds were obligated and expended after the State's approval of the RROF and environmental certification.

### 2. Environmental Reviews

**Compliance Requirement** - Projects must have an environmental review unless they meet criteria specified in the regulations that would exclude them from RROF and environmental certification requirements (24 CFR sections 58.34 and 58.35).

**Audit Objective** - Determine whether the required environmental reviews were conducted.

#### Suggested Audit Procedures

- a. Verify that the State obtained environmental review certifications from the subrecipient and that the State records provide evidence that the environmental reviews were made.
- b. For any project where an environmental review was not performed, ascertain that a written determination was made that the review was not required.

- c. Ascertain that documentation exists that any determination not to make an environmental review was made consistent with the criteria contained in 24 CFR sections 58.34 and 58.35.

#### **IV. OTHER INFORMATION**

See Appendix VI for program waivers and special provisions related to Hurricanes Katrina and Rita.



## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### CFDA 14.231 EMERGENCY SHELTER GRANTS PROGRAM

#### I. PROGRAM OBJECTIVES

The Emergency Shelter Grants (ESG) Program is designed to help improve the quality of existing emergency shelters for the homeless, make available additional emergency shelters, and meet the costs of operating emergency shelters and of providing essential social services to homeless individuals so that these persons have access not only to safe and sanitary shelters for the homeless but also to the supportive services and other kinds of assistance they need to improve their situations. The program is also intended to restrict the increase of homelessness through the funding of preventive programs and activities (24 CFR section 576.1).

#### II. PROGRAM PROCEDURES

The ESG Program provides grants to States, metropolitan cities, urban counties, and the territories according to a formula used in the Community Development Block Grant Program. Except for administrative funds, which must be shared, States must provide funds to “State recipients.”

Metropolitan cities, urban counties and territorial grantees may directly carry out activities or fund non-profit agencies to carry out activities. All of a State’s formula allocation must be made available to: (1) local governments in the State, which includes formula cities and counties, whether or not such cities and counties receive grant amounts directly from HUD; or (2) private non-profit organizations, if the local government in which the proposed activities are to be located certifies that it approves each project. Units of general local government, both grantees and State recipients, may distribute all or a part of their grant amounts to non-profit recipients (subrecipients) to be used for ESG activities (24 CFR section 576.25).

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

##### A. Activities Allowed or Unallowed

ESG amounts may be used for one or more of the activities provided for in 24 CFR section 576.21, including the renovation, major rehabilitation, or conversion of buildings for use as emergency shelters for the homeless; provision of essential services to the homeless; payment of costs associated with maintenance, operation (including administration but excluding staff costs), rent, repair, security, fuels and equipment, insurance, utilities, and furnishings; and development and implementation of homeless prevention activities. This section also provides certain limitations on the use of those funds by units of general local government and State recipients. 24 CFR section 576.23

also provides certain limitations on the use of ESG funds by primarily religious organizations (24 CFR sections 576.21 and 576.23).

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

### **1. Matching**

Each grantee must match the funding provided by HUD under its ESG Program with an equal amount from sources other than those provided under the ESG Program. These funds must be provided after the date of the grant award. A grantee may comply with this requirement by providing the supplemental funds itself, or through supplemental funds or voluntary efforts provided by any State recipient or non-profit recipient (subrecipient), as appropriate (24 CFR section 576.51).

#### **2.1 Level of Effort - *Maintenance of Effort* - Not Applicable**

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

Grant amounts may be used to provide essential services to the homeless only if the service is a new service, or is a quantifiable increase in the level of service above that which the unit of general local government provided with local funds during the 12 calendar months immediately before it received initial grant amounts (24 CFR section 576.21(b)).

### **3. Earmarking**

- a. Not more than 30 percent of the total of each grant amount provided to a unit of local government can be used for essential services for the homeless if the service is a new service, unless a waiver is granted (42 USC 11374; 24 CFR section 576.21(b)).
- b. All of a State's formula allocation must be made available to local governments in a State or private non-profit organization, as provided for in 24 CFR section 576.25(b).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Applicable

e. *Integrated Disbursement and Information System (IDIS) (OMB No. 2506-0077)* - The following reports generated by IDIS are used by grantees and HUD for financial reporting on the ESG Program:

- (1) CO4PRO2 - List of Activities by Program Year and Project (ESG Projects Only).
- (2) CO4PR19 - ESG Statistics for Projects as of Grant Year

*Key Line Item: Dollars funded from ESG Grants*

## 2. Performance Reporting

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)* – For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

*Key Line Items –*

- a. 3. Dollar Amount of Award
- b. 8. Program Code
- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts
  - (1) A. Total dollar amount of construction contracts awarded on the project
  - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 2. Non-Construction Contracts
  - (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
  - (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving non-construction contracts

### 3. **Special Reporting** - Not Applicable

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

### 1. **Maintenance as Homeless Shelters**

**Compliance Requirement** - Any building for which ESG amounts are used for renovation, or rehabilitation for use as emergency shelters for the homeless as described in 24 CFR section 576.21(a)(1), must be maintained as a shelter for the homeless for not less than a three-year period or, if the grant amounts are used for major rehabilitation or conversion of the building, for not less than a ten-year period (24 CFR section 576.53).

**Audit Objective** - Determine whether buildings improved (i.e., renovated, rehabilitated, or converted for use as an emergency shelter) with ESG funds during the audit period are currently being used as emergency shelters.

#### **Suggested Audit Procedures**

- a. Ascertain if any buildings were improved with ESG funds during the audit period.
- b. Verify the existence of the buildings improved with ESG funds and their current use as a homeless shelter.
- c. Inquire of management whether any buildings improved with ESG funds in prior years are no longer being used as shelters, and if so, whether the prescribed three or ten-year period had expired.

### 2. **Funding**

**Compliance Requirement** - Within 65 days of the date of the grant award by HUD, each State must make available to its State recipients all ESG amounts that were allocated under 24 CFR section 576.5. State recipients, as well as cities, counties, and territories that receive formula money, must have their grant amounts obligated and expended within specified periods, as provided for in 24 CFR section 576.35.

**Audit Objective** - Determine whether funding was allocated, obligated, and expended within HUD-prescribed limits.

#### **Suggested Audit Procedures**

- a. Determine the time periods for which funds must be allocated, obligated and expended for the selected entities.
- b. Review records to determine the dates that funds were allocated, obligated, and expended, as applicable.

## IV. **OTHER INFORMATION**

See Appendix VI for program waivers related to Hurricanes Katrina and Rita.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### CFDA 14.235 SUPPORTIVE HOUSING PROGRAM

#### I. PROGRAM OBJECTIVES

The Supportive Housing Program is designed to promote the development of supportive housing and supportive services, including innovative approaches to assist homeless persons in the transition from homelessness, and to promote the provision of supportive housing to homeless persons so they can live as independently as possible (24 CFR section 583.1).

#### II. PROGRAM PROCEDURES

Grants are provided to States, local governments, other governmental entities, private non-profit organizations, and community mental health associations that are public non-profit organizations (24 CFR section 583.5). Funds may be used for: (1) transitional housing to facilitate the movement of homeless individuals and families to permanent housing; (2) permanent housing that provides long-term housing for homeless persons with disabilities; (3) housing that is, or is part of, a particularly innovative project for, or alternative methods of, meeting the immediate and long-term needs of homeless persons; or (4) supportive services for homeless persons not provided in conjunction with supportive housing (24 CFR section 583.1(b)).

#### Source of Governing Requirements

The Supportive Housing Program is authorized under Title IV, Subtitle C of the McKinney-Vento Homeless Assistance Act (42 USC 11301). The implementing regulations are at 24 CFR part 583.

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

##### A. Activities Allowed or Unallowed

Grants may be used for acquiring structures, rehabilitating structures, acquiring and rehabilitating structures, new construction, leasing, operating costs for supportive housing, and supportive services as described in 24 CFR sections 583.105 through 583.125. Projects may have more than one type of assistance (24 CFR section 583.100).

**E. Eligibility****1. Eligibility for Individuals**

- a. To be eligible to receive assistance under this program an individual must be homeless, as defined in 24 CFR section 583.5. The eligibility of those tenants who were admitted to the program should be determined by obtaining: (1) signed applications that contained all of the information needed to determine eligibility, income, rent and order of selection; and, (2) when appropriate, third party verifications or documentation of expected income, assets, unusual medical expenses, and any other pertinent information.
- b. Each resident in supportive housing may be required to pay as rent an amount which may not exceed the highest of: (1) 30 percent of the family's monthly adjusted income; (2) 10 percent of the family's monthly income; or (3) if the family is receiving payments for welfare assistance from a public agency and a part of the payments, adjusted in accordance with the family's actual housing costs, is specifically designated by the agency to meet the family's housing costs, the portion of payments that is designated. In addition to resident rent, non-Federal entities may charge residents reasonable fees for services not paid with grant funds (24 CFR sections 583.315(a) and (c)).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable****3. Eligibility for Subrecipients - Not Applicable****G. Matching, Level of Effort, Earmarking****1. Matching**

- a. The non-Federal entity must match the grant funds provided by HUD for acquisition, rehabilitation, and new construction with an equal amount of funds from other sources. The matching funds must be cash resources provided to the project by one or more of the following: the non-Federal entity, the Federal Government, State and local governments, and private sources (24 CFR section 583.145).
- b. HUD may provide grants to pay for a portion of the actual operating costs of supportive housing. Assistance for operating costs is available for up to 75 percent of the total cost in each year of the grant. The non-Federal entity must pay with its own funds the percentage of the actual operating costs not funded by HUD. At the end of each operating year, the non-Federal entity must demonstrate that it has met its share of the costs for that year (24 CFR section 583.125).

- c. Beginning with 1999 grants, all funding for supportive services must be matched by 25 percent funding from non-Federal entity (Pub. L. No. 105-276).

**2.1 Level of Effort - *Maintenance of Effort* - Not Applicable**

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

No assistance provided under this program, or any State or local government funds used to supplement this assistance, may be used to replace State or local funds previously used, or designated for use, to assist homeless persons (24 CFR section 583.150(a)).

**3. Earmarking**

No more than five percent of any grant awarded may be used for paying the costs of administering the assistance. Administrative costs include the costs associated with accounting for the use of grant funds, preparing reports for submission to HUD, obtaining program audits, and similar costs related to administering the grant after award. The administrative costs do not include the cost of carrying out eligible activities under 24 CFR sections 583.105 through 583.125 (24 CFR section 583.135).

**J. Program Income**

Income from resident rent payments may be used in the operation of the project or may be reserved, in whole or in part, to assist residents of transitional housing in moving to permanent housing (24 CFR section 583.315(b)).

**L. Reporting**

**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. HUD-40118, *Annual Progress Report (OMB No. 2506-0145)* - This report is due from each grantee 90 days after the end of each operating year. Separate reports are required for each grant received (24 CFR section 583.300 (g)).

The auditor is expected to test the financial data in:

- (1) Part I - 15. Supportive Services
- (2) Part II - 19. Supportive Housing Program: Leasing, Supportive Services, Operating Costs, HMIS Activities and Administration
- (3) Part II - 20. Supportive Housing Program: Acquisition, Rehabilitation, and New Construction

## 2. Performance Reporting

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)* – For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

*Key Line Items –*

- a. 3. Dollar Amount of Award
- b. 8. Program Code
- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts
  - (1) A. Total dollar amount of construction contracts awarded on the project
  - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 2. Non-Construction Contracts
  - (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
  - (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving non-construction contracts

## 3. Special Reporting - Not Applicable



## N. Special Tests and Provisions

### 1. Reasonable Rental Rates

**Compliance Requirement** - Where grants are used to pay for rent for all or a part of a structure, the rent paid must be reasonable in relation to rents being charged in the area for comparable space. In addition, the rent may not exceed rents currently being charged by the same owner for comparable space (24 CFR section 583.115(b)(1)).

Where grants are used to pay rent for individual housing units, the rent paid must be reasonable in relation to rents being charged for comparable units taking into account relevant features. In addition, the rents may not exceed rents currently being charged by the same owner for comparable unassisted units, and the portion of rents paid with grant funds may not exceed HUD-determined fair market rents. Non-Federal entities may use grant funds in an amount up to one month's rent to pay the non-recipient landlord for any damages to leased units by homeless participants (24 CFR section 583.115(b)(2)).

**Audit Objective** - Determine reasonableness of the rents being paid by the non-Federal entities.

#### Suggested Audit Procedures

- a. Determine the acceptability of the manner in which the non-Federal entity establishes rent reasonableness and the rents charged by the owner for comparable unassisted units. Ascertain through an examination of documentation that telephone surveys, site visits after telephoning, more extensive market surveys of available rental units, or similar tools, were used to assess the reasonableness of rents being charged.
- b. Verify by a review of the rental records that the contract rents being paid are comparable with those paid for unassisted units, no more than one month's rent is paid for tenant damages, and that the portion of rents paid with grant funds do not exceed fair market rents.

### 2. Use of Property

**Compliance Requirement** - All non-Federal entities receiving assistance for acquisition, rehabilitation, or new construction must agree to operate the supportive housing or provide supportive services for a term of at least 20 years from the date of initial occupancy or the date of initial service provision. If HUD determines that a project is no longer needed for use as supportive housing or to provide supportive services and approves the use of the project for the direct benefit of low-income persons pursuant to a request for such use by the non-Federal entity operating the project, HUD may authorize the non-Federal entity to convert the project to such use (24 CFR section 583.305).

**Audit Objective** - Determine whether there are valid agreements for the provision of supportive housing or supportive services when assistance is provided for acquisition, rehabilitation, or new construction.

**Suggested Audit Procedures**

Verify that a binding agreement exists between the non-Federal entity and owner of the structure, if other than the non-Federal entity, covering the provision of supportive housing or supportive services for 20 years if the grant assistance involves acquisition, rehabilitation, or new construction.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### CFDA 14.238 SHELTER PLUS CARE

#### I. PROGRAM OBJECTIVES

The Shelter Plus Care program is designed to link rental assistance to supportive services for hard-to-serve homeless persons with disabilities (primarily those who have a serious mental illness; have chronic problems with alcohol, drugs, or both; or have acquired immunodeficiency syndrome (AIDS) and related diseases) and their families if they are also homeless (24 CFR section 582.1).

#### II. PROGRAM PROCEDURES

The program provides grants to States, units of general local government, or public housing agencies (PHAs). The grants are to be used to provide rental assistance so homeless persons with disabilities can obtain permanent housing. Rental assistance grants must be matched in the aggregate by supportive services that are equal in value to the amount of rental assistance and appropriate to the needs of the population to be served. Recipients are chosen on a competitive basis nationwide (24 CFR section 582.1).

Rental assistance is provided through the four components described in 24 CFR section 582.100: (1) tenant-based rental assistance (TRA); (2) project-based rental assistance (PRA); (3) sponsor-based rental assistance (SRA); and (4) moderate rehabilitation for single room occupancy (SRO) dwellings. Applicants may apply for assistance under any one of the four components. The Compliance Supplement's section relating to CFDA 14.856 (4-14.182) should be used in auditing the moderate rehabilitation program for SRO dwellings.

The grant amount is based on the number and size of units to be assisted by the applicant over the grant period. It is calculated by multiplying the number of units to be assisted by their fair market rents for the term of the grant in months. The amount determined will be reserved for rental assistance over the grant period (24 CFR sections 582.105(b) and (c)).

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

##### A. Activities Allowed or Unallowed

1. Shelter Plus Care grants may be used to provide rental assistance for housing occupied by eligible persons and to pay for the costs of administering the housing assistance, except that the housing may not be receiving Federal funds for rental assistance or operating costs under any other HUD program. Non-Federal entities may design a housing program that includes a range of housing types and

different levels of supportive services. Rental assistance may include security deposits on units amounting to one month's rent (24 CFR section 582.105(a)).

2. The eight percent administrative allowance for housing assistance (see III.G.3, "Matching, Level of Effort, Earmarking - Earmarking") does not include the cost of administering the supportive services or the grant (e.g., costs of preparing the application, reports or audits required by HUD), which are not eligible activities under a Shelter Plus Care grant. Non-Federal entities may contract with another entity approved by HUD to administer the housing assistance. Eligible administrative activities include processing rental payments to landlords, examining participant income and family composition, providing housing information, inspecting housing units for compliance with housing quality standards, and receiving new participants into the program (24 CFR section 582.105(e)).

#### **D. Davis-Bacon Act**

Except for the use of volunteers under the conditions of 24 CFR part 70, agreements under the SRO component covering nine or more assisted units are required to comply with the requirements of the Davis-Bacon Act (24 CFR section 882.804(b)).

#### **E. Eligibility**

##### **1. Eligibility for Individuals**

- a. To be eligible for assistance under this program, a person must be homeless, of very low-income, and have disabilities, as defined in 24 CFR section 582.5. The eligibility of tenants admitted to the program should be determined by: (1) obtaining signed applications that contained the information needed to determine eligibility, income, and rent; and, when appropriate, (2) obtaining third party verifications or documentation of expected income, assets, unusual medical expenses, and any other pertinent information. Tenant income should not exceed the maximum limit set by HUD for the PHA's jurisdiction, as provided in the notice transmitting Income Limits for Low and Very Low-Income Families Under the Housing Act of 1937.
- b. Each person must pay rent which is the highest of: (1) 30 percent of the family's monthly adjusted income; (2) 10 percent of the family's monthly income; or (3) if the family is receiving payments for welfare assistance from a public agency and a part of the payments, adjusted in accordance with the family's actual housing costs, is specifically designated by the agency to meet the family's housing costs, the portion of payments that is so designated (24 CFR section 582.310(a)).

##### **2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

3. **Eligibility for Subrecipients** - Sponsor-based rental assistance (SRA) provides grants for rental assistance through contracts between the grant recipient and sponsor organizations. A sponsor must be a private, non-profit organization or a community mental health agency established as a public non-profit organization (24 CFR section 582.100(c)).

## G. Matching, Level of Effort, Earmarking

### 1. Matching

A grantee must provide or ensure the provision of supportive services that are at least equal in value to the aggregate amount of rental assistance funded by HUD. This includes funding the services itself if the planned resources do not become available for any reason, appropriate to the needs of the population being served. The supportive services may be newly created for the program or existing, and may be provided or funded by other Federal, State, local, or private programs. Only services that are provided after the execution of the grant agreement may count toward the match. The manner in which the value of supportive services is calculated is contained in 24 CFR section 582.110(c).

#### 2.1 Level of Effort - *Maintenance of Effort* - Not Applicable

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

No assistance received under this program (or any State or local government funds used to supplement this assistance) may be used to replace funds provided under any State or local government assistance programs previously used, or designated for use, to assist homeless persons with disabilities (24 CFR section 582.115(d)).

### 3. Earmarking

Up to eight percent of the grant amount may be used to pay the costs of administering housing assistance, subject to the limits noted in III.A.2 above (24 CFR section 582.105(e)).

## L. Reporting

### 1. Financial Reporting

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

- e. HUD-40118, *Annual Progress Report (OMB No. 2506-0145)* - This report is due from each grantee (and separately for each component funded) within 90 days after the end of its operating year (24 CFR section 582.300 (d)).

*Key Line Items* - Financial data in Part I -15. Supportive Services

## 2. Performance Reporting

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)* – For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

*Key Line Items* –

- a. 3. Dollar Amount of Award
- b. 8. Program Code
- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts
  - (1) A. Total dollar amount of construction contracts awarded on the project
  - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 2. Non-Construction Contracts
  - (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
  - (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving non-construction contracts

## 3. Special Reporting - Not Applicable

## N. Special Tests and Provisions

### 1. Rent Reasonableness

**Compliance Requirement** - HUD will only provide assistance for a unit for which the rent is reasonable. For TRA, PRA, and SRA, it is the responsibility of the non-Federal entity to determine whether the rent charged for the unit receiving assistance is reasonable in relation to rents being charged for comparable unassisted units. For SRO units, rents are calculated in accordance with 24 CFR section 882.805(d) (24 CFR section 582.305(b)).

**Audit Objective** - Determine reasonableness of the rents being paid by the grantee.

#### Suggested Audit Procedures

- a. Identify the manner in which the non-Federal entity establishes rent reasonableness, and if such tools as telephone surveys, site visits after telephoning, or more extensive market surveys of available rental units were conducted in order to assess the reasonableness of rents being charged. Examine the non-Federal entity's documentation showing rents charged for comparable unassisted units.
- b. Verify that the contract rents being paid are comparable with those paid for unassisted units. If unassisted units are in the building, compare rents paid for those units with the rents paid for the assisted units.

### 2. Housing Quality Standards

**Compliance Requirement** - Housing assisted under the Shelter Plus Care Program must meet applicable housing quality standards under 24 CFR section 582.305 (a) and, for the SRO component, under 24 CFR section 882.803(b). Before any assistance is provided on behalf of a participant, the non-Federal entity, or another entity acting on behalf of the non-Federal entity (other than the owner of the housing), must physically inspect each unit to assure that the unit meets housing quality standards. Non-Federal entities must also inspect all units annually during the grant period to ensure that units continue to meet housing quality standards (24 CFR section 582.305(a)).

**Audit Objective** - Determine whether the grantee performs the required inspections to assure that units meet housing quality standards.

#### Suggested Audit Procedures

- a. Verify through a review of documentation that the non-Federal entity identifies those units on which housing quality inspections are due.
- b. Verify through a review of documentation that the non-Federal entity performed inspections of units and that any needed repairs were completed timely.

### 3. Project-Based Rental Assistance

**Compliance Requirement** - Project-based rental assistance provides grants for rental assistance to the owner of an existing structure, where the owner agrees to lease the subsidized units to participants. Participants do not retain rental assistance if they move. Rental subsidies are provided to the owner for a period of either five or ten years. To qualify for ten years of rental subsidies, the owner must complete at least \$3000 of eligible rehabilitation work for each unit (including the prorated share of work to be accomplished on common areas or systems), to make the structure decent, safe, and sanitary. The rehabilitation work must be completed within 12 months of the grant award (24 CFR section 582.100(b)).

**Audit Objective** - Determine whether project-based assistance is being paid in accordance with agreements.

#### Suggested Audit Procedures

- a. Examine the existing agreement between the owner and the non-Federal entity to determine whether the agreement is for either five or ten years.
- b. If the agreement is for ten years, verify through a review of documentation that the required rehabilitation of at least \$3000 was performed within 12 months of the grant award.
- c. Examine the billings from the owner, and verify that the assistance payments are for units occupied or ready for occupancy.



## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### CFDA 14.239 HOME INVESTMENT PARTNERSHIPS PROGRAM

#### I. PROGRAM OBJECTIVES

The objectives of the HOME Investment Partnerships (HOME) Program include: (1) expanding the supply of decent and affordable housing, particularly housing for low- and very low-income Americans; (2) strengthening the abilities of State and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; (3) providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low-income housing; and (4) extending and strengthening partnerships among all levels of government and the private sector, including for-profit and non-profit organizations, in the production and operation of affordable housing (24 CFR section 92.1).

#### II. PROGRAM PROCEDURES

The program is conducted by jurisdictions (States, cities, urban counties, and consortia) that receive an allocation of funds. Participating jurisdictions must submit a description of how they propose to use the funds for housing activities, together with certifications (24 CFR part 91). The funding amount is based on a formula of six factors established to reflect a jurisdiction's need for an increased supply of affordable housing for low- and very low-income families (24 CFR section 92.50).

A State may carry out its own HOME program without active participation of units of general local government or may distribute HOME funds to units of general local government to carry out HOME programs in which both the State and all or some of the units of general local government perform specified functions. A unit of general local government designated by a State to receive HOME funds from a State is a "State recipient." Before disbursing funds to an entity, each participating jurisdiction is required to enter into written agreements with the entity. The contents of the agreement may vary depending on the role which the entity is asked to assume or the type of project undertaken. However, there must be certain minimum provisions depending on whether the entity is a State recipient, subrecipient, for-profit or non-profit housing owner, or contractor as well as a home buyer, homeowner, or tenant receiving tenant-based rental or security deposit assistance (24 CFR section 92.504).

#### Source of Governing Requirements

The HOME Investment Partnerships Program was established by the Title II of the Cranston-Gonzalez National Affordable Housing Act (42 USC 12701-12839 and 3535(d)). Implementing regulations are codified at 24 CFR part 92.

## Availability of Other Program Information

Pertinent information that will assist the auditor in understanding the HOME program is available on the agency web site. Relevant web sites include the following:

*Affordable Housing:*

<http://www.hud.gov/offices/cpd/affordablehousing/index.cfm>

*HOME Program:*

<http://www.hud.gov/offices/cpd/affordablehousing/programs/home/index.cfm>

*HOME Statute:*

<http://www.hud.gov/offices/cpd/affordablehousing/lawsandregs/laws/home/index.cfm>

*HOME Rule:*

<http://www.hud.gov/offices/cpd/affordablehousing/lawsandregs/>

*HOME Publications:*

<http://www.hud.gov/offices/cpd/affordablehousing/library/index.cfm>

*Community Connections:*

Toll-free number 1-800-998-9999 or <http://www.comcon.org/>

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. HOME funds (including program income generated by activities carried out with HOME funds) may be used by participating jurisdictions to provide for:
  - (a) incentives to develop and support affordable rental housing and homeownership affordability through the acquisition, new construction, reconstruction, or rehabilitation of non-luxury housing with suitable amenities, including real property acquisition, site improvements, conversion, demolition, and other expenses, including financing costs, relocation expenses of any displaced persons, families, businesses, or organizations;
  - (b) to provide tenant-based rental assistance, including security deposits;
  - (c) the payment of reasonable administrative and planning costs; and
  - (d) the payment of operating expenses of Community Housing Development Organizations (CHDOs). The housing must

be permanent or transitional. The acquisition of vacant land or demolition can only be undertaken with respect to a particular housing project intended to provide affordable housing. Conversion of an existing structure to affordable housing is rehabilitation unless certain circumstances exist. Manufactured housing may be purchased or rehabilitated and the land upon which it is built may be purchased with HOME funds. HOME funds may be used to pay for development construction costs, refinancing costs, acquisition costs, related soft costs, CHDO costs, relocation costs, and costs related to the repayment of loans (24 CFR sections 92.205(a) and 92.206).

2. A participating jurisdiction may use or “invest” HOME funds as equity investments, interest-bearing loans or advances, non-interest-bearing loans or advances, interest subsidies, deferred payment loans, grants, or other forms of assistance approved by HUD. A participating jurisdiction may invest HOME funds to guarantee loans made by lenders and, if required, the participating jurisdiction may establish a loan guarantee account with HOME funds. The amount of the loan guarantee account must be based on a reasonable estimate of the default rate on the guaranteed loans but under no circumstances, may the amount on deposit exceed 20 percent of the total outstanding principal amount guaranteed, except that the account may include a reasonable minimum balance. While loan funds guaranteed with HOME funds are subject to all HOME requirements, funds which are used to repay the guaranteed loans are not (24 CFR section 92.205(b)).
3. Generally, HOME funds may not be used for: project reserve accounts, tenant-based rental assistance for the special purpose of the Section 8 program, non-Federal matching contributions under any other non-Federal program, annual contributions for the operation of public housing, public housing modernization, assistance to prepay low income housing mortgages, assistance to a project previously assisted with HOME funds during the period of affordability (i.e., the period for which the non-Federal entity must maintain subsidized housing), and the acquisition of property by the participating jurisdiction. Participating jurisdictions may not charge monitoring, servicing, and origination fees in HOME-assisted projects (24 CFR section 92.214).

#### **D. Davis-Bacon Act**

Contracts for the construction of affordable housing with 12 or more HOME-assisted units are required to comply with the requirements of the Davis-Bacon Act (42 USC 12836).

#### **E. Eligibility**

##### **1. Eligibility for Individuals**

- a. The HOME Program has income targeting requirements. Only low-income or very low-income persons, as defined in 24 CFR section 92.2,

can receive housing assistance (24 CFR section 92.1). Therefore, the participating jurisdiction must determine if each family is income eligible by determining the family's annual income, as provided for in 24 CFR section 92.203. Participating jurisdictions must maintain records for each family assisted (24 CFR section 92.508).

- b. HOME-assisted units in a rental housing project must, pursuant to 24 CFR 92.216(a), be occupied only by households that are eligible as low-income families and must meet certain limits on the rents that can be charged. The requirements also apply to the HOME-assisted non-owner-occupied single-family housing purchased with HOME funds. The maximum HOME rents are the lesser of: the fair market rent for comparable units in the area, as established by HUD under 24 CFR section 888.111, or a rent that does not exceed 30 percent of the adjusted income of a family whose annual income equals 65 percent of the median income for the area as determined by HUD with adjustments for the number of bedroom units. In rental projects with five or more units there are additional rent limitations. Twenty percent of the HOME-assisted units must be occupied by very low-income families and meet one of the following rent requirements: (1) the rent does not exceed 30 percent of the annual income of a family whose income equals 50 percent of the median income for the area, as determined by HUD, with adjustments for larger or smaller families; or (2) the rent does not exceed 30 percent of the families adjusted income (24 CFR section 92.252).
- c. A participating jurisdiction may use HOME funds for tenant-based rental assistance, as provided for in 24 CFR section 92.209(b). The participating jurisdiction must select families in accordance with policies and criteria consistent with those provided in 24 CFR section 92.209(c).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

**3. Eligibility for Subrecipients - Not Applicable**

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

**1. Matching**

Each participating jurisdiction must provide eligible matching contributions of 25 percent of HOME funds drawn down during the fiscal year. The match must be provided by the end of the fiscal year. Some participating jurisdictions are eligible for a reduction in the required match based upon meeting standards of distress. The jurisdictions which are eligible for the reduction are identified by a notice published in the *Federal Register*, or a notice issued by HUD. Jurisdictions may also receive reductions if they are in Presidentially declared disaster areas. Participating jurisdictions are required to maintain records,

including individual project records and a running log, demonstrating compliance with the matching requirements, including the type and amount of contributions by project. Matching information is provided on the *HOME Match Report* (HUD-40107-A) (24 CFR sections 92.218 through 92.220, 92.222, and 92.508).

**2. Level of Effort - Not Applicable**

**3. Earmarking**

- a. Each participating jurisdiction must invest HOME funds made available during a fiscal year so that, with respect to tenant-based rental assistance and rental units not less than 90 percent of (1) the families receiving assistance are families whose annual income do not exceed 60 percent of the median family income for the area, as determined and made available by HUD, with adjustments for smaller and larger families at the time of occupancy or at the time funds are invested, whichever is later, or (2) the dwelling units assisted with such funds are occupied by families having such incomes (24 CFR section 92.216).
- b. Each participating jurisdiction must invest HOME funds made available during a fiscal year so that with respect to homeownership assistance, 100 percent of these funds are invested in dwelling units that are occupied by households that qualify as low-income families at the time of occupancy or at the time funds are invested, whichever is later (24 CFR section 92.217).
- c. Each participating jurisdiction must invest at least 15 percent of each year's HOME allocation in projects which are owned, developed, or sponsored by special non-profit organizations called CHDOs. If, during the first 24 months of its participation in the HOME Program, a participating jurisdiction cannot identify a sufficient number of capable CHDOs, then up to 20 percent of the minimum set-aside (but not more than \$150,000 during the 24-month period) may be made available to develop the capacity of CHDOs in the jurisdiction (24 CFR section 92.300).
- d. A participating jurisdiction may expend for its HOME administrative and planning costs an amount of HOME funds that is not more than ten percent of the fiscal year HOME basic formula allocation plus any funds received in accordance with 24 CFR section 92.102(b) to meet or exceed threshold requirements that fiscal year. A participating jurisdiction may also use up to ten percent of any return of the HOME investment, as defined in 24 CFR section 92.503, calculated at the time of deposit in its HOME account, for administrative and planning costs (24 CFR section 92.207).

**L. Reporting****1. Financial Reporting - Not Applicable****2. Performance Reporting**

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)* – For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

*Key Line Items –*

- a. 3. Dollar Amount of Award
  - b. 8. Program Code
  - c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
  - d. Part II, Contracts Awarded, 1. Construction Contracts
    - (1) A. Total dollar amount of construction contracts awarded on the project
    - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
    - (3) D. Total number of Section 3 businesses receiving construction contracts
  - e. Part II, Contracts Awarded, 2. Non-Construction Contracts
    - (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
    - (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
    - (3) D. Total number of Section 3 businesses receiving non-construction contracts
- 3. Special Reporting - Not Applicable**

## M. Subrecipient Monitoring

Each participating State is responsible for distributing HOME funds throughout the State according to the State's assessment of the geographical distribution of housing need within the State. A State may carry out its HOME Program without active participation of units of general local government or may distribute HOME funds to units of general local government to carry out HOME Programs in which both the State and all or some of the units of general local government perform specified program functions. A State that uses State recipients to perform program functions shall ensure that the State recipients use HOME funds in accordance with applicable laws and requirements. A State shall include in its written agreements with its State recipients such additional provisions as may be appropriate to ensure compliance and to enable the State to carry out its responsibilities under the HOME Program. The State is to conduct such reviews and audits of its State recipients as may be necessary or appropriate to determine whether the State recipient has committed and expended the HOME funds, as required by 24 CFR section 92.500, and has met HOME Program requirements particularly as they relate to eligible activities, income targeting, affordability, and matching contribution requirement (24 CFR section 92.201(b)).

Before disbursing funds to a subrecipient, each participating jurisdiction is required to enter into written agreements with the entity which includes provisions dealing with the use of HOME funds, program income, uniform administrative requirements, other program requirements, affirmative marketing, requests for disbursement of funds, reversion of assets, records and reports, and enforcement of the agreement. Further, if the subrecipient provides HOME funds to for-profit owners or developers, non-profit organizations, subrecipients, homeowners, homebuyers, tenants receiving tenant-based rental assistance, or contractors, the subrecipient must have a written agreement that contains the provisions in 24 CFR section 92.504.

## N. Special Tests and Provisions

### 1. Maximum Per Unit Subsidy

**Compliance Requirement** - The per unit investment of HOME funds may not exceed the Federal Housing Administration (FHA) mortgage limits in Subsection 221(d)(3) of the National Housing Act, including any area-wide high cost exceptions approved by HUD. This information should be available from the grantee or the local HUD field office. In mixed-income or mixed-use projects, the average per unit investment in HOME-assisted units may not exceed the applicable Subsection 221(d)(3) limit. Participating jurisdictions are required to evaluate each housing project in accordance with guidelines that it adopts to ensure that the combination of Federal assistance to the project is not any more than is necessary to provide affordable housing (24 CFR section 92.250).

**Audit Objective** - Determine whether the HOME subsidies being provided are not more than necessary to provide affordable housing and are properly supported.

### **Suggested Audit Procedures**

- a. Review a sample of projects to verify that the HOME subsidy amounts are supported by the participating jurisdiction's records.
- b. Review participating jurisdiction records to verify that each housing project was evaluated in accordance with its guidelines to ensure that the combination of Federal assistance to the project is not any more than is the FHA mortgage limits in Subsection 221(d)(3) of the National Housing Act necessary to provide affordable housing.

### **2. Drawdowns of HOME Funds**

**Compliance Requirement** - The Integrated Disbursement and Information System is used both to collect information on compliance with program requirements and to disburse HOME funds. Participating jurisdictions (or their authorized representatives) are required to have different staffs setting up projects and drawing down funds. Participating jurisdictions must maintain payment certifications each time a drawdown of funds is made (24 CFR section 92.502).

**Audit Objective** - Determine whether the required separation of duties is maintained over the drawdown of HOME funds.

### **Suggested Audit Procedures**

- a. Verify that the persons setting up projects are not the same as the person drawing down funds.
- b. Verify that HOME payment certification amounts match the amount of disbursements.

### **3. Housing Quality Standards**

**Compliance Requirement** - During the period of affordability (i.e., the period for which the non-Federal entity must maintain subsidized housing) for HOME assisted rental housing, the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than: (a) every three years for projects containing 1 to 4 units, (b) every two years for projects containing 5 to 25 units, and (c) every year for projects containing 26 or more units. The participating jurisdiction must perform on-site inspections of rental housing occupied by tenants receiving HOME-assisted tenant-based rental assistance to determine compliance with housing quality standards (24 CFR sections 92.251, 92.252, and 92.504(b)).

**Audit Objective** - Determine whether the grantee performs the required inspections to assure that property standards are met.



**Suggested Audit Procedures**

- a. Verify through a review of documentation that the non-Federal entity identifies those units on which housing quality inspections are due.
- b. Verify through a review of documentation that the non-Federal entity performs inspections of units and that any needed repairs are completed timely.

**IV. OTHER INFORMATION***Improper Payments*

A participating jurisdiction (PJ) that uses any HOME funds for an activity that does not meet HOME affordability requirements outlined in 24 CFR section 92.252 or 24 CFR section 92.254, or for costs that are not eligible costs identified in 24 CFR sections 92.206 through 92.209 must repay the those funds to its Federal HOME Investment Trust Account pursuant to 24 CFR section 92.503(b).

*Hurricanes Katrina and Rita*

See Appendix VI for program waivers related to Hurricanes Katrina and Rita.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### CFDA 14.241 HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS

#### I. PROGRAM OBJECTIVES

The Housing Opportunities for Persons with AIDS (HOPWA) program is designed to provide States and localities with resources and incentives to devise long-term strategies for meeting the housing needs of persons with acquired immunodeficiency syndrome (AIDS) or related diseases and their families (24 CFR section 574.3).

#### II. PROGRAM PROCEDURES

The Department of Housing and Urban Development (HUD) awards funds appropriated for the program in any fiscal year through both a formula allocation and competitive grant process. Ninety percent of the funds are awarded through formula grants and ten percent through competitive grants. HUD allocates formula funds based on the number of cases of AIDS reported to and confirmed by the Centers for Disease Control and Prevention and on population data furnished by the U.S. Bureau of the Census (24 CFR section 574.130).

Competitively awarded funds are available for special projects of national significance and other projects submitted by States and localities that do not qualify for formula grants. All States, units of general local government, and non-profit organizations may apply for grants for projects of national significance. Only those States and units of general local government that do not qualify for formula awards may apply for grants for other projects. Except for grants involving projects of national significance, non-profit organizations are not eligible to apply directly to HUD for a grant, but may receive funding as a project sponsor (subrecipient) under a contract with a grantee (24 CFR section 574.210).

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

##### A. Activities Allowed or Unallowed

1. HOPWA funds may be used to assist all forms of housing designed to prevent homelessness, including emergency housing, shared housing arrangements, apartments, single room occupancy (SRO) dwellings, and community residences. Appropriate supportive services must be provided as part of any HOPWA-assisted housing, but HOPWA funds may also be used to provide services independently of any housing activity. The following activities may be carried out with HOPWA funds: housing information services; resource identification to establish, coordinate, and develop housing assistance resources for eligible persons; acquisition, rehabilitation, conversion, lease, and repair of facilities to provide housing and services; new construction for SRO and community

residences only; project- or tenant-based rental assistance, including assistance for shared housing arrangements; short-term rent, mortgage, and utility payments to prevent the homelessness of the tenant or the mortgagor of a dwelling; supportive services; operating costs for housing; technical assistance in establishing and operating a community residence; administrative expenses; and, for competitive grants only, any other activity proposed by the applicant and approved by HUD (24 CFR section 574.300).

2. Grantees must assure that grant funds will not be used to make payments for health services for any item or service to the extent that payment was made, or can reasonably be expected to be made, with respect to any item or service: (a) under any State compensation program, under an insurance policy, or under any Federal or State health benefits program; or (b) by an entity that provides health services on a prepaid basis, as provided for in 24 CFR section 574.310(a)(2). Supportive services include such items as alcohol abuse treatment and counseling, day care, and nutritional services (24 CFR section 574.300(b)(7)).

## **E. Eligibility**

### **1. Eligibility for Individuals**

- a. A person eligible for assistance under this program means one with AIDS or a related disease who is a low-income individual, as defined in 24 CFR section 574.3, and the person's family. The eligibility of those tenants who were admitted to the program should be determined by: (1) obtaining signed applications that contained all the information needed to determine eligibility, income, rent and order of selection; and (2) obtaining third-party verifications or documentation of expected income, assets, unusual medical expenses, and any other pertinent information.
- b. Except for persons in short-term supportive housing, each person receiving rental assistance under the HOPWA Program must pay as rent the higher of: (1) 30 percent of the family's monthly adjusted gross income; (2) 10 percent of the family's monthly gross income; or (3) the portion of the payments that is designated if the family is receiving payments for welfare assistance from a public agency and a part of the payments, adjusted in accordance with the family's actual housing costs, is specifically designated by the agency to meet the family's housing costs (24 CFR section 574.310).
- c. If grant funds are used to provide rental assistance, the amount of grant funds used to pay monthly assistance for an eligible person may not exceed the difference between the lower of the rent standard or reasonable rent for the unit and the resident's rent payment calculated in accordance with 24 CFR section 574.310 (24 CFR section 574.320). Allowable assistance can be determined by telephone surveys, site visits after

telephoning, or more extensive market surveys of available rental units to assess the reasonableness of rents being charged.

- d. A short-term supported housing facility may not provide residence to any individual for more than 60 days during any six-month period. Rent, mortgage, and utility payments to prevent the homelessness of the tenant or the mortgagor of a dwelling may not be provided to such an individual for costs accruing over a period of more than 21 weeks in any 52-week period. Further a short-term supported facility may not provide shelter or housing at any single time for more than 50 families or individuals (24 CFR section 574.330).

2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients** - Not Applicable

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

1. **Matching** - Not Applicable
- 2.1 **Level of Effort** - *Maintenance of Effort* - Not Applicable
- 2.2 **Level of Effort** - *Supplement Not Supplant*

The amounts received from grants under this program may not be used to replace other amounts made available or designated by State or local governments through appropriations to be used to carry out the purposes of this program (24 CFR section 574.400).

**3. Earmarking**

Each grantee may use not more than three percent of the grant amount for its own administrative costs relating to administering grant amounts and allocating such amounts to project sponsors (subrecipients). Each project sponsor receiving amounts from grants made under this program may not use more than seven percent of the amounts for administrative costs (24 CFR section 574.300(b)(10)(i)-(ii)).

**L. Reporting**

1. **Financial Reporting**
  - a. SF-269, *Financial Status Report* - Not Applicable
  - b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
  - c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable

- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. HUD-40110, *Annual Progress Report (OMB No. 2506-0133)* - This report is due from each grantee within 90 days after the close of its program year. Separate reports are required for formula and competitive grants. Reports contain three basic parts. The auditor is only expected to test the financial data which is found in part 3, Program Expenditures and Housing Provided (24 CFR section 574.520 and 24 CFR part 91).

## 2. Performance Reporting

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)* – For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

### *Key Line Items –*

- a. 3. Dollar Amount of Award
- b. 8. Program Code
- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts
  - (1) A. Total dollar amount of construction contracts awarded on the project
  - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 2. Non-Construction Contracts
  - (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
  - (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving non-construction contracts

## 3. Special Reporting - Not Applicable

## N. Special Tests and Provisions

### 1. Maintenance of Structures

**Compliance Requirement** - Project-based rental assistance provides grants for rental assistance to the owners of existing structures, where the owner agrees to lease the subsidized units to participants. Participants do not retain rental assistance if they move. Unless waived by HUD, any building or structure assisted with funds under HOPWA must be maintained as a facility to provide housing or assistance for individuals with AIDS or related diseases: (a) for a period of not less than ten years, in the case of assistance provided under an activity eligible under 24 CFR sections 574.300(b)(3) - (4) involving new construction, substantial rehabilitation, or acquisition of a building or structure; or (b) for a period of not less than three years in cases involving nonsubstantial rehabilitation or repair of a building or structure (24 CFR sections 574.310(c)(1) - (2)).

**Audit Objective** - Determine whether the project sponsor is receiving the proper amount of assistance and is maintaining the assisted buildings and structures for participants for the stipulated periods.

#### Suggested Audit Procedures

- a. Identify the buildings or structures assisted with HOPWA funds and verify their use.
- b. Examine related agreements to verify that the structures are to provide housing or assistance for the stipulated number of years when new construction, substantial rehabilitation, acquisition, or nonsubstantial rehabilitation was involved.
- c. Verify from documentation or by observation that the required rehabilitation was performed if the project was accepted for occupancy during the audit period.

### 2. Housing Quality Standards

**Compliance Requirement** - All housing that involves acquisition, rehabilitation, conversion, lease, repair of facilities, new construction, project- or tenant-based rental assistance (including assistance for shared housing arrangements), and operating costs must meet various housing quality standards listed in 24 CFR sections 574.310(b)(1)-(2).

**Audit Objective** - Determine whether the grantee performs the required inspections to assure that units meet housing quality standards.

#### Suggested Audit Procedures

- a. Verify by a review of documentation that the grantee's system identifies those units on which housing quality inspections are due.
- b. Verify by a review of documentation that the grantee performs inspections of these units and that any needed repairs were completed timely.

### 3. Community Residences

**Compliance Requirement** - A community residence is a multi-unit residence designed for eligible persons to provide a lower cost residential alternative to institutional care, to prevent or delay the need for such care, to provide a permanent or transitional residential setting with appropriate services to enhance the quality of life for those who are unable to live independently, and to enable those persons to participate as fully as possible in community life. If grant funds are used to provide a community residence (except for planning and other preliminary expense), the grantee must, prior to the expenditure of such funds, obtain and keep on file certifications relating to the services to be provided, the adequacy of funding and the capabilities of the grantee, project sponsor, or service provider (24 CFR section 574.340).

**Audit Objective** - Determine whether the required certifications are being maintained and supported.

#### **Suggested Audit Procedures**

- a. Review the grantees files to verify that the required certifications are maintained.
- b. Verify that there is evidence on file to support the certifications that were made.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### CFDA 14.850 PUBLIC AND INDIAN HOUSING

#### I. PROGRAM OBJECTIVES

The overall objective of the Public and Indian Housing program is to provide and operate cost-effective, decent, safe and affordable dwellings for lower income families through an authorized local Public Housing Agency (PHA).

#### II. PROGRAM PROCEDURES

##### Public Housing

Annual contributions are made to PHAs for debt service payments for commitments approved on or prior to September 30, 1986, or direct funding of capital costs (grants) is provided to PHAs for commitments approved after September 30, 1986. In addition, operating subsidy funds are available to achieve and maintain adequate operating and maintenance service and reserve funds.

Emphasis is on housing type (i.e., acquisition with or without rehabilitation versus new construction) and household type (i.e., large family). Funds may also be used for the major reconstruction of obsolete existing public housing projects.

PHAs established in accordance with State law are eligible. The proposed program must be approved by the local governing body. Pursuant to the Native American Housing Assistance and Self Determination Act of 1996, Indian Housing Authorities (IHAs) are no longer eligible for funding under the U.S. Housing Act of 1937 or the Indian Housing Act.

There are three core occupancy procedures which are described in program regulations and other guidance: (1) determination of eligibility; (2) determination of income and rent; and (3) leasing and continuing occupancy. Eligibility beneficiaries are lower income families, which include citizens or eligible immigrants. "Families" include but are not limited to: (1) a family with or without children; (2) an elderly family (head, spouse, or sole member 62 years or older); (3) near-elderly family (head, spouse, or sole member 50 years old but less than 62 years old); (4) a disabled family; (5) a displaced family; (6) the remaining member of a tenant family; or (7) a single person who is not elderly, near-elderly, displaced, or a person with disabilities.

##### Operating Fund

Operating Fund requirements are contained in 24 CFR part 990, The Public Housing Operating Fund Program, as revised on September 19, 2005 and October 24, 2005. Guidance on financial management and reporting requirements for public housing authorities under 24 CFR part 990 was published in Notice PIH 2007-9 (April 10, 2007), which included guidance in a Supplement to the Financial Management Handbook, Department of Housing and Urban Development (HUD) Handbook 7475.1, Changes in Financial Management and Reporting for Public Housing Agencies Under the New Operating Fund Rule. For fiscal years beginning July 1, 2007 and later, PHAs will be required to manage properties according to an Asset Management Model, consistent with the management norms in the broader multi-family management industry. PHAs



also must implement project-based management, budgeting, and accounting, which are essential components of asset management.

Under asset management rules, PHAs will be required to provide project-specific data through the Financial Data Schedule (FDS). In order to accommodate project-based accounting, the FDS is being updated to meet these needs. The depiction of the proposed FDS is available on the asset management web site and will be effective for submissions with a fiscal year end of June 30, 2008 and beyond. Due to the addition of many new asset management line items, a five-digit numbering system will be used in the Revenue & Expense portion of the FDS.

PHAs that own and operate 250 or more dwelling rental units must establish a central office cost center (COCC) to account for non-project specific costs. The COCC must charge each project using a fee-for-service approach. Each project shall be charged for the actual services received and only to the extent that such amounts are reasonable. Fee reasonableness will be monitored as a compliance requirement after the first year of asset management. The asset management fee and transfers of funds between projects (project fungibility) will be limited to the restrictions made on excess cash. Excess cash will also be monitored as a compliance requirement after the first year of asset management.

The assistance made available from the Operating Fund is determined by a formula used to calculate the amount of operating subsidy for each PHA. The operating subsidy is equal to the project's Project Expense Level (PEL) plus the Utilities Expense Level (UEL), multiplied by Eligible Unit Months (EUM), plus other formula expenses (add-ons), minus formula income. The methodology and procedures for this calculation are found in 24 CFR part 990.

The operating subsidy calculation is prepared in conjunction with the project's annual operating subsidy worksheet in HUD Form 52723, *Operating Fund Calculation of Operating Subsidy* (OMB No. 2577-0029.) The form is submitted before the beginning of the PHA calendar year in accordance with the schedule established by HUD.

Essentially, the PEL, which is the non-utility costs for each project, is based on what it would cost a well-managed project of comparable location and characteristics to operate based on such variables as: size of project (number of units); age of property (date of full availability); bedroom mix; building type; occupancy type; location (an indicator of the type of community in which a property is located [location types include rural, city central metropolitan, and non-city central metropolitan (suburban) areas]; neighborhood poverty rate; percentage of households assisted; ownership type (profit, non-profit, or limited dividend); and geographic location.

The resulting PELs are arrived at by application of the formula utilizing these variables. These costs are updated annually based on inflation and changes in the PHA characteristics included in the equation. The UEL is a figure that reflects payment to the PHA for PHA-paid utility costs for each project. The UEL is formula-determined, reflective of actual consumption during the previous four years, recent utility rates, and a factor for inflation.

## Performance Reporting

HUD assesses the performance of housing agencies to evaluate their actions in all major areas of management operations and to designate as “troubled” any agency that fails on a widespread basis to provide acceptable housing conditions.

HUD evaluates a PHA using the Public Housing Assessment System (PHAS) (24 CFR part 902). Currently, the PHAS is based on four indicators: (1) the physical condition of the PHA’s public housing properties; (2) the PHA’s financial condition; (3) the PHA’s management operations (measured by *Management Operations Certification*, HUD Form 50072); and (4) resident’s assessment (measured through a resident survey). To assess the performance of a PHA on the basis of the first two indicators, the Office of Public and Indian Housing Real Estate Assessment Center (PIH-REAC) uses comprehensive and standardized protocols to conduct physical inspections of public housing properties and to assess the financial condition of PHAs. For the first year of conversion to project-based budgeting/accounting, PHAs will receive transition scores under the new Financial Assessment sub-systems, as well as all other sub-systems under the PHAS.

## Financial Reporting

In accordance with HUD’s Uniform Financial Reporting Standards rule, annually, a PHA is required to submit its financial statement, prepared in accordance with generally accepted accounting principles (GAAP), in the electronic format specified by HUD. The unaudited financial statement is due 2 months after the PHA’s fiscal year end and the audited financial statement is due 9 months after its fiscal year end (24 CFR section 5.801). The financial statement must include the financial activities of this program.

## Source of Governing Requirements

This program is authorized by the US Housing Act of 1937, as amended (42 USC 1437d(j), 42 USC 1437g, and 42 USC 3535(d)). Implementing regulations are 24 CFR parts 5, 902, 960, 966, and 990.

## Availability of Other Program Information

HUD maintains web pages on the Internet (<http://www.hud.gov/progdesc/pihindx.cfm> and <http://www.hud.gov/offices/reac/index.cfm>) that provide general information about this program.

HUD’s Real Estate Assessment Center web site ([http://www.hud.gov/offices/reac/library/lib\\_mo.cfm](http://www.hud.gov/offices/reac/library/lib_mo.cfm)) includes an *Instruction Guidebook for Completing Public Housing Assessment System Management Operations Certifications Form HUD 50072*.

HUD’s Office of Public and Indian Housing maintains a web site (<http://www.hud.gov/offices/pih/programs/ph/am/>) that provides general information and updates on asset management. This web site also has information on relevant HUD notices and the Supplement to Handbook 7475.1.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a federal program, the auditor should first look to Part 2, Matrix of Compliance requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

##### *Chargeable Fees under the Fee-for-Service Approach*

The PHA may charge each project an asset management fee that may be used to fund operations of the central office (24 CFR section 990.280(b)(5)(ii)).

In addition to project-specific records, PHAs may establish COCCs to account for non-project specific costs (e.g. human resources, Executive Director's office, etc). Those costs shall be funded from the property-management fees received from each property, and from the asset management fees to the extent these are available (24 CFR section 990.280 (c)).

If a PHA chooses to centralize functions that directly support a project (e.g., central maintenance), it must charge each project using a fee-for-service approach. Each project shall be charged for the actual services received and only to the extent that such amounts are reasonable (24 CFR section 990.280 (d)).

PHAs that own and operate 250 or more dwelling rental units under Title I of the 1937 Act, including units managed by a third-party entity (for example, a resident management corporation) but excluding section 8 units, are required to operate using an asset management model consistent with subpart H of 24 CFR part 990 (24 CFR section 990.260(a)). For Calendar Year 2008, PHAs that own and operate 400 or fewer public housing units may elect to be exempt from any asset management requirement imposed by HUD in connection with the operating fund rule, provided that an agency seeking a discontinuance of a reduction of subsidy under the operating fund formula shall not be exempt from asset management requirements (Section 225 of Title II of the HUD portion of the Consolidated Appropriations Act, 2008 (Pub. L. No. 110-161)).

For PHAs with greater than 250 units and/or PHAs using asset management, HUD has established the following as the fees the COCC can charge projects or programs (See Section 7.1 to the Supplement to HUD Handbook 7475.1):

1. Property (project) management fee;
2. Bookkeeping fees;
3. Fees for centrally provided direct services (front-line expenses);
4. Asset management fees;

5. Capital Fund Program management fees; and
6. Management fees for other programs.

## **E. Eligibility**

### **1. Eligibility for Individuals**

Most PHAs devise their own application forms that are filled out by the PHA staff during an interview with the tenant. The head of household signs: (a) a certification that the information provided to the PHA is correct; (b) one or more release forms to allow the PHA to get information from third parties; (c) a federally prescribed general release form for employment information; and (d) a privacy notice. Under some circumstances, other members of the family may be required to sign these forms (24 CFR sections 5.212, 5.230, and 5.601 through 5.615).

The PHA must:

- a. As a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility (24 CFR sections 5.230, 5.609, and 960.259).
  - b. For both family income examinations and reexaminations, obtain and document in the family file third-party verification of: (1) reported family annual income; (2) the value of assets; (3) expenses related to deductions from annual income; and (4) other factors that affect the determination of adjusted income or income-based rent (24 CFR section 960.259).
  - c. Determine income eligibility and calculate the tenant's rent payment using the documentation from third-party verification in accordance with 24 CFR part 5, subpart F (24 CFR sections 5.601 *et seq.*, and 24 CFR sections 960.253, 960.255, and 960.259).
  - d. Select tenants from the public housing waiting list (see III.N.1, "Special Tests and Provisions - Public Housing Waiting List") (24 CFR sections 960.206 and 960.208).
  - e. Reexamine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payment as necessary using the documentation from third-party verification (24 CFR sections 960.253, 960.257, and 960.259).
2. **Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**
  3. **Eligibility for Subrecipients - Not Applicable.**

**J. Program Income**

For PHAs that convert to asset management (required of PHAs with 250 or more units), any internal fees that the PHA charges to projects or programs (property management fees, asset management fees, etc.) are not considered program income for purposes of 24 CFR part 85 and OMB Circular A-87, provided that the fees charged are reasonable under the criteria established by HUD; however, other State and local restrictions still may apply. Consequently, any reasonable fees earned by the PHA/COCC will be treated as local revenue subject only to the controls and limitations imposed by the PHA's management, Board, or other authorized governing body (24 CFR 85.25; Section 7.2 in the Supplement to HUD Handbook 7475.1).

**L. Reporting****1. Financial Reporting - Not Applicable****2. Performance Reporting**

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)* – For each public and Indian housing grant that involves development, operating, or modernization assistance, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

*Key Line Items –*

- a. 3. Dollar Amount of Award
- b. 8. Program Code
- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts
  - (1) A. Total dollar amount of construction contracts awarded on the project
  - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 2. Non-Construction Contracts
  - (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity

- (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
- (3) D. Total number of Section 3 businesses receiving non-construction contracts

### 3. Special Reporting

- a. HUD-50058, *Family Report (OMB No. 2577-0083)* - The PHA is required to submit this form electronically to HUD the each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.

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

- (1) Line 2a - *Type of Action*
  - (2) Line 2b - *Effective Date of Action*
  - (3) Line 3b, 3c - *Names*
  - (4) Line 3e - *Date of Birth*
  - (5) Line 3n - *Social Security Numbers*
  - (6) Line 5a - *Unit Address*
  - (7) Line 5h, 5i - *Unit Inspection Dates*
  - (8) Line 7i - *Total Annual Income*
  - (9) Line 13h - *Contract Rent to Owner*
  - (10) Line 13k or 13x - *Tenant Rent*
  - (11) Lines 2k and 17a - *Family's Participation in the Family Self Sufficiency (FSS) Program*
  - (12) Line 17k(2) - *FSS Account Balance*
- b. HUD-52723, *Operating Fund Calculation of Operating Subsidy (OMB No. 2577-0029)* - This form is prepared and submitted before the end of the PHA's fiscal year and is used by HUD to calculate funding for the next year. The form's data is based upon historical information. The auditor is not expected to audit the column headed "HUD Modifications (PUM)."

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

- (1) Section 2, Line 15 – *Total Unit Months*
- (2) Section 3, Part A, Line 4 - *PEL*
- (3) Section 3, Part A, Line 6 - *UEL*
- (4) Section 3, Part A, Line 16 – *Total Add-Ons*
- (5) Section 3, Part B, Line 4 – *Total Formula Income*

- c. HUD 52722, Operating Fund *Calculation of Allowable Utilities Expense Level (OMB No. 2577-0029)*

*Key Line Items* - The following line item contains critical information:

- (1) Line 1, *Actual consumption (12-month period 7/1/\_ to 6/30/\_)*
- (2) Line 15, *Payable Consumption*
- (3) Line 26, *Utilities Expense Level - PUM*

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

### **1. Public Housing Waiting List**

**Compliance Requirement** - The PHA must establish and adopt written policies for admission of tenants. The PHA tenant selection policies must include requirements for applications and waiting lists, description of the policies for selection of applicants from the waiting lists, and policies for verification and documentation of information relevant to acceptance or rejections of an applicant (24 CFR sections 960.202 through 960.206).

**Audit Objective** - Determine whether the PHA is following its own tenant selection policies in placing applicants on the waiting list in selecting applicants from the waiting list to become tenants.

#### **Suggested Audit Procedures**

- a. Review the PHA's tenant selection policies.
- b. Test a sample of applicants added to the waiting list and ascertain if the PHA's tenant selection policies were followed in placing applicants on the waiting list.
- c. Test a sample of new tenants to ascertain if they were selected from the waiting list in accordance with the PHA's tenant selection policies.

## 2. Tenant Participation Funds

**Compliance Requirement** – When tenant participation funds are provided to a PHA, the PHA must provide those funds to duly elected resident councils. Funding provided by a PHA to a duly elected resident council may be made only under a written agreement between the PHA and the resident council that includes a resident council budget. PHAs are permitted to fund \$25 per unit per year for units represented by duly elected resident councils for resident services. Of this \$25, \$15 per unit per year is provided to fund tenant participation activities. The agreement must require the local resident council to account to the PHA for the use of the funds and permit the PHA to inspect and audit the resident council's financial records related to the agreement (24 CFR section 964.150).

**Audit Objective** - Determine whether the PHA has properly allocated tenant participation funds to resident councils and has determined that resident councils' expenditures are adequately documented.

### Suggested Audit Procedures

- a. Review PHA project agreements and records to determine if funding provided for tenant participation has been allocated to resident councils in accordance with a written agreement.
- b. Test a sample of the expenditures and supporting documentation reported to the PHA to determine if resident council expenditures are consistent with the resident council budget.
- c. Review PHA policies and procedures to determine if adequate controls are in place to account for tenant participation funds.

## 3. Project-Based Budgeting and Accounting

**Compliance Requirement** – PHAs implementing asset management shall develop and maintain a system of budgeting and accounting for each project in a manner that allows for analysis of actual revenues and expenses associated with each property (24 CFR section 990.280(a)).

Financial information to be budgeted and accounted for at a project level shall include all data needed to complete a project-based FDS in accordance with GAAP, including revenues, expenses, assets, liabilities, and equity data (24 CFR section 990.280(b)(1)).

**Audit Objective** – Determine whether each PHA has implemented project-based budgeting and accounting.

### Suggested Audit Procedures

- a. Obtain the PHA's budget and determine if it is project-based.
- b. Review FDS and determine whether each project has its own column on the FDS.



#### 4. Classification of Costs

**Compliance Requirement** – For PHAs implementing asset management, if a PHA chooses to centralize functions that directly support a project (e.g., central maintenance), it must charge each project using a fee-for-service approach. Each project shall be charged for the actual services received and only to the extent that such amounts are reasonable. For the Operating Fund, PHAs should refer to Table 7.2 in the Supplement to HUD Handbook 7475.1 for classifying costs as either a front-line expense (an expense of the project) or a fee expense (an expense of the management company, i.e., the COCC) (24 CFR section 990.280(d)).

**Audit Objective** – Determine whether project support costs were properly classified as fee expense or front-line expense.

##### Suggested Audit Procedures

- a. Select a sample of costs charged to the projects and review the classification as either a front-line expense or a fee expense.
- b. For any costs selected that contain elements of both front-line expenses and fee expenses, review the documentation of the PHA for the rationale used for the assignment.

#### 5. Balance Sheet Allocations

**Compliance Requirement** – PHAs implementing asset management must apportion their assets, liabilities, and equities to their projects and COCC at the time of conversion to project-based accounting. Assets, liabilities, and associated net assets should be assigned to the applicable project or COCC if a direct relationship exists, including personal and real property. HUD has provided guidance on this subject in Section 4.3 of the Supplement to HUD Handbook 7475.1 (24 CFR section 990.280(b)(1)).

**Audit Objective** – Determine if PHAs have apportioned their assets, liabilities, and equity.

##### Suggested Audit Procedures

- a. Select a sample of assets, liabilities, and equities.
- b. Determine that they were appropriately allocated to projects and COCC.

#### IV. OTHER INFORMATION

See Appendix VI for program waivers and special provisions related to Hurricanes Katrina and Rita.

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT****CFDA 14.862 INDIAN COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM****I. PROGRAM OBJECTIVES**

The primary objective of the Indian Community Development Block Grant (CDBG) program is the development of viable Indian and Alaskan Native communities, including decent housing, a suitable living environment, and expanded economic opportunities, principally for persons of low- and moderate-income. Indian CDBG assistance may not be used to reduce substantially the amount of local financial support for community development activities below the level of support prior to the availability of the assistance (24 CFR section 1003.2).

**II. PROGRAM PROCEDURES**

Two types of grants are eligible under the Indian CDBG program. Single-purpose grants provide funds for one or more single purpose projects which consist of an activity or set of activities designed to meet a specific community development need. This type of grant is awarded through competition with other single-purpose projects. Imminent threat grants alleviate an imminent threat to public health or safety that requires immediate resolution. This type of grant is awarded only after a HUD area office determines that such conditions exist and that funds are available for such grants (24 CFR section 1003.100).

**Source of Governing Requirements**

Implementing regulations are published at 24 CFR part 1003.

**Availability of Other Program Information**

Additional information about the Indian CDBG program is available on the Internet at <http://www.hud.gov/offices/pih/ih/grants/icdbg.cfm>.

**III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

## **A. Activities Allowed or Unallowed**

Indian CDBG funds (including program income generated by activities carried out with grant funds) may only be used for the following activities: (1) the acquisition of real property; (2) the acquisition, construction, reconstruction, or installation of public works, facilities, and site, or other improvements; (3) code enforcement in deteriorated or deteriorating areas; (4) clearance, demolition, removal, and rehabilitation of buildings and improvements; (5) special projects for removal of material and architectural barriers that restrict accessibility by elderly and handicapped individuals; (6) payments to housing owners for losses of rental income incurred in temporarily holding housing for the relocated; (7) disposition of real property acquired under this program; (8) provision of public services (subject to limitations contained in regulations and to certain HUD determinations); (9) payment of the non-Federal share for a grant program that is part of the assisted activities; (10) payment to complete a Title 1 Federal Urban Renewal project; (11) relocation assistance; (12) planning activities; (13) administrative costs; (14) acquisition, construction, reconstruction, rehabilitation, or installation of commercial or industrial buildings; (15) assistance to community-based development organizations; (16) activities related to energy use; (17) assistance to private, for-profit business, when appropriate to carry out an economic development project; (18) substantial reconstruction of housing owned and occupied by low- and moderate-income persons (subject to certain HUD determinations); (19) direct assistance to facilitate and expand homeownership; (20) technical assistance to public or private entities for capacity building (exempt from planning/administration cap); (21) housing counseling and housing activity delivery costs under Indian CDBG and Indian HOME; (22) assistance to colleges and universities to carry out eligible activities; and (23) assistance to public and private entities (including for-profits) to assist micro-enterprises (24 CFR sections 1003.201 through 1003.206).

## **F. Equipment and Real Property Management**

1. For equipment purchased with Indian CDBG funds, the requirements of 24 CFR section 85.32 apply with the exception that when the equipment is sold, the proceeds are considered program income (24 CFR section 1003.501(a)(9)).
2. Generally, when real property that was acquired or improved using Indian CDBG program funds in excess of \$25,000 is disposed of, the Indian CDBG program must be reimbursed for its fair share of the current market value of the property. If disposition occurs after program closeout, the proceeds shall be used for allowable activities and meeting the primary objective of the program (24 CFR section 1003.504).

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

1. **Matching** - Not Applicable
2. **Level of Effort** - Not Applicable

### **3. Earmarking**

- a. To be eligible under the Indian CDBG program, a single-purpose grant activity must benefit low- and moderate-income persons. To meet this requirement, not less than 70 percent of the funds of each single-purpose grant must be used for activities that benefit low- and moderate-income persons under the criteria set forth in 24 CFR sections 1003.208(a), (b), (c), or (d). In determining the percentage of funds used for such activities, the provisions of 24 CFR section 1003.208(e)(4) apply.
- b. No more than 20 percent of the total grant plus program income received during a program year may be obligated during that year for activities that qualify as planning and administration pursuant to 24 CFR sections 1003.205 and 1003.206 (24 CFR section 1003.206). Technical assistance costs associated with developing the capacity to undertake a specific funded program activity are not considered administrative costs and are not included in the 20 percent limitation on planning and administration costs (24 CFR section 1003.206).
- c. Public service activities may comprise no more than 15 percent of the total grant award 24 CFR section 1003.201(e).

### **J. Program Income**

Program income received before grant closeout may be retained by the non-Federal entity if the income is treated as additional Indian CDBG funds subject to all the applicable requirements governing the use of Indian CDBG funds. However, as noted in 24 CFR section 1003.503(b)(4), program income does not include the first \$25,000 in program income received by the grantee and all of its subrecipients in any single year if the total amount of such income does not exceed \$25,000 (24 CFR section 1003.503).

### **L. Reporting**

#### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Applicable

## 2. Performance Reporting

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)* – For each Indian CDBG that involves development, operating, or modernization assistance, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

*Key Line Items –*

- a. 3. Dollar Amount of Award
- b. 8. Program Code
- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts
  - (1) A. Total dollar amount of construction contracts awarded on the project
  - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 2. Non-Construction Contracts
  - (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
  - (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving non-construction contracts

## 3. Special Reporting - Not Applicable

### M. Subrecipient Monitoring

Before disbursing any Indian CDBG funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient. The agreement shall include provisions concerning: the statement of work, records and reports, program income, uniform administrative requirements, and reversion of assets (24 CFR section 1003.502).

## N. Special Tests and Provisions

### 1. Environmental Assessments

**Compliance Requirement** - An environmental assessment must be prepared for a project unless the grantee determined that it met a criterion specified in the regulations that would exempt or exclude it from Request for Release of Funds (RROF) and environmental certification requirements (24 CFR sections 58.34 and 58.35). Exempt activities do not require an environmental review; activities which are potential exclusions require an environmental review to determine if an exclusion is applicable. If not applicable, an assessment must be done (24 CFR section 1003.605).

**Audit Objective** - Determine whether the required environmental reviews are being performed.

#### Suggested Audit Procedures

- a. Select a sample of projects for which expenditures were made and verify that environmental certifications exist.
- b. Ascertain that the certifications were supported by an environmental assessment.
- c. For any project where an environmental assessment was not performed, ascertain that a written determination was made that the assessment was not required.
- d. Ascertain whether documentation exists that any determination not to do an environmental assessment was made consistent with the criteria contained in 24 CFR sections 58.34 and 58.35.

### 2. Release of Funds

**Compliance Requirement** - Indian CDBG funds (and local funds to be repaid with Indian CDBG funds) cannot be obligated or expended before receipt of HUD's approval of a RROF and environmental certification, except for exempt activities under 24 CFR section 58.34 or activities found to be categorically excluded under 24 CFR section 58.35 (24 CFR sections 58.22, 58.33 through 35, and 1003.605).

**Audit Objective** - Determine whether funds were obligated or expended before HUD's approval of the RROF and environmental certification.

#### Suggested Audit Procedures

- a. Examine HUD's approval of the RROF and environmental certification and note receipt dates.
- b. Review the expenditure and related records and determine the dates the funds were obligated or expended.

- c. Determine that funds, including other than Indian CDBG funds that were subsequently reimbursed by Indian CDBG funds, were obligated or expended subsequent to RROF and environmental certification approval by HUD.

#### **IV. OTHER INFORMATION**

See Appendix VI for program waivers and special provisions related to Hurricanes Katrina and Rita.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### CFDA 14.866 DEMOLITION AND REVITALIZATION OF SEVERELY DISTRESSED PUBLIC HOUSING (HOPE VI)

#### I. PROGRAM OBJECTIVES

The objective of HOPE VI revitalization grants is to provide assistance to public housing agencies (PHAs) for the purposes of enabling PHAs to improve the living environment for public housing residents of severely distressed public housing projects through (1) demolition, (2) substantial rehabilitation, (3) reconfiguration, and/or (4) replacement of severely distressed units. An additional objective is to revitalize the sites on which severely distressed public housing projects are located and contribute to the improvement of the surrounding neighborhood.

The objective of HOPE VI demolition grants is to enable PHAs to fund the demolition of severely distressed public housing units and relocation of affected residents, and to provide supportive services to relocated residents.

#### II. PROGRAM PROCEDURES

##### Notice of Funding Availability

The Department of Housing and Urban Development (HUD) awards demolition and revitalization grants to eligible organizations through a competitive process. The procedure is set out in the Notices of Funding Availability (NOFAs) for the applicable fiscal year (FY). The NOFA establishes the eligibility requirements for PHAs to apply for a HOPE VI grant; the availability of funds; and the requirements and procedures to be followed in filing an application for the applicable FY.

##### Grant Agreement

The grant agreement (Agreement) establishes grant requirements; the procedures and content for the Revitalization Plan; the time periods for implementation of the grant; the requirements and procedures for grant-supported activities, including development, rehabilitation, homeownership, demolition, disposition, relocation, acquisition, community and supportive services, administrative fees and costs, and amendment to the Revitalization Plan. In addition, the Agreement defines the various development types in a mixed-income development, including replacement units, rental units, homeownership units, and market rate units and their allowed sources of funding, and the HUD regulations governing their development and location.

##### Development and Mixed-Finance Development

The selection of a development partner and the general administrative requirements are governed by 24 CFR part 85. The detailed steps to be followed in the phase-by-phase development of an all-public housing development are governed by 24 CFR part 941 – Public Housing Development and 24 CFR part 968 – Public Housing Modernization. The detailed steps to be followed in the phase-by-phase development of a mixed-income/mixed-finance development are



governed by the provisions of 24 CFR part 941 subpart F – Public/Private Partnerships for the Mixed-Finance Development of Public Housing.

The components of a mixed-income/mixed-finance development may be public housing units, low-income tax credit and Section 8 units, and privately financed market rate units. All of the components of the mixed-finance development, other than public housing, must be funded from other financial sources. These objectives are accomplished through the PHA forging partnerships with other public agencies, including local governmental agencies, nonprofit organizations, and private businesses to leverage community support and public housing-funded financial sources for the development.

In general, the procedures to be followed for each phase of development, as set out in the Agreement and the Revitalization Plan are as follows. A mixed-finance proposal (Rental Term Sheet) is prepared that describes the development and development partners; number and types of units; sources and uses of funds (F1s) by specific phase (HOPE VI Budget); schedules; any waivers required; loans and operating subsidy payments to the development entity; estimated construction cost; and any other matters pertinent to the development. Upon approval of the Rental Term Sheet, the PHA has the evidentiary documents for the transaction and the Mixed-Finance Amendment to the ACC prepared for review and approval by HUD.

An approval letter is issued by HUD, authorizing the execution of the applicable HUD documents and the recording of the evidentiaries. A copy of the recorded evidentiaries and the HUD documents are forwarded to HUD Headquarters. Upon review and approval, the HOPE VI funds for the phase, as set out in the HOPE VI Budget, and the F1s are placed in Line of Credit Control System to fund the development costs for the phase. Upon completion of construction, and the meeting of the end of the initial operating period and the date of full availability, the agreed-upon Operating Subsidy is provided for the public housing units. Upon completion of all of the phases of development funded by HOPE VI, the grant is closed out in accordance with the provisions of the Agreement.

### **Source of Governing Requirements**

The program authority for the HOPE VI program is 42 USC 1437v, as amended by section 402 of the HOPE VI Program Reauthorization and Small Community Mainstreet Rejuvenation and Housing Act of 2003 (Pub. L. No. 108-186, approved December 16, 2003). The regulations governing mixed-financing are contained in 24 CFR part 941, subpart F.

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

No program-specific regulations have been published. Each grant is subject to the terms of its Agreement, which is signed by the grantee and HUD. HUD posts guidance on the HOPE VI program on its Home Page (<http://www.hud.gov/hopevi>), which provides information on timelines, budgets, financial instructions, and other program guidance. HUD also publishes a *Mixed-Finance Guidebook* that is available to the public by calling 1-800-955-2232.

Information regarding the financial reporting requirements of the PHAs is provided by HUD on the Real Estate Assessment Center (REAC) home pages

([http://www.hud.gov/offices/reac/products/fass/pha\\_doc.cfm](http://www.hud.gov/offices/reac/products/fass/pha_doc.cfm) and [http://www.hud.gov/offices/reac/library/lib\\_fapha.cfm](http://www.hud.gov/offices/reac/library/lib_fapha.cfm)).

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. HOPE VI revitalization grant funds may be used to fund the revitalization of severely distressed public housing developments (42 USC 1437v(d)). Such activities include:
  - a. The demolition of severely distressed public housing developments or portions thereof (42 USC 1437v(d)(1)(C)),
  - b. Relocation costs for affected residents (42 USC 1437v(d)(1)(F) and (J)),
  - c. Disposition activities (42 USC 1437v(d)(1)(C))
  - d. Rehabilitation of existing public housing units and/or community facilities (42 USC 1437v(d)(1)(B)),
  - e. Development of new public housing units and community facilities (42 USC 1437v(d)(1)(I)),
  - f. Homeownership activities (42 USC 1437v(d)(1)(G)),
  - g. Acquisition and disposition activities (42 USC 1437v(d)(1)(B),(C) and (J)),
  - h. Economic development activities (42 USC 1437v(d)(1)(G)),
  - i. Leveraging of resources (42 USC 1437v(d)(1)(I)),
  - j. Necessary management improvements (42 USC 1437v(d)(1)(H)),
  - k. Administrative and consulting costs (42 USC 1437v(d)(1)(D) and (E)),and
  - l. Community and supportive services(42 USC 1437v(d)(1)(G)) .
2. HOPE VI demolition grant funds may be used to fund the demolition of dwelling units and non-dwelling structures, relocation of affected residents, site restoration, as appropriate, and reasonable administrative costs (42 USC 1437v(d)).

3. The components of mixed-finance development, other than public housing, may not be financed with public housing funds (42 USC 1437v(d)).

#### **D. Davis-Bacon Act**

HOPE VI projects developed in accordance with 24 CFR part 941 – Public Housing Development and 24 CFR part 968 – Public Housing Modernization that contain only public housing replacement units, and HOPE VI mixed-finance projects developed in accordance with 24 CFR part 941 subpart F – Public/Private Partnerships for the Mixed-Finance Development of Public Housing where the development entity has been procured by the PHA in accordance with 24 CFR part 85 are subject to the provisions of the Davis Bacon Act (42 USC 1437j(a) and (b), 24 CFR sections 941.208 and 941.610(a)(8)(vi)).

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

##### **1. Matching**

Grantees must provide a five percent (5%) overall match, and if more than five percent (5%) of the grant is used for community and supportive services, any amount over five percent (5%) must be matched (42 USC 1437v(c)).

##### **2. Level of Effort - Not Applicable**

##### **3. Earmarking - Not Applicable**

#### **L. Reporting**

##### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- d. SF-272, *Federal Cash Transactions Report* – Applicable
- e. *Financial Reports (OMB No. 2535-0107)* - Financial Assessment Sub System, FASS-PHA. 24 CFR part 902 – Public Housing Assessment System (PHAS) Subpart C-Phase Indicator #2 Financial Condition requires the PHA to provide reports on an annual basis. The report requires an assessment on a PHA entity-wide basis, which allows for the oversight of all individual grants and subsidy programs and provides HUD access to any factors it determines are appropriate (42 USC 1437d(j)(1)(K)). Financial reporting requirements in 24 CFR section 902.33(a)(2) provide that the information be “submitted electronically in the format prescribed by HUD using the Financial Data Schedule (FDS).”

24 CFR section 902.35, "Financial condition scoring and threshold," establishes the procedures to be observed by the PHA.

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

- (1) Headings for HUD Programs and Business Activities
  - (a) HOPE VI (Revitalization of Severely Distressed Public Housing)
  - (b) Component Units (Non-Profit Entities)
- (2) Line Items
  - (a) FDS Line 125 - (Accounts Receivable – Misc)
  - (b) FDS Line 144 - (Inter-Program – Due From)
  - (c) FDS Line 171 - (Notes, Loans, & Mortgages Receivable – Non-current)
  - (d) FDS Line 172 - (Notes, Loans, & Mortgages Receivable – Non-current - Past Due)
  - (e) FDS Line 174 - (Other Assets)
  - (f) FDS Line 176 - (Investment in Joint Ventures)
  - (g) FDS Line 347 - (Inter-Program – Due To)
  - (h) FDS Line 348 - (Loan Liability – Current)
  - (i) FDS Line 355 - (Loan Liability – Non-Current)
  - (j) FDS Line 10010 - (Operating Transfer In)
  - (k) FDS Line 10020 - (Operating Transfer Out)
  - (l) FDS Line 10030 - (Operating Transfers From/To Primary Government)
  - (m) FDS Line 10093 – (Transfers Between Programs and AMPs - In)
  - (n) FDS Line 10094 – (Transfers Between Programs and AMPs - Out)

[NOTE: HUD is in the process of making changes and adding new line items to the FDS. The auditor should verify the FDS line numbers at the time of the audit.]

## 2. Performance Reporting

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)* – For each public and Indian housing grant that involves development, operating, or modernization assistance, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

### *Key Line Items –*

- a. 3. Dollar Amount of Award
- b. 8. Program Code
- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts
  - (1) A. Total dollar amount of construction contracts awarded on the project
  - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 1. Non-Construction Contracts
  - (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
  - (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving non-construction contracts

## 3. Special Reporting – Not Applicable

## N. Special Tests and Provisions

### **FASS – PHA, Public Housing Assessment System Phase Indicator #2 - Financial Condition, and HUD-50075, PHA Plans**

**Compliance Requirement** – On an annual basis, the PHA must report on the financial condition of the PHA and on the transactions that the PHA is entering into with private and non-profit entities (24 CFR section 902.33). In the FASS-PHA Financial Assessment Sub System, the PHA transactions with non-profit and private development entities are shown under the headings for HUD Programs and Business Activities for HOPE VI (Revitalization of Severely Distressed Housing) and the Component Units (Non-Profit Affiliates). Such transactions would be noted in the FDS Line items shown above in Section III.L.1.e(2). The FASS-PHA Financial Report is reviewed and approved or rejected by the REAC.

The PHA is required to report in the PHA Plan, in accordance with HUD 50075 (*OMB No. 2577-0226*) any transactions to be entered into with non-profit and private development entities. The PHA submits the Annual Statement, Component 7, for HOPE VI and Mixed-Finance in Part III of the PHA Plan. The PHA Plan, Implementation Schedule, for each active grant, details the eligible activities to be funded and the budget of estimated sources and uses.

**Audit Objective** - Determine whether the expenditures set out in the FDS line items that indicate participation by non-profit and private development entities (FDS Line Items 125, 144, and 347) agree with the data reported in the PHA Plan.

### **Suggested Audit Procedures**

- a. Review the data in FDS Line Items 125, 144, and 347 to determine the extent of non-profit and private development entities using HOPE VI.
- b. Ascertain that the data in the FDS Line Items 125, 144, and 347 are substantially in agreement with the estimated sources and uses reported in the PHA Plan, Implementation Schedule (i.e., expenditures do not exceed the budget by 10 percent).

## IV. OTHER INFORMATION

See Appendix VI for program waivers and special provisions related to Hurricanes Katrina and Rita.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### CFDA 14.867 INDIAN HOUSING BLOCK GRANTS

#### I. PROGRAM OBJECTIVES

The primary objectives of the Indian Housing Block Grants (IHBG) program are: (1) to assist and promote affordable housing activities to develop, maintain, and operate affordable housing in safe and healthy environments on Indian reservations and in other Indian areas for occupancy by low-income Indian families; (2) to coordinate activities to provide housing for Indian tribes and their members and to promote self-sufficiency of Indian tribes and their members; and (3) to plan for and integrate infrastructure resources for Indian tribes with housing development for Indian tribes (24 CFR section 1000.4).

#### II. PROGRAM PROCEDURES

The IHBG program is formula driven, based on factors that reflect the need of the Indian tribes and the Indian areas of the tribes for assistance for affordable housing activities. To access funds, Indian tribal governments (or tribally designated housing entities (TDHEs)) must submit an Indian Housing Plan (IHP) to the Department of Housing and Urban Development (HUD), and HUD must find that the IHP meets the requirements of section 102 of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA). IHBG funds awarded to a recipient may only be used for affordable housing activities that are consistent with its IHP (24 CFR section 1000.6).

#### Source of Governing Requirements

This program is authorized by NAHASDA, codified at 25 USC 4101 through 4212. Implementing regulations are in 24 CFR part 1000.

#### Availability of Other Program Information

Additional information about the IHBG program is available on the Internet at <http://www.hud.gov/offices/pih/ih/grants/ihbg.cfm>.

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

**A. Activities Allowed or Unallowed**

1. The following activities to develop or to support affordable housing for rental or home ownership, or to provide housing services with respect to affordable housing are allowable:
  - a. *Indian Housing Assistance* - The provision of modernization or operating assistance for housing previously developed or operated pursuant to a contract between the Secretary and an Indian housing authority, including such amounts as may be necessary to provide for the continued maintenance and efficient operation of such housing (25 USC 4132(1) and 4133(b)).
  - b. *Development* - The acquisition, new construction, reconstruction, or moderate or substantial rehabilitation of affordable housing, which may include real property acquisition, site improvement, development of utilities and utility services, conversion, demolition, financing, administration and planning, and other related activities (25 USC 4132(2)).
  - c. *Housing Services* - The provision of housing-related services for affordable housing, such as housing counseling in connection with rental or home-ownership assistance, establishment and support of resident organizations and resident management corporations, energy auditing, activities related to the provision of self-sufficiency and other services, and other services related to assisting owners, tenants, contractors, and other entities, participating or seeking to participate in other housing activities assisted pursuant to this section (25 USC 4132(3)).
  - d. *Housing Management Services* - The provision of management services for affordable housing, including preparation of work specifications; loan processing, inspections; tenant selection; management of tenant-based rental assistance; and management of affordable housing projects (25 USC 4132(4)).
  - e. *Crime Prevention and Safety Activities* - The provision of safety, security, and law enforcement measures and activities appropriate to protect residents of affordable housing from crime (25 USC 4132(5)).
  - f. *Model Activities* - Housing activities under model programs that are designed to carry out the purposes of NAHASDA and are specifically approved by the Secretary as appropriate for such purpose (25 USC 4132(6)).



2. Unless the conditions specified in 25 USC 4111(d) (regarding tax exemption for real and personal property taxes and user fees) are met, grants funds may not be used for affordable housing activities for rental or lease-purchase dwelling units developed:
  - a. Under the United States Housing Act of 1937 (42 USC 1437 *et seq.*), or
  - b. With amounts provided under 25 USC Chapter 43 that are owned by the recipient for the tribe.

#### **D. Davis-Bacon Act**

NAHASDA imposes the Davis-Bacon Act on contracts and agreements for assistance, sale, or lease for payments to laborers and mechanics employed in the development of affordable housing. However, Indian tribes may determine and apply their own prevailing wage rates in their contracts or agreements for the development and operation of affordable housing in place of federally determined prevailing wage rates.

In general, NAHASDA provides that Davis-Bacon and HUD-determined rates shall not apply to a contract or agreement if the contract or agreement is otherwise covered by a law or regulation adopted by an Indian tribe that provides for the payment of not less than prevailing wages as determined by the tribe. This requires the Indian tribe to pass a tribal law or regulation and ensure that the law requires the payment of not less than those wage rates the tribe determines to be prevailing (Section 104(b) of NAHASDA; 25 USC 4114(b); 24 CFR section 1000.16)).

#### **E. Eligibility**

##### **1. Eligibility for Individuals**

Each recipient shall develop written policies governing the eligibility, admission, and occupancy of families for housing assisted with grant amounts provided under NAHASDA (25 USC 4133(d)). The following families are eligible for affordable housing activities (25 USC 4131(b)):

- a. Low income Indian families on a reservation or Indian area (24 CFR section 1000.104(a)).
- b. A non-low income Indian family may receive housing assistance in accordance with 24 CFR section 1000.110, except that non-low income Indian families residing in housing assisted under the Housing Act of 1937 (42 USC 1437 *et seq.*) do not have to meet the requirements of 24 CFR section 1000.110 for continued occupancy (24 CFR section 1000.104(b)).
- c. A non-Indian family may receive housing assistance on a reservation or Indian area if the non-Indian family's housing needs cannot be reasonably met without such assistance, and the recipient determines that the presence of that family on the reservation or Indian area is essential to the well-

being of Indian families, except that non-Indian families residing in housing assisted under the Housing Act of 1937 do not have to meet these requirements for continued occupancy (24 CFR section 1000.104(c)).

Housing assistance for non-low income Indian families requires HUD approval only as required in 24 CFR sections 1000.108 and 1000.110. Assistance under section 201(b)(3) of NAHASDA for non-Indian families does not require HUD approval, but only requires that the recipient determine that the presence of that family on the reservation or Indian area is essential to the well-being of Indian families and the non-Indian family's housing needs cannot be reasonably met without such assistance (24 CFR section 1000.106).

2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients** - Not Applicable

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

1. **Matching** - Not Applicable
2. **Level of Effort** - Not Applicable
3. **Earmarking**
  - a. Up to 10 percent of an annual grant may be used to provide housing assistance to families whose adjusted income (defined at 25 USC 4103(1)) falls within 80 to 100 percent of the median income (defined at 24 CFR section 1000.10). HUD approval is required to exceed this 10 percent cap or to provide assistance to families with incomes in excess of 100 percent of the median income (24 CFR section 1000.110(d)).
  - b. A recipient may use up to 20 percent of its annual grant for administration and planning. HUD approval must be obtained to exceed this percentage (24 CFR section 1000.238).

**J. Program Income**

Any program income may be retained by a recipient provided it is used for affordable housing activities in accordance with 25 USC 4132. If the amount of income received in a single year by a recipient and all of its subrecipients, which would otherwise be considered program income, does not exceed \$25,000, such funds may be retained but will not be considered to be or be treated as program income (24 CFR section 1000.62).

## L. Reporting

### 1. Financial Reporting

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. HUD-272-I, *Federal Cash Transactions Report (OMB No. 2577-0218)* Applicable

### 2. Performance Reporting

- a. HUD-52735-AS, *Annual Performance Report (OMB No. 2577-0218)* - This report is submitted by paper or electronically via the Internet to the Area Office of Native American Programs (ONAP) within 90 days of the end of the recipient's program year.

*Key Line Items* - The following items contain critical information:

- (1) Part I, Table I - Sources of Funds - column c.
  - (2) Part I, Table II – Uses of Funds - columns e through i.
  - (3) Part II, Table III – Inspection of Assisted Housing - columns c through g.
- b. HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)* – For each IHBG that involves development, operating, or modernization assistance, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

*Key Line Items* –

- (1) 3. Dollar Amount of Award
- (2) 8. Program Code
- (3) Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- (4) Part II, Contracts Awarded, 1. Construction Contracts

- (a) A. Total dollar amount of construction contracts awarded on the project
  - (b) B. Total dollar amount of construction contracts awarded to Section 3 businesses
  - (c) D. Total number of Section 3 businesses receiving construction contracts
- (5) Part II, Contracts Awarded, 2. Non-Construction Contracts
- (a) A. Total dollar amount of all non-construction contracts awarded on the project/activity
  - (b) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
  - (c) D. Total number of Section 3 businesses receiving non-construction contracts

### 3. **Special Reporting** - Not Applicable

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

### 1. **Environmental Review**

**Compliance Requirement** - Program regulations provide that a recipient (or beneficiary tribe, if the recipient is a TDHE) may assume responsibilities for environmental review and decision making under the requirements of 24 CFR part 58 or it may allow HUD to retain these responsibilities. If HUD retains the responsibilities, HUD will do reviews under the provisions of 24 CFR part 50 (24 CFR section 1000.20). A HUD environmental review must be completed for any activities not excluded before a recipient may acquire, rehabilitate, convert, lease, repair or construct property, or commit HUD or local funds (24 CFR section 1000.20(a)).

If the recipient or beneficiary tribe assumes these responsibilities, the following applies: an environmental assessment must be prepared for an activity unless the recipient (or beneficiary tribe, if the recipient is a TDHE) determined that the activity met a criterion specified in the regulations that would exempt or exclude it from Request for Release of Funds (RROF) and environmental certification requirements (24 CFR sections 58.34 and 58.35). Exempt activities do not require an environmental review; activities that are potential exclusions require an environmental review to determine if an exclusion is applicable. If not applicable, an assessment must be done. No funds may be committed to a grant activity or project before the completion of the environmental review and approval of the request for release of funds and related certification required by 25 USC 4115(b), except as authorized by 24 CFR section 58, such as for the costs of environmental reviews and other planning and administrative expenses (24 CFR section 1000.20(b)(3)).

**Audit Objective** - Determine whether (1) the required environmental reviews have been performed and (2) program funds were not obligated or expended prior to completion of the environmental review process.

### **Suggested Audit Procedures**

Select a sample of projects for which expenditures were made and verify that:

- a. Environmental certifications were supported by an environmental assessment.
- b. For any project where an environmental assessment was not performed, a written determination was made that the assessment was not required and documentation exists to support such determination consistent with the criteria contained in 24 CFR sections 58.34 and 58.35.
- c. Funds were not obligated or expended prior to the environmental assessment or a determination that an assessment was not required.

## **2. Investment of IHBG Funds**

**Compliance Requirement** - A recipient may invest IHBG funds for purposes of carrying out IHBG activities in investment securities if approved by HUD (24 CFR section 1000.58). Investments may be for a period of time not to exceed two years and only in those accounts or instruments identified in 24 CFR section 1000.58 (c). The amount of IHBG funds and percentage of those funds which may be invested is restricted by the provisions of 24 CFR section 1000.58(f).

**Audit Objective** - Determine whether the investment of IHBG funds by the recipient meets the requirements of 24 CFR section 1000.58.

### **Suggested Audit Procedures**

If IHBG funds have been invested during the audit period:

- a. Ascertain that prior written HUD approval had been obtained, and any conditions or restrictions on the approval.
- b. Verify that the amount invested is no greater than the allowable percentages of the formula grant amount net of any of this amount allocated for the operating subsidy element of the Formula Current Assisted Stock (FCAS) component of the formula.
- c. Verify that the funds were invested only in those allowable accounts or instruments and within any conditions or restriction on the approval.

## **IV. OTHER INFORMATION**

See Appendix VI for program waivers and special provisions related to Hurricanes Katrina and Rita.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### CFDA 14.871 SECTION 8 HOUSING CHOICE VOUCHERS

#### I. PROGRAM OBJECTIVES

The Housing Choice Voucher Program (HCVP) provides rental assistance to help very low-income families afford decent, safe, and sanitary rental housing.

#### II. PROGRAM PROCEDURES

The HCVP is administered by local public housing agencies (PHAs) authorized under State law to operate housing programs within an area or jurisdiction. The PHA accepts the application for rental assistance, selects the applicant for admission, and issues the selected family a voucher confirming the family's eligibility for assistance. The family must then find and lease a dwelling unit suitable to the family's needs and desires in the private rental market. The PHA pays the owner a portion of the rent (a housing assistance payment (HAP)) on behalf of the family.

The subsidy provided by the HCVP is considered a tenant-based subsidy because when an assisted family moves out of a unit leased under the program, the assistance contract with the owner terminates and the family may move to another unit with continued rental assistance (24 CFR section 982.1).

HUD enters into annual contributions contracts (ACCs) with PHAs under which the Department of Housing and Urban Development (HUD) provides funds to the PHAs to administer the programs locally. The PHAs enter into HAP contracts with private owners who lease their units to assisted families (24 CFR section 982.151).

In the HCVP, the PHA verifies a family's eligibility (including income eligibility) and then issues the family a voucher. The family generally has 60 days to locate a rental unit where the landlord agrees to participate in the program. The PHA determines whether the unit meets housing quality standards (HQS). If the PHA approves a family's unit and determines that the rent is reasonable, the PHA contracts with the owner to make HAPs on behalf of the family (24 CFR section 982.1(a)(2)).

Under the HCVP, apart from the requirement that the rent must be reasonable in relation to rents charged for comparable units in the private unassisted market, there is generally no limit on the amount of rent that an owner may charge for a unit. However, at initial occupancy of any unit where the gross rent exceeds the payment standard, a family may not pay more than 40 percent of adjusted monthly income toward rent and utilities (24 CFR section 982.508).

The voucher subsidy is set based on the difference between the lower of the PHA's applicable payment standard for the family or the gross rent and the total tenant payment (generally 30 percent of the family's monthly adjusted income). This is the maximum amount of subsidy a family may receive regardless of the rent the owner charges for the unit (24 CFR part 982, subpart K).

If the cost of utilities is not included in the rent to the owner, the PHA uses a schedule of utility allowances to determine the amount an assisted family needs to cover the cost of utilities. The PHA's utility allowance schedule is developed based on utility consumption and rate data for various unit sizes, structure types, and fuel types. The PHA is required to review its utility allowance schedules annually and to adjust them if necessary (24 CFR section 982.517).

The PHA must inspect units leased under the HCVP at the time of initial leasing and at least annually thereafter to ensure they meet HUD housing quality standards (HQS). The PHA must also conduct supervisory quality control HQS inspections (24 CFR sections 982.305 and 982.405).

PHAs must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements. PHAs are required to maintain a HAP contract register or similar record in which to record the PHA's obligation for monthly HAPs. This record must provide information as to: the name and address of the family, the name and address of the owner, dwelling unit size, the beginning date of the lease term, the monthly rent payable to the owner, monthly rent payable by the family to the owner, and the monthly HAP. The record shall also provide data as to the date the family vacates and the number of days the unit is vacant, if any (24 CFR section 982.158).

The Section 8 Management Assessment Program (SEMAP) is HUD's assessment program to annually and remotely measure the performance of PHAs that administer the HCVP. Under SEMAP, PHAs submit an annual certification, Form HUD-52648 (*OMB No. 2577-0215*), to HUD concerning their compliance with program requirements under 14 indicators of performance (24 CFR part 985).

In the HCVP, required program contracts and other forms must be word-for-word in the form prescribed by HUD Headquarters. Any additions to or modifications of required program contracts or other forms must be approved by HUD headquarters (24 CFR section 982.162).

In addition, housing agencies that are contract administrators for this program must comply with the HUD Uniform Financial Reporting Standards rule. Accordingly, PHAs that administer Section 8 tenant-based housing assistance payment programs are required to submit financial statements, prepared in accordance with generally accepted accounting principles (GAAP), in the electronic format specified by HUD. The unaudited financial statement is due 2 months after the PHA's fiscal year end and the audited financial statement is due 9 months after its fiscal year end (24 CFR section 5.801). The financial statement must include the financial activities of this program.

Under a homeownership option of the HCVP implemented in October 2000, a PHA may choose to provide assistance to a qualified first-time homebuyer to subsidize the family's monthly homeownership expenses. The homeownership option is operated by a PHA as a separate sub-program of the HCVP, which is subject to somewhat different rules (24 CFR sections 982.625 through 982.641).

The Office of Public and Indian Housing (PIH) issued Notice PIH 2006-03 on January 11, 2006 that eliminated the ACC Reserve Account. In addition, for PHAs with fiscal years ending after December 31, 2004, the requirements to submit Form HUD-52681 for the HCVP were rescinded. HUD will instead use HUD-52681-B and the Voucher Management System (VMS) to monitor the PHA's HCVP financial and operational performance.

In February 2006, the Disaster Voucher Program (DVP) began. DVP, a component of the HCVP, provides temporary voucher assistance to previously HUD-assisted families impacted by Hurricanes Katrina or Rita. The operating guidelines were issued in Notices PIH 2006-12 and 2006-37. The tenant contribution in Section 8(o) of the US Housing Act of 1937 was waived through December 31, 2007 (see PIH Notice 2007-17). Beginning January 1, 2008, families who obtained DVP tenant assistance will be subject to the tenant contributions requirements of HCVP. Funding was provided to PHAs based on information entered into the PIC Disaster Information System. PHAs are required to submit HAP and leasing information using HUD-52681-B and the VMS.

### **Source of Governing Requirements**

The HCVP regulations are found in 24 CFR parts 5, 982, and 985.

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

Copies of PIH notices can be found on the Internet at <http://www.hud.gov/offices/pih/regs/index.cfm>.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

1. PHAs may use HCVP funds only for HAPs to participating owners, and for administrative fees (24 CFR sections 982.151 and 982.152).
2. HUD is required to publish a notice in the *Federal Register* that reflects the amount that can be claimed by PHAs administering the program. As of September 6, 2006, HUD has determined that, for PHAs that elect to use a fee-for-service methodology for their HCV programs, a management fee of up to 20 percent of the administrative fee or up to \$12 per unit month (PUM) per voucher leased, whichever is higher, is reasonable. PHAs also can charge the HCV program a bookkeeping fee of \$7.50 PUM (see 71 FR 52710, HUD Notice - Public Housing Operating Fund Program; Guidance on Implementation of Asset Management, September 6, 2006). PHAs that elect to maintain an allocation system for the recovery of overhead costs under the HCV program must do so under the provisions of OMB Circular A-87 (42 USC 1437f(q)(1)).



**E. Eligibility****1. Eligibility for Individuals**

Most PHAs devise their own application forms that are filled out by the PHA staff during an interview with the tenant.

The head of the household signs: (a) one or more release forms to allow the PHA to obtain information from third parties; (b) a federally prescribed general release form for employment information; and (c) a privacy notice. Under some circumstances, other members of the family are required to sign these forms (24 CFR sections 5.212 and 5.230).

The PHA must:

- a. As a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility (24 CFR sections 5.230, 5.609, and 982.516).
- b. For both family income examinations and reexaminations, obtain and document in the family file third party verification of: (1) reported family annual income; (2) the value of assets; (3) expenses related to deductions from annual income; and (4) other factors that affect the determination of adjusted income or income-based rent (24 CFR section 982.516).
- c. Determine income eligibility and calculate the tenant's rent payment using the documentation from third party verification in accordance with 24 CFR part 5 subpart F (24 CFR section 5.601 *et seq.*) (24 CFR sections 982.201, 982.515, and 982.516).
- d. Select tenants from the HCVP waiting list (see III.N.1, "Special Tests and Provisions - Selection from the Waiting List") (24 CFR sections 982.202 through 982.207).
- e. Reexamine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payment as necessary using the documentation from third party verification (24 CFR section 982.516).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable****3. Eligibility for Subrecipients - Not Applicable**

## L. Reporting

### 1. Financial Reporting

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. HUD-52681-B, *Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169)* - submitted quarterly.

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

- (1) Unit Months Leased
- (2) HAP Expenses
- f. *Financial Reports (OMB No. 2535-0107)* Financial Assessment Sub-system (FASS-PH). The Uniform Financial Reporting Standards (24 CFR section 5.801) require PHAs to submit timely GAAP-based unaudited and audited financial information electronically to HUD. The FASS-PH system is one of HUD's main monitoring and oversight systems for the HCV program.

*Key FDS Line Information* – The line items under the following headings contain critical information:

- (1) FDS Revenue Line Items: The accuracy of these revenue items should be reviewed in conjunction with the participant's annual budget authority, payment schedules, and other reports.
  - (a) FDS Line 70600-010 - (Housing Assistance Payments)
  - (b) FDS Line 70600-020 - (Ongoing Administrative Fees Earned)
  - (c) FDS Line 71100 - (Investment Income - Unrestricted)
  - (d) FDS Line 72000 – (Investment Income - Restricted)
- (2) FDS Transfer Line Items: Unspent administrative fees accumulated after January 1, 2005 may be used only to support the HCVP. Any amounts in Operating Transfer Out (FDS Line 10020) and Inter Program - Due From (FDS line 144) must be

related to unspent administrative reserves acquired before January 1, 2005. Unspent HAP should also not be transferred. For FDS reporting, cash and investments in a cash pool or working capital account should be reported as such and not reflect as due to / due from.

- (a) FDS Line 144 - (Inter Program - Due From)
  - (b) FDS Line 10020 - (Operating Transfer Out)
  - (c) FDS Line 10030 - (Operating Transfers From / To Primary Government)
  - (d) FDS Line 10040 - (Operating Transfer From / To Component Unit)
  - (e) FDS Line 11040 - (Prior Period Adjustments, Equity Transfers, and Correction of Errors)
- (3) FDS Equity Line Items:
- (a) FDS Line 11170 - (Administrative Fee Equity)
  - (b) FDS Line 11180 - (Housing Assistance Payments)

[NOTE: HUD is in the process of making changes and adding new line items to the FDS. The auditor should verify the FDS line numbers at the time of the audit.]

## 2. Performance Reporting

- a. HUD-52648, *SEMAP Certification - Addendum for Reporting Data for Deconcentration Bonus Indicator (OMB No. 2577-0215)* - PHAs with jurisdiction in metropolitan FMR areas have the option of submitting data to HUD with their annual SEMAP certifications on the percent of their tenant-based Section 8 families with children who live in, and who have moved during the PHA fiscal year to, low poverty census tracts in the PHA's principal operating area. Submission of this information with the SEMAP certification makes the PHA eligible for bonus points under SEMAP (24 CFR section 985.3(h)).

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

- (1) Line 1a - *Number of Section 8 families with children assisted by the HA in its principal operating area at the end of the last PHA fiscal year (FY) who live in low poverty census tracts*

- (2) Line 1b - *Total Section 8 families with children assisted by the PHA in its principal operating area at the end of the last PHA FY*
  - (3) Line 1c - *Percent of all Section 8 families with children residing in low poverty census tracts in the PHA's principal operating area at the end of the last PHA FY*
  - (4) Line 2a - *Percent of all Section 8 families with children residing in low poverty census tracts at the end of the last completed PHA FY*
  - (5) Line 2b - *Number of Section 8 families with children who moved to low poverty census tracts during the last completed PHA FY*
  - (6) Line 2c - *Number of Section 8 families with children who moved during the last completed PHA FY*
- b. HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)* – For each public and Indian housing grant that involves development, operating, or modernization assistance, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

*Key Line Items –*

- (1) 3. Dollar Amount of Award
- (2) 8. Program Code
- (3) Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- (4) Part II, Contracts Awarded, 1. Construction Contracts
  - (a) A. Total dollar amount of construction contracts awarded on the project
  - (b) B. Total dollar amount of construction contracts awarded to Section 3 businesses
  - (c) D. Total number of Section 3 businesses receiving construction contracts
- (5) Part II, Contracts Awarded, 2. Non-Construction Contracts
  - (a) A. Total dollar amount of all non-construction contracts awarded on the project/activity
  - (b) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses

- (c) D. Total number of Section 3 businesses receiving non-construction contracts

### 3. Special Reporting

HUD-50058, *Family Report (OMB No. 2577-0083)* - The PHA is required to submit this form electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability (24 CFR part 908 and 24 CFR section 982.158).

*Key Line Items* - The following line items contain critical information.

- a. Line 2a - *Type of Action*
- b. Line 2b - *Effective Date of Action*
- c. Line 3b, 3c - *Names*
- d. Line 3e - *Date of Birth*
- e. Line 3n - *Social Security Numbers*
- f. Line 5a - *Unit Address*
- g. Line 5h, 5i - *Unit Inspection Dates*
- h. Line 7i - *Total Annual Income*
- i. Lines 2k and 17a - *Family's Participation in the Family Self Sufficiency (FSS) Program*
- j. Line 17k(2) - *FSS Account Balance*

## N. Special Tests and Provisions

### 1. Selection from the Waiting List

**Compliance Requirement** - The PHA must have written policies in its HCVP administrative plan for selecting applicants from the waiting list and PHA documentation must show that the PHA follows these policies when selecting applicants for admission from the waiting list. Except as provided in 24 CFR section 982.203 (Special admission (non-waiting list)), all families admitted to the program must be selected from the waiting list. "Selection" from the waiting list generally occurs when the PHA notifies a family whose name reaches the top of the waiting list to come in to verify eligibility for admission (24 CFR sections 5.410, 982.54(d), and 982.201 through 982.207).

**Audit Objective** - Determine whether the PHA is following its own selection policies in selecting applicants from the waiting list to become participants.

### **Suggested Audit Procedures**

- a. Review the PHA's applicant selection policies.
- b. Test a sample of new participants admitted to the program to ascertain if they were selected from the waiting list in accordance with the PHA's applicant selection policies.
- c. Test a sample of applicant names that reached the top of the waiting list to ascertain if they were admitted to the program or provided the opportunity to be admitted to the program in accordance with the PHA's applicant selection policies.

## **2. Reasonable Rent**

**Compliance Requirement** - The PHA's administrative plan must state the method used by the PHA to determine that the rent to owner is reasonable in comparison to rent for other comparable unassisted units. The PHA determination must consider unit attributes such as the location, quality, size, unit type, and age of the unit, and any amenities, housing services, maintenance and utilities provided by the owner.

The PHA must determine that the rent to owner is reasonable at the time of initial leasing. Also, the PHA must determine reasonable rent during the term of the contract: (a) before any increase in the rent to owner; and (b) at the HAP contract anniversary if there is a five percent decrease in the published Fair Market Rent (FMR) in effect 60 days before the HAP contract anniversary. The PHA must maintain records to document the basis for the determination that rent to owner is a reasonable rent (initially and during the term of the HAP contract) (24 CFR sections 982.4, 982.54(d)(15), 982.158(f)(7), and 982.507).

**Audit Objective** - Determine whether the PHA is documenting the determination that the rent to owner is reasonable in accordance with the PHA's administrative plan at initial leasing and during the term of the contract.

### **Suggested Audit Procedures**

- a. Review the PHA's method in its administrative plan for determining reasonable rent.
- b. Test a sample of leases for newly leased units and ascertain if the PHA has documented the determination of reasonable rent in accordance with the PHA's administrative plan.
- c. Test a sample of leases for which the PHA is required to determine reasonable rent during the term of the HAP contract and ascertain if the PHA has

documented the determination of reasonable rent in accordance with the PHA's administrative plan.

### **3. Utility Allowance Schedule**

**Compliance Requirement** - The PHA must maintain an up-to-date utility allowance schedule. The PHA must review utility rate data for each utility category each year and must adjust its utility allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since the last time the utility allowance schedule was revised (24 CFR section 982.517).

**Audit Objective** - Determine whether the PHA has reviewed utility rate data within the last 12 months and has adjusted its utility allowance schedule if there has been a rate change of 10 percent or more in a utility category or fuel type since the last time the utility allowance schedule was revised.

#### **Suggested Audit Procedures**

- a. Review PHA procedures for obtaining and reviewing utility rate data each year.
- b. Review data on utility rates that the PHA obtained during the last 12 months and ascertain, based on data available at the PHA, if there has been a change of 10 percent or more in a utility rate since the last time the utility allowance schedule was revised, and if so, verify that the PHA revised its utility allowance schedule to reflect the rate increase.

### **4. Housing Quality Standards Inspections**

**Compliance Requirement** - The PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. The PHA must prepare a unit inspection report (24 CFR sections 982.158(d) and 982.405(b)).

**Audit Objective** - Determine whether the PHA documented the required annual HQS inspections and quality control re-inspections.

#### **Suggested Audit Procedure**

- a. Review the PHA's procedures for performing HQS inspections and quality control re-inspections.
- b. Test a sample of units for which rental assistance was paid during the fiscal year and review inspection reports to ascertain if the unit was inspected.
- c. Review the PHA's reports of re-inspections to ascertain if quality control re-inspections were performed.

## 5. HQS Enforcement

**Compliance Requirement** - For units under HAP contract that fail to meet HQS, the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract. The owner is not responsible for a breach of HQS as a result of the family's failure to pay for utilities for which the family is responsible under the lease or for tenant damage. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations (24 CFR sections 982.158(d) and 982.404).

**Audit Objective** - Determine whether the PHA documented enforcement of the HQS.

### Suggested Audit Procedures

- a. Select a sample of units with failed HQS inspections during the audit period from the PHA's logs or records of failed HQS inspections.
- b. Verify that the files document that the PHA required correction of any cited life threatening HQS deficiencies within 24 hours of the inspection and of all other HQS deficiencies within 30 calendar days of the inspection or within a PHA-approved extension.
- c. If the correction period has ended, verify that the files contain a unit inspection report or evidence of other verification documenting that any PHA-required repairs were completed.
- d. Where the file shows that the owner failed to correct the cited HQS deficiencies within the specified time frame, verify that documents in the file show that the PHA properly stopped (abated) HAPs or terminated the HAP contract.
- e. Where the file shows that the family failed to correct the cited HQS deficiencies within the specified time frame, verify that documents in the file show that the PHA took action to enforce the family obligations.

## 6. Housing Assistance Payment (HAP)

**Compliance Requirement** – The PHA must pay a monthly HAP on behalf of the family that corresponds with the amount on line 12u of the HUD-50058. This HAP amount must be reflected on the HAP contract and HAP register. (24 CFR section 982.158 and 982 subpart K).

**Audit Objective** - Determine whether owners are receiving, and HUD is billed for, correct HAPs.



**Suggested Audit Procedures**

- a. Review PHAs' quality control procedures for maintaining the HAP register.
- b. Verify that HAP contracts or contract amendments agree with the amount recorded on the HAP register and the amount on 12u of the HUD-50058.

**IV. OTHER INFORMATION**

See Appendix VI for program waivers and special provisions related to Hurricanes Katrina and Rita.

## **DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

### **CFDA 14.872 PUBLIC HOUSING CAPITAL FUND (CFP)**

#### **I. PROGRAM OBJECTIVES**

The primary objective of the Capital Fund Program (CFP) is to make assistance available to public housing agencies (PHAs) to carry out capital and management improvement activities. The CFP can also be used for: demolition, resident relocation, resident economic development, security, financing costs, and homeownership. The CFP is the major source of funding made available by HUD to PHAs for their capital activities, including modernization and development of public housing.

The objectives of modernization activities are to improve the physical condition of existing public housing developments, including the redesign, reconstruction, addition, and reconfiguration of public housing sites, buildings, facilities and/or related appurtenances or improvements (including accessibility improvements).

The objectives of management improvement activities are to upgrade the operation of PHA developments, sustain physical improvements at those developments, or correct management deficiencies.

The objectives of development activities are to provide PHAs with the opportunity to replace, build, or acquire units to house low-income families, including costs for planning, financing, land acquisition, demolition, and construction.

#### **II. PROGRAM PROCEDURES**

CFP grants are made available to all PHAs, based on a complex formula, which takes into account a number of variables related to unit characteristics and, ultimately, multiplies a per-unit amount by the number of units in the PHA. The PHA also receives funding potentially for up to 10 years for units that have been torn down (or otherwise left the inventory). There are two types of grants: formula grants and replacement housing factor (RHF) grants (both determined by formula). PHAs can use formula grants for any eligible Capital Fund activity. RHF grants can only be used for the development of replacement housing units.

In recent years, Congress has set aside anywhere from \$17 to \$75 million within the Capital Fund account to assist PHAs that have incurred damage to their units as a result of an emergency or natural disaster. PHAs submit an application for this funding. The funding is allocated based on the order in which the Department of Housing and Urban Development (HUD) receives approvable applications.

In recent years, HUD has permitted PHAs to borrow funding secured to a portion of future Capital Fund grants under the Capital Fund Financing Program (CFFP). PHAs have to obtain HUD's permission prior to borrowing funds securitized by any public housing asset (including real property, other PHA owned property purchased with Federal grant funds, and CFP grant funds themselves). HUD reviews each transaction to ensure that PHAs will not be

overcommitted to payment of debt service to the detriment of the public housing stock/program, for the reasonableness of the terms of the transaction, and to mitigate risk of default.

In planning its modernization projects, the PHA is required to consult with residents and local government officials. After grant award, the PHA may select an architect or engineer through competitive negotiation to develop the plans and specifications for the construction work. Construction work, as well as management improvements, may be carried out through contract labor (competitively procured) or the PHA's own work force (force account). The PHA or its architect monitors the work in progress for compliance with contract requirements and acceptable work quality, and submits periodic progress reports to HUD.

PHAs develop additional public housing, including mixed-financed housing in accordance with 24 CFR section 941. For development projects, the PHA is responsible for negotiating a local cooperation agreement that establishes what services the locality will provide to the public housing project, for project planning, and for submitting a development proposal (and a site acquisition proposal, if applicable). This includes selecting sites or properties to be acquired, contracting with builders to construct or rehabilitate housing, contracting with developers for the purchase of completed (new or rehabilitated) housing, and purchasing existing housing that may require repairs. In addition, as a developer, the PHA is responsible for selecting and contracting with other parties (e.g., architects and engineers) and for expediting and coordinating the preparation of required HUD submissions.

On an annual basis, the PHA submits a Public Housing Agency Plan (*OMB No. 2577-0226 – Form HUD-50075*), based on the PHA fiscal year, to HUD for approval. The Plan includes a component that outlines the CFP activities the PHA plans to undertake with its Capital Fund annual allocation. A 5-year plan identifying anticipated expenditures for large capital items is also included. Prior to submitting the Plan to HUD for review and approval, the PHA must hold a public hearing and provide residents, local government officials, and other interested parties with an opportunity to comment on the proposed activities.

HUD provides approval for specific activities through approving the PHA Plan, which includes the PHA's budget for CFP funds (24 CFR section 968.315). On an annual basis, the PHA also provides HUD with its Annual Statement Component 7 of the PHA Plan (*Form HUD-50075, OMB No. 2577-0226*) in accordance with 24 CFR section 968.325(e), which details the eligible activities to be funded with the current year's grant and the estimated costs. A PHA must have an approved 5-year plan to have access to Capital Funds. The funds are limited to a certain number of budget line items (BLIs) until HUD approves the annual Plan. Once HUD approves the annual Plan, it spreads Capital Funds to all of the appropriate BLIs in the Line of Credit Control System (LOCCS) in accordance with the information contained in the PHA Plan. The PHA can then drawdown funds as needed on a 3-day turnaround basis to pay for approved work activities.

In accordance with HUD's Uniform Financial Reporting Standards rule, annually, a PHA is required to submit financial statements, prepared in accordance with generally accepted accounting principles (GAAP), in the electronic format specified by HUD. The unaudited financial statement is due 2 months after the PHA's fiscal year end and the audited financial

statement is due 9 months after its fiscal year end (24 CFR section 5.801). The financial statement must include the financial activities of this program.

PHAs file actual modernization cost certificates (AMCC) and actual development cost certificates (ADCC) with the local HUD Field Office when they complete a modernization or development project.

### **Source of Governing Requirements**

This program is authorized under 42 USC 1437g and 3535 (d). Implementing regulations are 24 CFR parts 905, 941, and 968 subparts A and B. In addition, the CFP is operated in conjunction with the PHA Plan process discussed at 24 CFR part 903.

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

HUD posts guidance on the CFP to its Office of Capital Improvements Home Page (<http://www.hud.gov/offices/pih/programs/ph/capfund/index.cfm>) that provides grantees with information on timelines, budgets, financial instructions, and other program guidance. Specific requirements related to the CFFP can be found by clicking on the CFFP link on the left hand side of the Office of Capital Improvements Home Page. Information regarding the financial reporting requirements of the PHAs is provided by HUD on the Real Estate Assessment Center (REAC) website at [http://www.hud.gov/offices/reac/products/fass/pha\\_doc.cfm](http://www.hud.gov/offices/reac/products/fass/pha_doc.cfm) and [http://www.hud.gov/offices/reac/library/lib\\_fapha.cfm](http://www.hud.gov/offices/reac/library/lib_fapha.cfm).

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

1. For Capital Fund formula grants and grants from the set-aside for emergencies and natural disasters, allowed Capital Fund activities include the following: developing, financing, or modernizing public housing; vacancy reduction; deferred maintenance; replacement of obsolete utility systems and dwelling equipment; code compliance; management improvements; demolition and replacement; resident relocation; resident economic empowerment/economic self sufficiency; security; and homeownership (42 USC 1437g(d)).
2. For Capital Fund RHF grants, activities are limited to the development of replacement housing (24 CFR section 905.10(i)(5)(ii)).

3. The PHA may not incur any modernization cost in excess of the total HUD-approved PHA Plan which includes the project budget. Budget revisions may be approved by HUD for deviations from the originally approved modernization program. A PHA shall not incur any modernization cost on behalf of any development that is not covered by its current approved 5-year PHA Plan (24 CFR section 968.225).
4. A PHA may charge up to a maximum of 10 percent of the annual Capital Fund grant as a management fee. A PHA using a fee-for-service system may charge a management fee of 10 percent, regardless of actual costs (Public Housing Operating Fund Program Guidance on Implementation of Asset Management, 71 FR 52710, September 6, 2006; 24 CFR section 968.112).

#### **D. Davis-Bacon Act**

Projects funded with Capital Funds that are developed in accordance with 24 CFR part 941 – Public Housing Development and/or modernized in accordance with 24 CFR part 968 – Public Housing Modernization that contain only public housing units and mixed-finance projects developed in accordance 24 CFR part 941 subpart F – Public/Private Partnerships for the Mixed-Finance Development of Public Housing are subject to the Davis-Bacon Act (42 U.S.C.1437j (a) and (b), 24 CFR section 941.208 and 24 CFR section 941.610 (a)(8)(vi)).

#### **L. Reporting**

##### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* – Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement of Construction Programs* – Not Applicable
- d. SF-272, *Federal Cash Transactions Report* – Not Applicable
- e. Financial Reports (*OMB No. 2535-0107*) - Financial Assessment Sub System, FASS-PHA. 24 CFR part 902 – Public Housing Assessment System (PHAS) Subpart C-Phase Indicator #2 Financial Condition requires the PHA to provide annual reports on a PHA-wide basis (42 USC 1437d (j)(1)(K). Financial reporting requirements in 24 CFR section 902.33(a)(2) provide that the information be submitted electronically in the format prescribed by HUD using the Financial Data Schedule (FDS). Further 24 CFR section 902.35, “Financial condition scoring and threshold,” establishes the procedures to be observed by the PHA.

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

- (1) Headings for HUD Programs and Activities
  - (a) Asset Management Property, or AMP (Low-Rent Public Housing and Capital Fund Programs)
  - (b) Component Units (Non-Profit Entities)
- (2) Line Items
  - FDS Line 125 - (Accounts Receivable – Misc)
  - FDS Line 144 - (Inter-Program – Due From)
  - FDS Line 171 - (Notes, Loans, & Mortgages Receivable – Non-current)
  - FDS Line 172 - (Notes, Loans, & Mortgages Receivable – Non-current Past Due)
  - FDS Line 174 - (Other Assets)
  - FDS Line 176 - (Investment in Joint Ventures)
  - FDS Line 347 - (Inter-Program – Due To)
  - FDS Line 348 - (Loan Liability – Current)
  - FDS Line 355 - (Loan Liability – Non-Current)
  - FDS Line 10010 - (Operating Transfer – In)
  - FDS Line 10020 - (Operating Transfer – Out)
  - FDS Line 10030 - (Operating Transfers From/To Primary Government)
  - FDS Line 10093 - (Transfers Between Programs and AMPs-In)
  - FDS Line 10094 - (Transfers Between Programs and AMPs-Out)

[NOTE: HUD is in the process of making changes and adding new line items to the FDS. The auditor should verify the FDS line numbers at the time of the audit.]

## 2. Performance Reporting

Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*, (OMB No. 2529-0043) – For each public and Indian housing grant that involves development, operating, or modernization assistance, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

*Key Line Items –*

- a. 3. Dollar Amount of Award
- b. 8. Program Code
- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts
  - (1) A. Total dollar amount of construction contracts awarded on the project
  - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 2. Non-Construction Contracts
  - (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
  - (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
  - (3) D. Total number of Section 3 businesses receiving non-construction contracts

## 3. Special Reporting – Not Applicable

## N. Special Tests and Provisions

### 1. FASS – PHA, Public Housing Assessment System Phase Indicator #2, Financial Condition, and HUD-50075, PHA Plans

**Compliance Requirement** – On an annual basis the PHA must report on the financial condition of the PHA and on the transactions that the PHA is entering into with private and nonprofit entities (FDS Line Items 125, 144, and 347) (24 CFR section 902.33). In the FASS-PHA Financial Assessment Sub System, the PHA transactions with non-profit

and private development entities are shown under the headings for HUD Programs and Business Activities Asset Management Property, or AMP (Low-Rent and Capital Fund Programs) for the Capital Fund Program. Such transactions would be noted in the FDS Line items shown above in Section III.L.1.e.(2). The FASS-PHA Financial Report is reviewed and approved or rejected by the REAC.

The PHA is required to report in the PHA Plan, in accordance with HUD 50075 (*OMB No. 2577-0226*), any transactions to be entered into with non-profit and private development entities. The PHA submits the Capital Fund Program in Part III of the PHA Plan. The PHA Plan, Implementation Schedule, for each active grant, details the eligible activities to be funded and the budget of estimated sources and uses. The PHA Plan is reviewed and approved by the HUD Field Office in the region in which the PHA is located.

**Audit Objective** - Determine whether the expenditures set out in the FDS line items that indicate participation by non-profit and private development entities agree with the data reported in the PHA Plan.

### **Suggested Audit Procedures**

- a. Review the data in FDS Line Items 125, 144, and 347 to determine the extent of non-profit and private development entities utilizing the Capital Fund Program.
- b. Ascertain that the data in the FDS Line Items 125, 144, and 347 are substantially in agreement with the estimated sources and uses reported in the PHA Plan, Implementation Schedule (i.e., expenditures do not exceed the budget by 10 percent).

## **2. Debt Secured to Public Housing Asset**

**Compliance Requirement** – PHAs are only permitted to borrow funds secured to public housing assets (including real property, other PHA owned property purchased with Federal grant funds and CFP grant funds themselves) if they have obtained HUD's authorization prior to creating a security interest in public housing assets. This requirement does not prohibit a PHA from borrowing funds that are unsecured or that are not secured to public housing assets. In granting the required authorization, HUD will issue both an approval letter as well as a CFFP Annual Contributions Contract (ACC) Amendment (42 USC 1437z-2).

**Audit Objective** – Determine whether any debt incurred by the PHA that is secured to public housing assets is duly authorized by HUD.



**Suggested Audit Procedures**

- a. Review the PHAs balance sheet to determine if the PHA has incurred a debt.
- b. Examine the documentation that evidences the debt (loan /bond agreement, etc.) to determine if the debt is secured to public housing assets.
- c. If the debt is secured to public housing assets, verify that the PHA has the required HUD approval letter authorizing the debt.

**IV. OTHER INFORMATION**

See Appendix VI for program waivers and special provisions related to Hurricanes Katrina and Rita.

**DEPARTMENT OF THE INTERIOR****BIA CROSS-CUTTING SECTION****INTRODUCTION**

This section contains compliance requirements that apply to more than one program of the Bureau of Indian Affairs (BIA) in the Department of the Interior (DOI) because of requirements set forth in (1) the Indian Self Determination and Education Assistance Act (ISDEAA), as amended, and the Tribally Controlled Schools Act, and (2) Section 111 of the Department of the Interior and Related Agencies Appropriations Act, 2002, (Pub. L. No. 107-63) regarding the investment and deposit of BIA funds advanced to tribal organizations pursuant to the provisions of the ISDEAA and Tribally Controlled Schools Act of 1988. The compliance requirements in this Cross-Cutting Section reference the applicable programs in Part 4, Agency Compliance Requirements. Similarly, the applicable programs in Part 4 reference this Cross-Cutting Section.

**CFDA #            Program Name****ISDEAA Programs**

15.021	Consolidated Tribal Government Program
15.022	Tribal Self-Governance
15.030	Indian Law Enforcement

**Tribally Controlled Schools Act**

15.042	Indian School Equalization Program
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**I. PROGRAM OBJECTIVES**

The ISDEAA, of which the Tribal Self-Governance Act is part, was implemented to establish meaningful Indian self-determination that will permit an orderly transition from the Federal domination of programs for, and services to, Indians to effective and meaningful participation by the Indian people in the planning, conduct, and administration of those programs and services. The Tribally Controlled Schools Act provides a grant process for the operation of schools funded by the BIA.

**II. PROGRAM PROCEDURES**

The ISDEAA and the Tribally Controlled Schools Act allow tribal organizations to draw down funds in advance of need. The frequency and timing of the drawdowns are set forth in the statutes. The provision for advancing funds is to ensure sufficient capital for the delivery of program services.

The Tribal Self-Governance Act provides for advance payments to tribes and tribal consortia in the form of annual or semiannual payments at the discretion of the tribes (25 USC 458cc (g)(2)). The ISDEAA provides for payments to Indian tribes and tribal organizations on a quarterly basis, in a lump-sum payment, or as semiannual payments, or any other payment method authorized by law with such method as may be requested by the tribe or tribal organization (25 USC 450l(c)(b)(6)(B)(i)). The Tribally Controlled Schools Act provides for two payments per year: the first payment to be made not later than July 1 and the second payment not later than December 1 (25 USC 2506(a)(1)).

Regarding the use of these funds prior to their expenditure for the purposes for which they were intended, the Congress provided specific guidance in Section 111 of the Department of the Interior and Related Agencies Appropriations Act, 2002, Pub. L. No. 107-63, that allows these funds to be invested. Indian tribes and tribal organizations are not accountable to BIA for the income earned from these investments (25 USC 450j(b)).

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### B. Allowable Costs/Costs Principles

*BIA programs in this Supplement that this section applies to are: Consolidated Tribal Government Program (15.021); Indian Law Enforcement (15.030); and Indian School Equalization Program (15.042).*

Indian tribes and tribal organizations may without the approval of the BIA expend funds provided under a self-determination contract for purposes identified in 25 USC 450j-1(k), including the following, to the extent that the expenditure of the funds is supportive of a contracted program (25 USC 450j-1(k)).

1. Building, realty, and facilities costs, including rental costs or mortgage expenses.
2. Automated data processing and similar equipment or services.
3. Costs for capital assets and repairs.
4. Costs incurred to raise funds or contributions from non-Federal sources for the purpose of furthering the goals and objectives of the self-determination contract.
5. Interest expenses paid on capital expenditures such as buildings, building renovation or acquisition or fabrication of capital equipment, and interest expenses on loans necessitated due to delays by the Secretary in providing funds under a contract.

6. Expenses of a governing body of a tribal organization that are attributable to the management or operation of programs under ISDEAA.

## H. Period of Availability of Federal Funds

*BIA programs in this Supplement that this section applies to are: Consolidated Tribal Government Program (15.021); Tribal Self-Governance (15.022); Indian Law Enforcement (15.030); and Indian School Equalization Program (15.042).*

Any funds appropriated under an ISDEAA contract or compact or a Tribally Controlled Schools Act grant are available until expended (25 USC 450l(c)(b)(9)).

## N. Special Tests and Provisions

### 1. Investment and Deposit of Advance Funds

*BIA programs in this Supplement that this section applies to are: Consolidated Tribal Government Program (15.021); Tribal Self-Governance (15.022); Indian Law Enforcement (15.030); and Indian School Equalization Program (15.042).*

**Compliance Requirement** - A tribe, tribal organization, or consortia receiving advance payments under the ISDEAA or the Tribally Controlled Schools Act may invest advance payments, before such funds are expended for the purposes of the grant, contract, or funding agreement, so long as such funds are (1) invested only in obligations of the United States or in obligations or securities that are guaranteed or insured by the United States, or mutual (or other) funds registered with the Securities and Exchange Commission and which only invest in obligations of the United States or securities that are guaranteed or insured by the United States or (2) deposited only in accounts that are insured by an agency or instrumentality of the United States, or are fully collateralized to ensure protection of the advance funds, even in the event of a bank failure (Section 111 of the Department of the Interior and Related Agencies Appropriations Act of 2002, Pub. L. No. 107-63).

**Audit Objective** - Determine whether Indian tribes, tribal organizations, or consortia are properly investing or depositing advanced funds.

### Suggested Audit Procedures

- a. Obtain and review tribal policies and procedures for the investment and deposit of funds.
- b. Review unused advances during the audit period and verify that unused funds were properly invested or deposited throughout the period.

## DEPARTMENT OF THE INTERIOR

### CFDA 15.021 CONSOLIDATED TRIBAL GOVERNMENT PROGRAM

#### I. PROGRAM OBJECTIVES

The objective of the Consolidated Tribal Government Program is to provide funds for certain programs of an ongoing nature to Indian tribal governments in a manner which minimizes program administrative requirements and maximizes flexibility.

#### II. PROGRAM PROCEDURES

The Bureau of Indian Affairs (BIA) makes direct payments to federally recognized Indian tribal governments to carry out a variety of activities for which appropriations are made within the Tribal Priority Allocations activity of the BIA budget. For example, Scholarships, Johnson O'Malley, Job Placement and Training, and Agricultural Extension could be combined under a single contract for education and training. This allows tribal contractors greater flexibility in planning their programs and meeting the needs of their people. The simplified contracting procedures and reduction of tribal administrative costs allow for increased services under these contracts.

#### Source of Governing Requirements

The program is authorized by the Indian Self-Determination and Education Assistance Act (ISDEAA), Title I, Pub. L. No. 93-638, as amended (25 USC 450 *et seq.*).

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look at Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple BIA programs are discussed once in the BIA Cross-Cutting Section of this Supplement (page 4-15.000-1) rather than being repeated in each individual program.

#### A. Activities Allowed or Unallowed

The ISDEAA provides for the expenditure of funds by Indian tribes and tribal organizations under self-determination contracts for programs and activities previously provided by the BIA. Funds may be used for a variety of programs and services that the Federal Government otherwise would have provided directly. The specific activities allowed will be indicated in the self-determination contract between the tribal organization and the Secretary of the Interior (25 USC 450f). While the tribe or tribal organization may propose to redesign the program or activity, such redesign must be approved by the BIA (25 USC 450j(j)).

**B. Allowable Costs/Costs Principles**

See BIA Cross-Cutting Section.

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

See BIA Cross-Cutting Section.

**L. Reporting****1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

**2. Performance Reporting** - Not Applicable**3. Special Reporting** - Not Applicable**N. Special Tests and Provisions**

See BIA Cross-Cutting Section.

## DEPARTMENT OF THE INTERIOR

### CFDA 15.022 TRIBAL SELF-GOVERNANCE

#### I. PROGRAM OBJECTIVES

The objective of the Tribal Self-Governance program is to further the goals of Indian self-determination by providing funds to Indian tribes to administer a wide range of programs with maximum administrative and programmatic flexibility.

#### II. PROGRAM PROCEDURES

The Tribal Self-Governance Act of 1994 (25 USC 458aa *et seq.*) established tribal self-governance as a permanent option for tribal governments. Under tribal self-governance, Indian tribes have greater control and flexibility in the use of funds, reduced reporting requirements, and authority to redesign or consolidate programs, services, functions, and activities. Tribes are selected from an applicant pool upon meeting certain eligibility requirements.

The Office of Self-Governance makes direct payments to federally recognized Indian tribal governments and tribal consortia authorized by federally recognized Indian tribal governments. Funds may be used to support tribal programs such as law enforcement, social services, welfare payments, natural resource management and enhancement, housing improvement, and road maintenance (25 USC 458cc(b)).

#### Source of Governing Requirements

The program is authorized by the Indian Self-Determination and Education Assistance Act (ISDEAA), Title IV, Pub. L. No. 93-638, as amended (25 USC 458aa *et seq.*).

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look at Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple Bureau of Indian Affairs (BIA) programs are discussed once in the BIA Cross-Cutting Section of this Supplement (page 4-15.000-1) rather than being repeated in each individual program.

#### A. Activities Allowed or Unallowed

The ISDEAA provides for the expenditure of funds by Indian tribes and tribal organizations under self-determination contracts or annual funding agreements for programs and activities previously provided by the BIA. Funds may be used for a variety of programs and services that the Federal government otherwise would have provided directly. The specific activities allowed will be indicated in the funding agreement between the tribal organization and the Secretary of the Interior (25 USC 458cc(b) and

(c)). Indian tribes and tribal consortia are provided latitude in redesigning programs and activities. However, such redesign is limited to programs covered by the annual funding agreement (25 USC 458cc(b)(3)).

**D. Davis-Bacon Act**

The requirements of the Davis-Bacon Act are applicable to construction work financed with grants under this program (25 USC 450e).

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

See BIA Cross-Cutting Section.

**N. Special Tests and Provisions**

See BIA Cross-Cutting Section.



## DEPARTMENT OF THE INTERIOR

### CFDA 15.030 INDIAN LAW ENFORCEMENT

#### I. PROGRAM OBJECTIVES

The objective of the Indian Law Enforcement program is to provide funds to Indian tribal governments to operate police departments and detention facilities.

#### II. PROGRAM PROCEDURES

The Bureau of Indian Affairs (BIA) makes direct payments to federally recognized Indian tribal governments exercising Federal criminal law enforcement authority over crime under the Major Crimes Act (18 USC 1153) on their reservations. Funds may be used for salaries and related expenses of criminal investigators, uniformed officers, detention officers, radio dispatchers, and administrative support.

##### Source of Governing Requirements

The program is authorized by the Indian Self-Determination and Education Assistance Act (ISDEAA), Pub. L. No. 93-638, as amended (25 USC 450 *et seq.*) and the Indian Law Enforcement Reform Act, Pub. L. No. 101-379 (25 USC 2801 *et seq.*).

##### Availability of Other Program Information

Part 40 of the Indian Affairs Manual provides information applicable to all law enforcement programs operated by an Indian tribe or tribal organization under a Self-Determination contract. Part 40 does not apply to Indian tribes which have negotiated Self-Governance compacts. The web site at which this manual has been available is not currently operational.

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look at Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple BIA programs are discussed once in the BIA Cross-Cutting Section of this Supplement (page 4-15.000-1) rather than being repeated in each individual program.

**A. Activities Allowed or Unallowed**

The ISDEAA provides for the expenditure of funds by Indian tribes and tribal organizations under self-determination contracts for programs and activities previously provided by the BIA. Funds may be used for a variety of programs and services that the Federal government otherwise would have provided directly. The specific activities allowed will be indicated in the self-determination contract between the tribal organization and the Secretary of the Interior (25 USC 450f). While the tribe or tribal organization may propose to redesign the program or activity, such redesign must be approved by the BIA (25 USC 450j(j)).

**B. Allowable Costs/Costs Principles**

See BIA Cross-Cutting Section.

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

See BIA Cross-Cutting Section.

**L. Reporting****1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

**2. Performance Reporting** - Not Applicable**3. Special Reporting** - Not Applicable**N. Special Tests and Provisions**

See BIA Cross-Cutting Section.

## DEPARTMENT OF THE INTERIOR

### CFDA 15.042 INDIAN SCHOOL EQUALIZATION PROGRAM

#### I. PROGRAM OBJECTIVES

The objective of the Indian School Equalization Program is to provide funding for elementary and secondary education.

#### II. PROGRAM PROCEDURES

The Office of Indian Education Programs makes direct payments to federally recognized Indian tribal governments or tribal organizations currently served by a Bureau of Indian Affairs (BIA)-funded school. Funds may be used for the education of Indian children in BIA-funded schools. Funds may not be used for construction.

#### Source of Governing Requirements

The program is authorized by the Indian Self-Determination and Education Assistance Act (ISDEAA), Pub. L. No. 93-638, as amended (25 USC 450 *et seq.*), Indian Education Amendments of 1978, Pub. L. No. 95-561 (25 USC 2001 *et seq.*), and Tribally Controlled Schools Act (25 USC 2501 *et seq.*).

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look at Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple BIA programs are discussed once in the BIA Cross-Cutting Section of this Supplement (page 4-15.000-1) rather than being repeated in each individual program.

##### A. Activities Allowed or Unallowed

The expenditure of funds is restricted to those Federal programs covered by the grant. The Tribally Controlled Schools Act provides for the expenditure of funds by Indian tribes and tribal organizations under grants for education-related programs and activities, including school operations, academic, educational, residential, guidance and counseling, and administrative purposes, and support services for the school, including transportation (25 USC 2502).

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

See BIA Cross-Cutting Section.

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

See BIA Cross-Cutting Section.

**L. Reporting****1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable only if specifically required in the grant agreement.
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

**2. Performance Reporting** - Not Applicable**3. Special Reporting** - Not Applicable**N. Special Tests and Provisions**

Also see BIA Cross-Cutting Section.

**Character Investigations by Indian Tribes and Tribal Organizations**

**Compliance Requirement** - The Indian Child Protection and Family Violence Prevention Act (25 USC section 3201 *et seq.*) requires Indian tribes and tribal organizations that receive funds under the ISDEAA or the Tribally Controlled Schools Act to conduct an investigation of the character of each individual who is employed or is being considered for employment by such Indian tribe or tribal organization in a position that involves regular contact with, or control over, Indian children. The Act further states that the Indian tribe or tribal organization may employ individuals in those positions only if the individuals meet standards of character, no less stringent than those prescribed under subpart B - Minimum Standards of Character and Suitability for Employment (25 CFR part 63), as the Indian tribe or tribal organization establishes.

**Audit Objective** - Determine whether Indian tribes and tribal organizations are performing the required background character investigations of school employees.

**Suggested Audit Procedures**

- a. Obtain and review policies and procedures for the performance of background investigations.

- b. Perform tests of selected security and personnel files of employees occupying positions that have regular contact with or control over Indian children to verify:
- (1) A suitability determination was conducted by an appropriate adjudicating official who themselves were the subject of a favorable background investigation (25 CFR section 63.17(c)).
  - (2) The background investigation covered the past five years of the individual's employment, education, etc. (25 CFR section 63.16(b)).
  - (3) A security investigation was obtained and compared to the employment application (25 CFR section 63.17(e)(1)).
  - (4) Written record searches were obtained from local law enforcement agencies, former employers, former supervisors, employment references, and schools (25 CFR section 63.17(e)(2)).
  - (5) Fingerprint charts were compared to information maintained by the Federal Bureau of Investigation or other law enforcement information maintained by other agencies (25 CFR section 63.17(e)(3)).

## DEPARTMENT OF THE INTERIOR

### CFDA 15.426 COASTAL IMPACT ASSISTANCE PROGRAM

#### I. PROGRAM OBJECTIVES

The objective of the Coastal Impact Assistance Program (CIAP) program is to mitigate the impacts of Outer Continental Shelf (OCS) oil and gas activities.

#### II. PROGRAM PROCEDURES

The U.S. Department of the Interior (DOI), Minerals Management Service (MMS), administers the CIAP program through individual noncompetitive grants awarded directly to States and those coastal political subdivisions (CPS) specifically identified in the Act. Grants are administered by a Program Manager and a CIAP Grants Team located at MMS Headquarters in Herndon, Virginia. Other program officials are located in Camarillo, California for those grants in California grants, Anchorage, Alaska for those grants in Alaska, and New Orleans, Louisiana for grants for the States of Alabama, Mississippi, Louisiana, and Texas.

Funds are distributed to OCS soil- and gas-producing states (which include Alabama, Mississippi, Louisiana, Texas, California, and Alaska), and CPSs (which include specific coastal counties, boroughs, and parishes) within those States in the amount of \$250 million for each of the fiscal years (FY) 2007 through 2010. FY 2007 and FY 2008 funds will be awarded during FY 2008.

The MMS determines CIAP funding allocations using the formulas mandated by Section 31 of the Outer Continental Shelf Lands Act (43 USC 1356a). Funds are allocated to each recipient using qualified OCS revenues received during a specified fiscal year. The Act requires a minimum annual allocation of 1 percent to each State, and provides that 35 percent of each State's share be allocated directly to its CPSs. A State or CPS may not receive less than its allocation unless MMS finds that the proposed uses of funds are inconsistent with the Act, or if a State or CPS chooses to relinquish some or all of its allotted funds.

#### Source of Governing Requirements

The program is authorized by Section 31 of the Outer Continental Shelf Lands Act (43 USC 1356a).

#### Availability of Other Program Information

Other program information is available on the CIAP web site at:  
<http://www.mms.gov/offshore/CIAPmain.htm>.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look at Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. A State or CPS shall use CIAP funds only for one or more of the following activities:
  - a. Conservation, protection, or restoration of coastal areas, including wetlands;
  - b. Mitigation of damage to fish, wildlife, or natural resources;
  - c. Planning and the administrative costs of complying with CIAP (see III.G.3 for limitation on amounts that may be expended for this purpose);
  - d. Implementation of a federally approved marine, coastal, or comprehensive conservation management plan; and
  - e. Mitigation of the impact of OCS activities through funding of onshore infrastructure projects and public service needs (see III.G.3 for limitation on amounts that may be expended for this purpose).
2. The above activities are designed to benefit the coastal zone; however CIAP projects do not need to be undertaken solely within a State's coastal zone (43 USC 1356a(d)(1)).

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

1. **Matching** – Not Applicable
2. **Level of Effort** – Not Applicable
3. **Earmarking**

Not more than 23 percent of the amounts received by a State or CPS shall be used for:

- a. Planning assistance and the administrative costs of complying with CIAP; and
- b. Mitigation of the impact of OCS activities through funding of onshore infrastructure projects and public service needs (43 USC 1356a(d)(3)).

#### I. Procurement and Suspension and Debarment

*Buy American* – All procurement contracts for equipment or products must comply with DOI Buy -American requirements in 43 CFR part 12, subpart E, *Buy American Requirements for Assistance Programs* (43 CFR part 12, subpart E).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* – Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Applicable

### **2. Performance Reporting** - Not Applicable

### **3. Special Reporting** - Not Applicable



## DEPARTMENT OF THE INTERIOR

### CFDA 15.605    SPORT FISH RESTORATION CFDA 15.611    WILDLIFE RESTORATION

#### I.     PROGRAM OBJECTIVES

The objective of the Federal Aid in Sport Fish Restoration program is to restore, conserve, and enhance sport fish populations and to provide for public use and enjoyment of these fishery resources.

The objective of the Federal Aid in Wildlife Restoration program is to restore, conserve, and enhance wildlife populations, provide for public use and enjoyment of these resources, and to provide training to hunters and archers in skills, knowledge, and attitudes necessary to be responsible hunters or archers.

#### II.    PROGRAM PROCEDURES

The U.S. Fish and Wildlife Service makes program and project grants to State fish and game agencies with funds apportioned to each State through a statutory formula. States may submit either a comprehensive plan or project proposal to the Service. When either is approved, the State is generally reimbursed for up to 75 percent of the cost of the work performed.

##### **Source of Governing Requirements**

The Sport Fish Restoration Program is authorized by the Federal Aid in Sport Fish Restoration (Dingell-Johnson) Act (16 USC 777 through 777l). The Wildlife Restoration Program is authorized by the Federal Aid in Wildlife Restoration (Pittman-Robertson) Act (16 USC 669 through 669i). Program regulations are at 50 CFR part 80.

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

Other program information is available on the U.S. Fish and Wildlife Service Grant Information site on the Internet at <http://federalaid.fws.gov/grants/grantinf.html>.

#### III.   COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look at Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

## A. Activities Allowed or Unallowed

### 1. *Wildlife Restoration - Allowable Activities*

Specific allowable projects are specified in the grant agreements. Allowable projects shall have as their purpose:

- a. The restoration, conservation, management, and enhancement of wild birds and wild mammals, and the provision of public use of and benefits from these resources (50 CFR section 80.5(a)).
- b. Projects having as their purpose the education of hunters and archers in the skills, knowledges, and attitudes necessary to be a responsible hunter or archer (50 CFR section 80.5(a)).

### 2. *Sport Fish Restoration - Allowable Activities*

Specific allowable projects are specified in the grant agreements. Allowable projects shall have as their purpose the restoration, conservation, management, and enhancement of sport fish, and the provision for public use and benefits from these resources (50 CFR section 80.5(b)(1)).

### 3. *Unallowable Activities*

The following activities are unallowable:

- a. With the exception of law enforcement activities to accomplish Federal project purposes as approved by the Regional Director of the U.S. Fish and Wildlife Service or to protect Federal aid assets, use of grant funds for enforcement of game and fish laws and regulations is prohibited (50 CFR section 80.6(a)).
- b. Public relations activities for the purpose of promoting organizations or agencies, including publication of agency magazines, displays, and exhibits, are ineligible except as they apply to educational or technical guidance activities specifically related to the accomplishment of Federal aid projects (50 CFR section 80.6(b)).
- c. Activities for the purpose of providing revenues are ineligible. These activities include the process and sale of licenses and permits and the acquisition of real or personal property for the purpose of using that property for rental, leases, sales or other commercial purposes. However, the production of incidental income, which results from otherwise eligible activities, is not prohibited (50 CFR section 80.14(c)).

**F. Equipment and Real Property Management**

Real property acquired or constructed with Federal funds shall continue to serve the purpose for which acquired or constructed. When property passes from management control of the State fish and wildlife agency, the control shall be fully restored to the State fish and wildlife agency or the real property shall be replaced using non-Federal funds. When property is used for purposes which interfere with the accomplishment of approved purposes, the violating activities shall cease and adverse effects must be remedied (50 CFR section 80.14).

**G. Matching, Level of Effort, Earmarking****1. Matching**

Federal participation is limited to 75 percent of eligible costs incurred in the completion of approved work or the Federal share specified in the grant agreement, whichever is less (50 CFR section 80.12).

**2. Level of Effort - Not Applicable****3. Earmarking**

- a. *Indirect Costs Limitation* - The amount of overhead or indirect costs charged to the projects under these programs for State central services provided from outside the State fish and game agency in one year may not exceed three percent of the annual apportionment to the State (50 CFR section 80.15(e)).
- b. *Aquatic Education* - Not more than 15 percent of the annual apportionment to each State under the provisions of the Federal Aid in Sport Fish Restoration Act may be used for aquatic education projects (16 USC 777g(c)).
- c. *Recreational Boating Access Facilities* - The State shall allocate at least 15 percent of each annual apportionment under the Federal Aid in Sport Fish Restoration Act for recreational boating access facilities (16 USC 777g(b)(1)).

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

*Multi-year Financing Exception* - States may finance the acquisition of lands and the construction of facilities using multi-year funding as authorized by the Federal Aid in Sport Fish Restoration Act (50 CFR section 80.25).

## **J. Program Income**

Program income (e.g., timber sales, leases, fees) is often generated on land purchased, improved, or maintained with Federal funds. This program income may be generated years after the expenditure of Federal funds to purchase or improve the land (50 CFR section 80.4).

Grant agreements will normally contain specific language that income generated by the grantee outside of the grant period from Federal Assistance supported acquisitions or other activities will either be (1) treated as license revenue and used to support the administration of the State fish and wildlife agency, or, (2) if the State so requests, used as additional funding for purposes consistent with the grant or the Program that generated the income. Lacking specific language requested by the grantee in the grant agreement, there are no requirements to account for income generated by a subgrantee outside of the grant period unless provided for by the grantee in the award to the subgrantee. However, the grantee and subgrantee may enter into subsequent contractual agreements that require accounting of income generated outside the grant period in order to comply with separate obligations (e.g., maintenance of a facility during its useful life, oversight of allowable commercial activities, etc.).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

### **2. Performance Reporting** - Not Applicable

### **3. Special Reporting**

*Form 3-154A, Paid Hunting and Fishing License Certification (OMB Approval No.1018-0007)* - The State fish and wildlife agency shall certify annually the number of paid hunting and fishing license holders in the State. License holders shall be counted over a period of 12 months; the calendar year, fiscal year, or other licensing period may be used provided it is consistent from year to year in each State. The data is used in the calculation for apportioning the annual appropriation of funds to all state grantees and, therefore, exaggerating the number of licence holders may result in additional Federal funds. Determining and reporting the number of persons holding paid licenses requires eliminating duplication or multiple counting of single individuals in the certified figures. Sampling and other statistical techniques may be utilized by the certifying officer

for this purpose. A paid license holder is one person, regardless of the number of licenses, tags, permits, or stamps held. Trapping licenses, commercial licenses, and other licenses which are not for the express purpose of permitting the holder to hunt or fish for sport or recreation shall not be included; licenses which do not return net revenue to the State shall not be included; licenses valid for more than one year may be counted in each of the years for which they are valid; and combination fishing and hunting licenses (a single license which permits the holder both to hunt and fish) shall be included in the determination of both the number of paid hunting license holders and the number of persons holding paid licenses to fish for sport or recreation. Only licenses sold by the State or its designee in which revenues from the sale of the licenses are returned to the State fish and wildlife agency are to be included in the annual certificates. Free licenses or licenses issued for a token fee shall not be counted (50 CFR section 80.10).

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

### **Assent Legislation and Diversion of License Fees**

**Compliance Requirement** - A State may participate in the benefits of the Sport Fish and Wildlife program and the Wildlife Restoration program only after it has passed legislation for the conservation of fish and wildlife, including a prohibition against the diversion of license fees paid by hunters and sport fishermen to purposes other than for the administration of the fish and wildlife agency (50 CFR section 80.3).

License fees paid by hunters and fishermen, include any special license, permits, stamps, tags, or access fees. Also included are revenues for the sale, lease, or rental of items on property purchased with state license fee revenue, as well as the interest or dividends earned on the license revenues (50 CFR section 80.4).

Administration of the State fish and wildlife agency includes only those functions required to manage the fish and wildlife-oriented resources of the State. Law enforcement activities for predator, animal, and rodent control are not administration of the State fish and wildlife agency (50 CFR section 80.4(b)).

**Audit Objective** - Determine whether revenues from license fees paid by hunters and sport fishermen are used only for the administration of the State fish and wildlife agency.

### **Suggested Audit Procedures**

- a. Ascertain if there are legislative prohibitions in place to prevent diversion of license revenues.
- b. Perform tests to ascertain if hunting and sport fishing license revenue was properly accounted for and restricted for use for the administration of the State fish and wildlife agency.

- c. Test expenditures from the license fees paid by hunters and sport fisherman to ascertain if they were used for the administration of the State fish and wildlife agency.
- d. Perform procedures to ascertain if there were any transfers from the State fish and wildlife agency that divert license fees paid by hunters and sport fisherman from the administration of the State fish and wildlife agency.

## DEPARTMENT OF THE INTERIOR

### CFDA 15.614 COASTAL WETLANDS PLANNING, PROTECTION, AND RESTORATION ACT (National Coastal Wetlands Conservation Grants)

#### I. PROGRAM OBJECTIVES

The objective of the National Coastal Wetlands Conservation Grant program is to provide funds to coastal States (except Louisiana) for coastal wetlands conservation projects. The primary goal of the National Coastal Wetlands Conservation Grant Program is the long-term conservation of coastal wetland ecosystems. It accomplishes this goal by helping States in their efforts to protect, restore, and enhance their coastal habitats. The program's accomplishments are primarily on-the-ground and measured in acres.

#### II. PROGRAM PROCEDURES

The National Coastal Wetlands Conservation Grant Program provides funds on a competitive basis for acquisition of interests in coastal lands or waters, and for restoration, enhancement or management of coastal wetlands ecosystems. All coastal States except Louisiana are eligible to apply. Proposed projects must provide for long-term conservation of coastal wetlands or waters and the hydrology, water quality, and fish and wildlife dependent thereon (16 USC 3954; 50 CFR section 84.11). Use of property acquired with grant funds that is inconsistent with program requirements and that is not corrected can be grounds for denying a State future grants under this program (50 CFR section 84.48(a)(6)).

##### Source of Governing Requirements

The National Coastal Wetlands Conservation Grant program is authorized by Section 305, Title III, Pub. L. 101-646, 16 USC 3951-3956. The National Coastal Wetlands Conservation Grant program regulations are at 50 CFR part 84.

##### Availability of Other Program Information

Other program information for Coastal Wetlands Planning, Protection, and Restoration Act is found at <http://www.fws.gov/coastal/CoastalGrants/>.

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

**A. Activities Allowed or Unallowed**1. *Activities Allowed*

- a. Acquisition of a real property interest in coastal lands or waters from willing sellers or partners (coastal wetlands ecosystems), under terms and conditions that will ensure the real property will be administered for long-term conservation (50 CFR section 84.20(a)(1)).
- b. The restoration, enhancement, or management of coastal wetlands ecosystems (50 CFR section 84.20(a)(2)).
- c. Planning as a minimal component of project plan development (50 CFR section 84.20(b)(6)) (see III.A.2.f. for unallowable planning activities).

2. *Activities Unallowed*

- a. Projects that primarily benefit navigation, irrigation, flood control, or mariculture (50 CFR section 84.20(b)(1)).
- b. Acquisition, restoration, enhancement, or management of lands to mitigate recent or pending habitat losses resulting from the actions of agencies, organizations, companies, or individuals (50 CFR section 84.20(b)(2)).
- c. Creation of wetlands by humans where wetlands did not previously exist (50 CFR section 84.20(b)(3)).
- d. Enforcement of fish and wildlife laws and regulations, except when necessary for the accomplishment of approved project purposes (50 CFR section 84.20(b)(4)).
- e. Research (50 CFR section 84.20(b)(5)).
- f. Planning as a primary project focus (50 CFR section 84.20(b)(6)).
- g. Operations and maintenance (50 CFR section 84.20(b)(7)).
- h. Acquiring and/or restoring upper portions of watersheds where benefits to the coastal wetlands ecosystem are not significant and direct (50 CFR section 84.20(b)(8)).
- i. Projects providing less than 20 years of conservation benefits (50 CFR section 84.20(b)(9)).



## **F. Equipment and Real Property Management**

States must submit documentation (e.g., appraisals and appraisal reviews) to the Fish and Wildlife Service (FWS) Regional Director who must approve it before the State becomes legally obligated for the purchase. States must provide title vesting evidence and summary of land costs upon completion of the acquisition to the FWS Regional Director. Any deed to third parties (e.g., conservation easement or other lien on a third-party property) must include appropriate language to ensure that the lands and/or interests would revert back to the State or Federal Government if the conditions of the grant are no longer being implemented (50 CFR section 84.48(a)(1)).

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

### **1. Matching**

- a. Except for those insular areas specified in paragraph G.1.b, the Federal share will not exceed 50 percent of approved costs incurred. However, the Federal share may be increased to 75 percent for coastal States that have established and are using a fund as defined in 50 CFR section 84.11. The FWS Service Regional Directors must certify the eligibility of the fund in order for the State to qualify for the 75 percent matching share (50 CFR section 84.46(a)).
- b. The following insular areas: American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands, have been exempted from the matching share, as provided in Pub. L. 95–134, as amended by Pub. L. 95–348, Pub. L. 96–205, Pub. L. 98–213, and Pub. L. 98–454 (48 USC 1469a). Puerto Rico is not exempt from the match requirements of this program (50 CFR section 84.46(b)).
- c. Total Federal contributions (including all Federal sources outside of the program) may not exceed the maximum eligible Federal share under the Program. This includes monies provided to the State by other Federal programs. If the amount of Federal money available to the project is more than the maximum allowed, FWS will reduce the program contribution by the amount in excess (50 CFR section 84.46(h)).
- d. Natural Resource Damage Assessment funds that are managed by a non-Federal trustee are considered to be non-Federal, even if these monies were once deposited in the Department of the Interior's Natural Resource Damage Assessment and Restoration Fund, provided the following criteria are met:
  - (1) The monies were deposited pursuant to a joint and indivisible recovery by the Department of the Interior and non-Federal trustees under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) or the Oil Pollution Act (OPA);

- (2) The non-Federal trustee has joint and binding control over the funds;
- (3) The co-trustees agree that monies from the fund should be available to the non-Federal trustee and can be used as a non-Federal match to support a project consistent with the settlement agreement, CERCLA, and OPA; and
- (4) The monies have been transferred to the non-Federal trustee (50 CFR section 84.46(i)).

**2. Level of Effort - Not Applicable**

**3. Earmarking - Not Applicable**

**J. Program Income**

If rights or interests obtained with the acquisition of coastal wetlands generate revenue during the grant agreement period, the State will treat the revenue as program income and use it to manage the acquired properties (50 CFR section 84.48(a)(5)).

**L. Reporting**

**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable.
- d. SF-272, *Federal Cash Transactions Report* – Not Applicable

**2. Performance Reporting - Not Applicable**

**3. Special Reporting – Not Applicable**

**N. Special Tests and Provisions**

**1. Trust Fund**

**Compliance Requirement** – The Federal share may be increased to 75 percent for coastal States that have established and are using a “fund” as defined in 50 CFR section 84.11. The fund can be a trust fund from which the principal is not spent, or a fund derived from a dedicated recurring source of monies (50 CFR section 84.46).

**Audit Objective** - For States that have established and are using a trust fund, determine whether principal and interest are properly accounted for. For States with a dedicated

recurring source of monies, examine collection and restrictions to determine if all funds are properly accounted for.

### **Suggested Audit Procedures**

- a. Perform tests to ascertain if restricted funds were properly collected (retained) and accounted for.
- b. Test expenditures to ascertain if trust funds or dedicated funds were used by the State according to the reported purpose.

## **2. Operation and Maintenance of Facilities**

**Compliance Requirement** - The coastal States must operate and maintain facilities, structures, or related assets to ensure their use for the stated project purpose and must adequately protect them. If acquired property is used for reasons inconsistent with the purpose(s) for which acquired, such activities must cease and any adverse effects on the property must be corrected by the State or subgrantee with non-Federal monies in accordance with 50 CFR section 80.14 (50 CFR sections 84.48(a)(3) and (b)(3)).

**Audit Objective** – Determine whether coastal State operation and maintenance procedures ensure that program assets are identified, adequately maintained, protected, and used for stated project purposes.

### **Suggested Audit Procedures**

- a. Review property management procedures, and assess their adequacy for identifying and protecting program assets. This includes policies and procedures for addressing the operations and maintenance of the asset.
- b. Determine if property inventories or lists of program assets reconcile with grant agreements and stated project purposes.

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**DEPARTMENT OF JUSTICE****CFDA 16.710 PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS****I. PROGRAM OBJECTIVES**

The Community Oriented Policing Services (COPS) Grant Program provides grants to law enforcement agencies to add police officers or sheriff's deputies to America's neighborhood streets and advance community policing nationwide, with emphasis on reducing levels of crime, reducing the fear of crime, and increasing trust between law enforcement and the communities they serve through problem solving tactics and community-policing partnerships.

**II. PROGRAM PROCEDURES**

COPS grant programs are awarded to law enforcement agencies, large and small, across the country. The overall intent of the grant programs is to help develop an infrastructure that will sustain community policing.

COPS grants may provide personnel, technology, equipment, training and technical assistance, and innovative community policing strategies. The three main categories of grants are Hiring, MORE (Making Officer Redeployment Effective), and Innovative.

**Hiring Grants**

Of the COPS hiring grants, there are five types, which provide funds for the hiring of community policing officers and deputies under five grant programs:

- Phase I
- Accelerated Hiring, Education, and Deployment (AHEAD)
- Funding Accelerated for Smaller Towns (FAST)
- Universal Hiring Program (UHP)
- COPS in Schools (CIS)

**COPS MORE**

The COPS MORE program allows law enforcement agencies to purchase technology and equipment or hire civilian support staff, allowing sworn officers to be redeployed back to the streets engaging in community policing initiatives. Equipment such as laptop computers, records management systems, and crime analysis and mapping software support community-based efforts and improve problem solving.

## **Innovative Grants**

The Innovative grant programs promote innovative approaches to crime prevention and advancing community policing. For example, working with the Department of Justice's (DOJ) Violence Against Women Office, COPS-funded Community Policing to Combat Domestic Violence grants to assist communities to fight domestic violence through community policing. The School-Based Partnership Program assists community and school groups to partner with community police to stop violence. The COPS Methamphetamine Initiative targets prevention and eradication efforts in urban and rural America. The Interoperable Communications Technology Program provides grants to States and localities to improve communications within and among law enforcement agencies.

## **Source of Governing Requirements**

This program is authorized under the Violent Crime Control and Law Enforcement Act of 1994, Pub. L. No. 103-322, Title I, Part Q (42 USC 3796dd - 3796dd-8).

## **Availability of Other Program Information**

The DOJ-COPS home page (<http://www.cops.usdoj.gov/>) under the selection titled "Funding" provides information on regulations and other general information about the program.

Additional information about this program is found in the Grant Owner's Manuals developed by the COPS Office. Each grant recipient is provided a copy of appropriate manuals. Additional copies can be obtained from the U.S. Department of Justice Response Center at 1-800-421-6770, or on the Internet site referenced above. The Grant Monitoring Standards for Hiring and Redeployment are also available on the COPS home page.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

1. *Hiring Grant Projects* - Hiring grants may include programs, projects, and other activities to:
  - a. Rehire law enforcement officers who have been laid off as a result of State and local budget reductions for financial reasons unrelated to the availability of COPS grant funding for redeployment into community-oriented policing;
  - b. Hire and train new, additional career law enforcement officers for deployment in community-oriented policing (42 USC 3796dd(b)(1)); and

- c. Hire former members of the Armed Forces to serve as career law enforcement officers for deployment in community-oriented policing (42 USC 3796dd(c)).
2. *MORE Grant Projects* - MORE grants may include programs, projects, and other activities to procure equipment, technology, or support systems that results in an increase in the number of officers deployed in community- policing activities (42 USC 3796dd(b)(1)(C)).
3. *Innovative Grant Projects* - These grants include programs and projects that are very specific in terms of allowable and unallowable costs and activities. The individual grant must be evaluated to determine what is allowable (42 USC 3796dd(d)).

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

*Hiring Costs* - Funding provided for the hiring or rehiring a career law enforcement officer may not exceed \$75,000 for UHP unless a waiver of this limitation is provided by the COPS Office. The CIS program provides up to \$125,000 per officer for approved entry-level salary and benefit costs over a three-year grant period. Any additional funding needed for salary and benefit costs exceeding \$125,000 per officer during the three-year period is the responsibility of the grant recipient (42 USC 3796dd-3(c)).

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

### **1. Matching**

Phase I, AHEAD, FAST, UHP, and MORE grantees are obligated to contribute at least 25 percent of the costs of the project or activity, as funded by the COPS Office, unless a waiver is obtained from the COPS Office. Grant awards may cover up to 75 percent of the costs over the grant period as outlined in the application submission (42 USC 3796dd(I)).

### **2. Level of Effort** - Not Applicable

### **3. Earmarking** - Not Applicable

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable

- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

**2. Performance Reporting**

- a. *Department Annual Progress Report (OMB No. 1103-0094)* - This report is required once a year during the life of the grant for all COPS AHEAD, CIS, FAST and UHP grants.

*Key Line Items* - The following questions contain critical information:

1. Question 1 - *How many **active** COPS grant position(s) were filled/hired? Full-Time and Part-Time.*
2. Question 2 – *How many of the unfilled COPS grant position(s) do you intend to fill? Full-Time and Part-Time.*
3. Question 3 – *How many of the unfilled grant position(s) are **NOT** going to be filled/hired? Full-Time and Part-Time.*

**3. Special Reporting** - Not Applicable

## DEPARTMENT OF JUSTICE

### CFDA 16.738 EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM

#### I. PROGRAM OBJECTIVES

The Edward Byrne Memorial Justice Assistance Grant (JAG) Program (42 USC 3750) is the primary provider of Federal criminal justice funding to State and local jurisdictions. The Edward Byrne Memorial (Byrne) and Local Law Enforcement Block (LLEBG) grant programs have been combined into the JAG Program. JAG funds support all components of the criminal justice system, from multi-jurisdictional drug and gang task forces to crime prevention and domestic violence programs, courts, corrections, treatment, and justice information-sharing initiatives.

#### II. PROGRAM PROCEDURES

JAG grants are awarded to States, including the District of Columbia, the Commonwealth of Puerto Rico, the Northern Mariana Islands, the Virgin Islands, Guam, and American Samoa.

The State Administering Agency (SAA) must make the grant application available for review to the governing body of the State, or to an organization designated by that governing body, at least 30 days before the application is submitted to the Bureau of Justice Assistance (BJA), Department of Justice (DoJ). Also, an SAA must provide an assurance that the application or any future amendment was made public and an opportunity to comment was provided to citizens and to neighborhood or community organizations to the extent applicable law or established procedure makes such an opportunity available.

The JAG funding formula includes a State allocation consisting of a minimum base allocation with the remaining amount determined on population and violent crime statistics. State allocations also have a mandatory “pass through” requirement to locals

The SAA must establish a trust fund in which to deposit JAG funds. The trust fund is not required to be an interest-bearing account.

The Office of Justice Programs (OJP) Financial Guide, which contains information on allowable costs, methods of payment, audit requirements, accounting systems, and financial records, is available on the OJP web site at [www.ojp.usdoj.gov/finguide06/](http://www.ojp.usdoj.gov/finguide06/).

#### Source of Governing Requirements

Subpart 1, of Part E of title I of the Omnibus Crime Control and Safe Streets Act of 1968, as amended (42 USC 3750 through 3759).



## Availability of Other Program Information

The BJA home page at <http://www.ojp.usdoj.gov/BJA/grant/jag.html> provides information on program statutes and other general information about the program.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. Use of funds is restricted to the following broad program areas: (a) law enforcement; (b) prosecution and court programs; (c) prevention and education; (d) corrections and community corrections; (e) drug treatment; (f) planning, evaluation, and technology improvement; and (g) crime victim and witness programs (other than compensation).
2. Any law enforcement or justice initiative previously eligible for funding under Byrne or LLEBG is eligible for JAG funding.
3. JAG funds cannot be used directly or indirectly for security enhancements or equipment used by non-governmental entities not engaged in criminal justice or public safety.
4. Based on extraordinary and exigent circumstances making the use of funds essential, BJA may certify a State's request to use funds for (a) vehicles, vessels, or aircraft; (b) luxury items; (c) real estate; or (d) construction projects, other than penal or correctional institutions (42 USC 3750 through 3759).

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

##### 1. Matching

There is no matching requirement at the Federal level although States and units of local government may require matching from subgrantees.

##### 2.1 Level of Effort – *Maintenance of Effort* - Not Applicable

##### 2.2 Level of Effort – *Supplement not Supplant*

Federal funds received shall be used to supplement not supplant non-Federal funds that would otherwise be available for activities funded with grant funds (42 USC 3750b(b)(3)).

##### 3. Earmarking – Not Applicable

**L. Reporting****1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

**2. Performance Reporting** - Not Applicable**3. Special Reporting** - Not Applicable

**DEPARTMENT OF LABOR**

- CFDA 17.207 EMPLOYMENT SERVICE/WAGNER-PEYSER FUNDED ACTIVITIES**
- CFDA 17.801 DISABLED VETERANS' OUTREACH PROGRAM (DVOP)**
- CFDA 17.804 LOCAL VETERANS' EMPLOYMENT REPRESENTATIVE (LVER) PROGRAM**

**I. PROGRAM OBJECTIVES****Wagner-Peyser Act Funded Workforce Preparation Services - General**

Wagner-Peyser Act-funded workforce preparation services are an integrated component of the nation's One-Stop Career Center system. They are coordinated with other adult programs under the Workforce Investment Act to ensure that job seekers, workers, and employers have convenient and comprehensive access to a full continuum of workforce-related services.

Wagner-Peyser funded services support the development of a competitive workforce for today's global economy. Under the Wagner-Peyser Act, unemployed individuals and other job seekers obtain critical job search, assessment, and career guidance services to support them in obtaining and retaining employment. In addition, Wagner-Peyser funded activities assist employers with building skilled, competitive workforces through recruitment assistance, employment referrals, and other workforce solutions. Activities funded under the Wagner-Peyser Act also include the development and dissemination of regional workforce information and related resources, which provide both job seekers and employers with comprehensive and accessible economic and industry data to inform workforce and economic development activities.

**Disabled Veterans' Outreach Program (DVOP)**

In accordance with 38 USC 4103A(a), as amended by the Jobs for Veterans Act (Pub. L. No. 107-288, November 7, 2002), the primary objective of the DVOP specialist is to provide intensive services to meet the employment needs of eligible veterans with the following order of priority in the provision of services: (1) special disabled veterans; (2) other disabled veterans; and (3) other eligible veterans. Maximum emphasis in meeting the employment needs of veterans shall be placed upon assisting economically and educationally disadvantaged veterans. Intensive services are provided using a case-management approach. Coordination and cooperation is maintained with Local Veterans' Employment Representatives (LVER), staff funded through the Workforce Investment Act (WIA) of 1998 and the Wagner-Peyser Act, and other One-Stop partners collocated in the One-Stop Career Center. Outreach and assistance are provided by DVOP specialists to individuals identified for participation in Homeless Veterans' Integration Projects, Vocational Rehabilitation, and other Federal and federally funded employment and training programs. Linkages are developed to assist appropriate grantees and other agencies to promote maximum employment opportunities for veterans.

## **Local Veterans' Employment Representative Program (LVER)**

In accordance with 38 USC 4104(b), as amended by the Jobs for Veterans Act (Pub. L. No. 107-288, November 7, 2002), the objectives of the LVER program are to (1) conduct outreach to employers in the area to assist veterans in gaining employment, including conducting seminars for employers and, in conjunction with employers, conducting job search workshops and establishing job search groups; and (2) facilitate employment, training, and placement services furnished to veterans in a State under the applicable State employment service delivery systems; generally, the One-Stop Career Center System established by the Workforce Investment Act of 1998 (Pub. L. No. 105-220). Coordination and cooperation is maintained with DVOP specialists, staff funded through the Workforce Investment Act of 1998 and the Wagner-Peyser Act, and other One-Stop partners collocated in the One-Stop Career Center to ensure priority of service and compliance with Federal regulations, performance standards, and grant agreement provisions to provide veterans with the maximum employment and training opportunities.

## **II. PROGRAM PROCEDURES**

### **Wagner-Peyser Act Funded Workforce Preparation Services**

Federal funds are granted to the States for the delivery of employment and workforce information services through a national network of One-Stop Career Centers.

The State agency responsible for the provision of employment services, generically referred to as the State Workforce Agency (SWA), must submit a 5-year plan for providing services and activities authorized by Section 7(a) of the Act, through the Governor, to the Department of Labor (20 CFR section 652.211). This part of the State plan is submitted under Section 112 of WIA. The Governor has discretion to choose various approaches to planning the utilization of funds reserved by Section 7(b) of the Act.

### **Jobs for Veterans State Grants**

In accordance with the Jobs for Veterans Act (Pub. L. Nos. 107-288 and 109-477) grant funds are provided to States for employing DVOP and LVER staff and deploying them as practicable as possible among One-Stop Career Centers and other suitable locations to carry out intensive services for veterans with employment barriers, assist businesses with their workforce needs and provide or facilitate employment and placement services to ensure that veterans, eligible persons, and transitioning service members receive maximum employment and training opportunities. Priority is given to disabled veterans and other eligible veterans by giving them priority over non-veterans in accordance with 38 USC 4215 in the provision of employment and training services available at each service delivery point at which Department of Labor employment and training services and programs are offered. Additional services are offered to transitioning service members and their spouses, as approved, under the Jobs for Veterans State Grant Plan through Transition Assistance Workshops (CFDA 17.807) conducted by DVOP Specialists and LVER staff trained to do so by the National Veterans' Training Institute (NVTI) authorized under 38 USC 4109. See Part IV of this supplement for additional information.

## Source of Governing Requirements

These programs are authorized by the Wagner-Peyser Act, as amended by the Workforce Investment Act of 1998 (WIA), Pub L. No. 105-220 (29 USC 49 *et seq.*), and the Jobs for Veterans Act (Pub. L. Nos. 107-288 and 109-477); 38 USC chapters 41 and 42 (employment and training programs for veterans). Implementing regulations are found in 20 CFR part 652 and 20 CFR part 1001 *et seq.*

## Availability of Other Program Information

Other program information is available on the Internet at <http://wdr.doleta.gov/directives/>.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. *Labor Exchange* - Funds allotted to each State may be utilized by the SWA for a variety of activities, consistent with an approved plan pursuant to the Act and implementing regulations (20 CFR sections 652.5 and 652.8(d)). At a minimum, each SWA shall provide the basic labor exchange elements defined in 20 CFR section 652.3.
2. *Section 7(a)* - Services and activities provided for under Section 7(a) of the Act are:
  - a. To unemployed individuals and other job seekers: job search, job placement and job information services, including counseling, testing, occupational and labor market information, assessment, and referral to employers;
  - b. To employers: a source for recruitment of qualified job applicants, and technical assistance in resolving workforce problems; and
  - c. The following employment-related activities:
    - (1) Evaluation of programs;
    - (2) Developing linkages between services funded under this Act and related Federal or State legislation, including the provision of labor exchange services at education sites;
    - (3) Providing employment-related services for workers who have received notice of permanent or impending layoff, and

- reemployment services for workers in occupations which are experiencing limited demand due to technological change, impact of imports, or plant closures;
- (4) Developing and providing State and local labor market and occupational information;
  - (5) Developing a management information system and compiling and analyzing reports therefrom; and
  - (6) Administering the work test for the State unemployment compensation system, and providing job finding and placement services for unemployment insurance claimants (29 USC 49f(a); 20 CFR section 652.210).
3. *Section 7(b)* - Services and activities provided for under Section 7(b) of the Act are:
- a. Performance incentives for public employment service offices and programs, consistent with performance standards established by the Secretary;
  - b. Services for groups with special needs carried out pursuant to joint agreements between the Employment Service and the local workforce investment board and Chief Elected Official(s), or other public agencies or private non-profit organizations; and
  - c. Exemplary models for delivering Employment Service Program services which incorporate activities listed in Section 7(a) of the Act, including but not limited to reemployment services, evaluating programs, developing partnerships with related programs and entities, developing and distributing labor market and workforce information, compiling and analyzing reports, and administering the UI work test (services of the types described in Section 7(a) of the Act (29 USC 49f(b)).
4. *Section 7(d)* - In addition to the activities described under 2 and 3, above, Section 7(d) of the Act authorizes SWAs to perform such other activities as shall be specified in cost-reimbursement agreements with the Secretary of Labor or with any Federal, State, or local public agency, or WIA administrative entity, or private non-profit organization (29 USC 49f(d)).
5. *Section 7(e)* - Section 7 (e) provides that all services authorized under 7(a) shall be provided as part of a one-stop delivery system established by the State (29 USC 49f(e)).

6. *DVOP* - *DVOP* includes a wide variety of services directly related to meeting the employment needs of disabled and other eligible veterans as defined at 38 USC 4103A(a) and in Jobs for Veterans State Grant special provisions (based on Pub. L. No. 107-288). These services include, but are not limited to, the following:
  - a. Providing intensive services to meet the employment needs of eligible veterans with the following order of priority in the provision of services:
    - (1) Special disabled veterans;
    - (2) Other disabled veterans; and,
    - (3) Other eligible veterans.
  - b. Ensuring that maximum emphasis in meeting the employment needs of veterans is placed upon assisting economically and educationally disadvantaged veterans.
  - c. Providing intensive services using a case management approach.
  - d. Maintaining coordination and cooperation with Local Veterans' Employment Representatives, staff funded through the Workforce Investment Act of 1998, and the Wagner-Peyser Act, and other One-Stop partners collocated in the One-Stop Career Center.
  - e. Conduct outreach and assistance to individuals identified for participation in Homeless Veterans' Integration Projects, Vocational Rehabilitation and other Federal and federally funded employment and training programs.
  - f. Develop linkages to assist appropriate grantees and other agencies to promote maximum employment opportunities for veterans.
7. *LVER* - *LVER* staff provide outreach and assistance to employers and facilitate the provision of a variety of services to eligible veterans. These services include, but are not limited to the following (38 USC 4104):
  - a. Maintain regular contact with community leaders, employers, labor unions, training programs, and veterans' organizations for the purpose of
    - (1) keeping them advised of eligible veterans and eligible persons available for employment and training, and
    - (2) keeping eligible veterans and eligible persons advised of opportunities for employment and training;

- b. Provide directly, or facilitate the provision of, labor exchange services including intake and assessment, counseling, testing, job-search assistance, and referral and placement services for eligible veterans;
- c. Assist, through automated data processing, in securing and maintaining current information regarding available employment and training opportunities; and
- d. Conducting job search workshops for job-seeking veterans and Transition Assistance Program (TAP) workshops for transitioning service members and their spouses.

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

- 1. Matching - Not Applicable**
- 2. Level of Effort - Not Applicable**
- 3. Earmarking**

Ten percent of each State's Wagner-Peyser Act allotment shall be reserved by the SWA to provide services and activities authorized by Section 7(b) of the Act (29 USC 49f(b)).

**L. Reporting**

**1. Financial Reporting**

- a. ETA 9130, *Financial Report (OMB No. 1205-0461)* - DOL requires financial reports to be cumulative by fiscal year of appropriation. All ETA grantees are required to submit quarterly financial reports for each grant award they receive. Reports are required to be prepared using the specific format and instructions for the applicable program(s); in this case, *Employment Service and Unemployment Insurance Programs*. Reports are due 45 days after the end of the reporting quarter. Additional information can be accessed on the Internet at <http://www.doleta.gov/grants/> and scroll down to the section on Financial Status Reporting.
- b. SF-269, *Financial Status Report* – Required for the DVOP and LVER programs.
- c. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- d. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable



- e. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PSC 272 series of reports.

## 2. Performance Reporting

- a. ETA 9002, *Quarterly Reports (OMB No. 1205-0240)* is used to report services, activities, and outcomes of service for all job seekers and veterans. This report is submitted quarterly.

*Key line items* - The following line items in ETA 9002 D (Performance Outcomes – Veterans, Eligible Persons, and TSMs) contain critical information:

- (1) Item 6 - *Entered Employment Rate*
- (2) Item 9 - *Employment Retention Rate at Six Months*
- (3) Item 13 – *Average Earnings*

- b. *The Veterans' Employment and Training Service VETS 200 Quarterly Reports (OMB No. 1205-0240)* are a subset of the ETA 9002. The data reported contains the similar data elements as the ETA 9002, but only apply to the activities of LVER and DVOP staff. This report is submitted quarterly.

*Key line items* - The following line item in VETS-200 (C) contain critical information:

- (1) Item 19 – *Entered Employment Following S/A Services Rate*
- (2) Item 25 – *Employment Retention at Six Months Rate*
- (3) Item 26 – *Average Earnings*

The requirements and guidelines for Wagner-Peyser funded services and VETS-funded program reporting are contained in ETA Handbook No. 406 ETA 9002 and VETS 200 Data Preparation Handbook, (*OMB No. 1205-0240*) available on the Internet at <http://www.doleta.gov/performance/guidance/WIA/ET-406-Handbook-Expiration-022809.pdf>.

## 3. Special Reporting - Not Applicable

**IV. OTHER INFORMATION**

As a consequence of the passage and implementation of the Jobs for Veterans Act of 2002, since 2004, LVER/DVOP funding has been provided under the umbrella of Jobs for Veterans State Grants. However, Jobs for Veterans State Grants is not a separate grant program and DVOP and LVER still should be identified by their individual CFDA numbers, 17.801 and 17.804, respectively, on the Schedule of Expenditures of Federal Awards. (Transition Assistance Program (CFDA 17.807), which is not part of this cluster, also is funded under that umbrella).

## DEPARTMENT OF LABOR

### CFDA 17.225 UNEMPLOYMENT INSURANCE

#### I. PROGRAM OBJECTIVES

The regular Unemployment Compensation (UC), Unemployment Compensation for Federal Employees (UCFE), and Unemployment Compensation for Ex-Service Members (UCX) programs provide benefits to unemployed workers for periods of involuntary unemployment and help stabilize the economy by maintaining the spending power of workers while they are between jobs. UC programs cover almost all wage and salaried workers. During periods of high unemployment, the Extended Benefits (EB) program pays EB for an additional (or extended) period of time to eligible unemployed workers who have exhausted their entitlement to UC, UCFE, or UCX.

States must ensure full payment of UC “when due,” and must deny payments when not due (42 USC 503(a)(1)).

#### II. PROGRAM PROCEDURES

The Unemployment Insurance (UI) program, also referred to as UC, initially consisted solely of the regular State programs. However, UC coverage was extended to Federal civilian employees in 1954 by the UCFE program (Pub. L. No. 83-767) and to ex-members of the Armed Forces in 1958 by the UCX program (5 USC 8501-8525; Pub. L. No. 85-848). The Federal-State Extended Unemployment Compensation Act (EUCA) of 1970 (Pub. L. No. 91-373; 26 USC 3304 note) provided for the EB program (20 CFR part 615).

The structure of the Federal-State UI Program partnership is based upon Federal law; however, it is implemented through State law. Unless otherwise noted, responsibilities of the U.S. Department of Labor (DOL) include: (1) allocating available administrative funds among States; (2) administering the Unemployment Trust Fund (UTF) through the U.S. Department of the Treasury and monitoring activities of the UTF; (3) establishing program performance measures; (4) monitoring State performance; (5) ensuring conformity and substantial compliance of State law and operations with Federal law; and (6) setting broad overall policy for program administration. State UI program operations are conducted by the State Workforce Agency (SWA)—the generic name for the agency that has responsibility for the State’s Employment Security function. SWAs were previously referred to as State Employment Security Agencies (SESAs).

State responsibilities include: (1) establishing specific, detailed policies and operating procedures which comply with the requirements of Federal laws and regulations; (2) determining the State UI tax structure; (3) collecting State UI contributions from employers (commonly called “unemployment taxes”); (4) determining claimant eligibility and disqualification provisions; (5) making payment of UC benefits to claimants; (6) managing the program’s revenue and benefit administrative functions; (7) administering the programs in accordance with established policies and procedures; and (8) enacting State UC law that conforms with Federal UC law.

Note: Informal references are frequently made to eligibility for “weeks” of UC. The auditor is cautioned that eligibility is actually for a maximum dollar amount of UC, which is inaccurately referred to as receipt of UC for a given number of weeks.

## **Program Funding**

UC payments to claimants are funded primarily by State UI taxes on covered employers (three States also have provisions for employee taxes). Some employers make direct reimbursements to the State for UC payments made on their behalf rather than paying UI taxes. State governments, political subdivisions and instrumentalities of the States, federally recognized Indian tribes, and qualified non-profit organizations may reimburse the State for UC benefits paid by the SWA; however, they may elect to be contributory employers (i.e., remit State UI taxes) in lieu of reimbursing the State. Also, States are reimbursed from the UTF for UCFE and UCX paid by the SWA on behalf of various Federal entities. Program administration is funded by a Federal UI tax on covered employers (see below). Generally, the employment covered by state UI taxes and Federal UI taxes is the same; however, there are specific differences.

State UI taxes and reimbursements are used exclusively for the payment of regular UC and the State share of EB to eligible claimants. UI taxes and reimbursements remitted by employers to the States are deposited in State accounts in the UTF. SWAs periodically draw funds from their UTF accounts for the purpose of making UC payments.

The Federal Unemployment Tax Act (FUTA) imposes a Federal tax on covered employers. Currently, the FUTA tax on covered employment (generally employment subject to a State UI tax) is 6.2 percent of the first \$7,000 of covered employee wages. Employers, however, receive two credits against the FUTA tax. One credit is equal to the amount of State UI tax paid by the employer. A second credit is awarded to employers who pay less than the State’s maximum tax rate. The employer receives these credits when the State UI law, and its application, conform and substantially comply with FUTA requirements. All States currently meet the Federal criteria for both credits to be applicable to the States’ employers. The two credits combined cannot exceed 5.4 percent of taxable employee wages.

FUTA revenues from the remaining 0.8 percent are collected by the IRS and deposited into the general fund of the U.S. Treasury, which by statute are appropriated to the UTF. FUTA revenues are used primarily to finance Federal and SWA administrative expenses, the Federal share of EB, and advances to States whose UTF account balances are exhausted. DOL allocates available administrative grant funds (as appropriated by Congress) to States based on forecasted workload and costs, and is adjusted for increases or decreases in workload during the current year.

## **Synopsis of Regular Unemployment Compensation Program**

The regular UC program provides UC coverage to most wage and salary workers in each State, the District of Columbia, Puerto Rico, and the Virgin Islands. Except for provisions necessary to comply with Federal law, the provisions of State UI laws vary greatly, including their qualifying requirements and methods used to compute UC amounts.

The period during which a claimant may receive UC is referred to as the “benefit year.” In all but one State, a benefit year lasts one year from the effective date of the claim. The total regular UC that a claimant may receive in a benefit year is computed by the SWA in a dollar amount. A claimant may collect UC up to the maximum benefit amount allowable for the benefit year during periods of unemployment that occur during the benefit year. Under State UI laws, the total (maximum) UC to which a claimant is entitled varies within certain limits according to the worker’s wages in the base period (see III.E, “Eligibility”). Reduced benefits may be paid for weeks of partial unemployment. In some States, the weekly UC benefit payment is augmented by a dependent’s allowance, which may be paid for each dependent up to a maximum number of dependents.

### **Synopsis of Extended Benefits Program**

An interval of high unemployment at a certain level will “trigger on” a period of not less than 13 consecutive weeks during which the State will make EB payments to eligible unemployed workers who have exhausted their entitlement to regular compensation (20 CFR section 615.11). With certain exceptions, EB is payable at the same rate as the claimant’s regular compensation amount (20 CFR section 615.6). The EB period is determined by the State in which the original claim was established (EUCA section 202(a)(2), 20 CFR section 615.2(k)(2)). A reduction in the unemployment rate will “trigger off” the period for the payment of EB.

A claimant may receive EB equal to the lesser of the following amounts: (1) one-half the total amount of regular compensation, including dependent’s allowances, (2) 13 times the weekly amount of regular compensation, or (3) 39 times the weekly amount of regular compensation reduced by the amount of regular compensation paid to the claimant (EUCA, section 202(a)(2), 20 CFR section 615.7(b)). However, the amount of EB benefits payable increase if the unemployment rate reaches a benchmark level established in EUCA. While EB are payable under the terms and conditions of State law, FUTA requires that State UI law conform to certain provisions of EUCA (26 USC 3304(a)(11)).

States are reimbursed with Federal funds for one-half the cost of EB paid to claimants by the SWAs, with the following exceptions: (1) EB paid to former UCFE and UCX claimants are 100 percent reimbursable from Federal funds; and (2) EB paid to former employees of the State government, and political subdivisions and instrumentalities of the State, and federally recognized Indian tribes are not reimbursable from Federal funds. Reimbursements will be prorated for claimants who had employment in both the private and public sectors during their “base periods.” The first week of EB is reimbursable to the State only if the State requires the first week in an individual’s benefit year be an unpaid “waiting week” (EUCA section 204; 20 CFR section 615.14). The auditor should refer to 20 CFR section 615.14 for a complete explanation of when EB is not reimbursed to the State.

### **Employer Experience Rating**

States annually compute an “experience rate” for contributing, or tax-remitting, employers. The experience rate is the dominant factor in the computation of an employer’s State UI tax rate. While methods of computation differ, the key factor in most methodologies is the amount of UC benefits paid by the SWA within a time period specified by State UI law, to claimants who are

former employees of the employer. Also, various methods are used by the SWAs to identify which one or more of the claimant's former employers will be "charged" with the UC benefits paid to the claimant.

### **Synopsis of UCFE and UCX Programs**

For UCFE, the qualifying requirements, determination of UC benefit amounts, and duration of UC are generally determined under the applicable State law, which is generally the State in which the official duty station was located (5 USC 8501-8508; 20 CFR part 609).

The UCX program combines elements of the applicable State law and factors unique to the UCX program, such as "schedules of remuneration" (20 CFR section 614.12), which must be considered by the SWA in making its determinations of eligibility, UC benefit amounts and duration (20 CFR part 614).

States are reimbursed from the UTF for UC paid to UCFE and UCX claimants. On a quarterly basis, States report the amount of UCFE and UCX paid to the DOL, which is responsible for obtaining reimbursement to the UTF from the appropriate Federal agencies.

### **Source of Governing Requirements**

The Federal-State Unemployment Insurance (UI) program partnership is provided for by Titles III, IX, and XII of the Social Security Act of 1935 (SSA) (42 USC 501, 1101, 1321, *et seq.*) and the Federal Unemployment Tax Act (FUTA) (26 USC 3301 *et seq.*). Program regulations are found in 20 CFR parts 601 through 616.

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

Additional information on the UI programs can be found on the Internet at <http://ows.doleta.gov/>.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

Administrative grant funds may be used only for the purposes and in the amounts necessary for proper and efficient administration of the UI program (20 CFR part 601; 20 CFR section 609.14(d); and 20 CFR section 614.15(d)).

## **E. Eligibility**

### **1. Eligibility for Individuals**

- a. *Regular Unemployment Compensation Program* - Under State UI laws, a worker's benefit rights depend on the amount of the worker's wages and/or weeks of work in covered employment in a "base period." While most States define the base period as the first 4 of the last 5 completed calendar quarters prior to the filing of the claim, other base periods are used. To qualify for benefits, a claimant must have earned a certain amount of wages, or have worked a certain number of weeks or calendar quarters within the base period, or meet some combination of wage and employment requirements. Most States require a waiting period of one week of total or partial unemployment before UC is payable. A "waiting period" is a noncompensable period of unemployment in which the worker was otherwise eligible for benefits.

To be eligible to receive UC, all States provide that a claimant must have been involuntarily separated from suitable work, i.e., not because of such acts as leaving voluntarily without good cause, or discharge for misconduct connected with work. After separation, he or she must be able and available for work, in the labor force, legally authorized to work in the U.S., and not have refused an offer of suitable work (20 CFR part 603).

- b. *EB Program* - To qualify for EB, a claimant must have exhausted Regular Compensation (20 CFR section 615.4(a)). To be eligible for a week of EB, a claimant must apply for and be able and available to accept suitable work, if offered. What constitutes suitable work is dependent on a required SWA's evaluation of the claimant's employment prospects. An EB claimant must make a "systematic and sustained effort" to seek work and must provide "tangible evidence" to the SWA that he or she has done so (EUCA section 202(a)(3); 20 CFR section 615.8).
- c. *UCFE and UCX Programs* - For UCFE, the claimant's eligibility and benefit amount will generally be determined in accordance with the UI law of the State of the claimant's last duty station (20 CFR section 609.8). For UCX, a claimant's eligibility is determined in accordance with the UI law of the State in which the claimant files a first claim after separation from active military service (20 CFR section 614.8).

**2. Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable

**3. Eligibility for Subrecipients** - Not Applicable

**G. Matching, Level of Effort, Earmarking****1. Matching - Shareable Compensation Program (EB)**

From its UI tax revenues, the State is required to pay zero percent (UCFE, UCX), 50 percent (EB), or 100 percent (regular compensation) of the UC paid by the SWA to eligible claimants.

The State is required to provide 50 percent of the amounts paid to the majority of eligible EB claimants (those not covered by Federal law or special provisions of State law) (20 CFR sections 615.2 and 615.14(a)). Those EB amounts paid by the SWA, and that are not the responsibility of the State, are reimbursable to the State from the UTF (20 CFR section 615.14). The first week of EB is reimbursable to the State only if, in addition to other requirements, the State requires the first week of an individual's benefit year to be an "unpaid waiting week" (EUCA section 204; 20 CFR section 615.14).

The 50 percent share of EB for which the State is responsible is prorated for those claimants whose base period includes wages from both public and private sector employment.

**2. Level of Effort - Not Applicable****3. Earmarking - Not Applicable****L. Reporting****1. Financial Reporting**

Instructions for reporting financial and program activities are contained in ET Handbook 336, 18th Edition, *State Quality Service Plans for Unemployment Insurance Operations* and in the ET Handbook 401, 3rd Edition, *Unemployment Insurance Reports Handbook 401*. The SWA may file certain reports electronically.

- a. ETA 9130, *Financial Status Report (OMB No. 1205-0461)* – DOL requires financial reports to be cumulative by fiscal year of appropriation. All ETA grantees are required to submit quarterly financial reports for each grant award they receive. Reports are required to be prepared using the specific format and instructions for the applicable program(s); in this case, *Employment Service and Unemployment Insurance Programs*. Consistent with the instructions for the *Employment Service and Unemployment Insurance Programs*, a separate ETA 9130 is submitted for each of the following: UI Administration, UI National Activities, Regular Trade Benefits, NAFTA Benefits, and UA Projects (administration and benefits). Reports are due 45 days after the end of the reporting quarter. Additional information can be accessed on the Internet at



<http://www.doleta.gov/grants/> and scroll down to the section on Financial Status Reporting.

- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC 272-E, *Major Program Statement*.
- e. ETA 2112, *UI Financial Transaction Summary (OMB No. 1205-0154)* - A monthly summary of transactions, which account for all funds received in, passed through, or paid out of the State unemployment fund (Page II-1-1 of ET Handbook 401).
- f. ETA 581, *Contribution Operations (OMB No. 1205-0178)* - Quarterly report on volume of SWA work, performance in determining the taxable status of employers, and other information pertinent to the overall effectiveness of the tax program (Page II-2-1 of ET Handbook 401).
- g. ETA 191, *Financial Status of UCFE/UCX (OMB No. 1205-0162)* - Quarterly report on UCFE and UCX expenditures and the total amount of benefits paid to claimants of specific Federal agencies (Page II-3-1 of ET Handbook 401).
- h. ETA 227, *Overpayment Detection and Recovery Activities (OMB No. 1205-0173)* - Quarterly report on results of SWA activities in principal detection areas of benefit payment control (Page IV-3-1 of ET Handbook 401).

**2. Performance Reporting** - Not Applicable

**3. Special Reporting**

ETA 2208A, *Quarterly UI Contingency Report (OMB No. 1205-0132)* - Quarterly report of staff years worked and paid by program category. Key line items are 1 through 7 of Section A. The auditor is not expected to test Sections B through E.

## N. Special Tests and Provisions

### 1. Employer Experience Rating

**Compliance Requirement** – Certain benefits accrue to States and employers when the State has a federally approved experience-rated UI tax system. All States currently have an approved system. For the purpose of proper administration of the system, the SWA maintains accounts, or subsidiary ledgers, on State UI taxes received or due from individual employers, and the UC benefits charged to the employer.

The employer's "experience" with the unemployment of former employees is the dominant factor in the SWA computation of the employer's annual State UI tax rate. The computation of the employer's annual tax rate is based on State UI law (26 USC 3303).

**Audit Objective** – To verify the accuracy of the employer's annual State UI tax rate and to determine if the tax rate was properly applied by the State.

#### Suggested Audit Procedures

- a. Experience rating systems are generally highly automated systems. These systems could contain errors that are material in the aggregate, but which are not susceptible to detection solely by sampling. If errors are detected, sampling may not be the most effective and efficient means to quantify the extent of such errors. For this reason, the auditor should have a thorough understanding of the operation of these systems, and is strongly encouraged to consider the use of computer-assisted auditing techniques (CAATs) to test these systems.
- b. On a test basis, reconcile the subsidiary employer accounts with the State's UI general ledger control accounts.
- c. Trace a sample of taxes received and benefits paid to postings to the applicable employer accounts. Verify the propriety of any non-charging of benefits paid to an employer account.
- d. Trace a sample of postings to employer accounts to documentation of taxes received and benefits paid.
- e. On a test basis, recompute employer experience-related tax rates.

### 2. UI Benefit Payments

**Compliance Requirement** – SWAs are required by 20 CFR section 602.11(d) to operate a Benefits Accuracy Measurement (BAM) program to assess the accuracy of UI benefit payments and denied claims. The program estimates error rates, that is, numbers of claims improperly paid or denied and dollar amounts of benefits improperly paid or denied by projecting the results from investigations of small random samples to the universe of all claims paid and denied in a State. Specifically, the SWA's BAM unit is required to draw a weekly sample of payments and denied claims, review the records, and

contact the claimant, employers, and third parties (either in-person, by telephone, or by fax) to verify all the information pertinent to the paid or denied claim that was sampled. BAM investigators review cases for adherence to State law and policy. For claims that were overpaid, underpaid, or erroneously denied, the BAM investigator determines the amount of payment error or, for erroneously denied claims, the potential eligibility of the claimant; the cause of and the responsibility for any payment error; the point in the UI claims process at which the error was detected; and actions taken by the agency and employer prior to the payment or denial decision that is in error. Federal regional office staff members review a sub-sample of completed cases each year in each State. BAM covers State UC, UCFE, and UCX (20 CFR section 602.11(d)).

Due to the complexity of the UI benefit payment operations, it is unlikely the auditor will be able to support an opinion that UI benefit payments are in compliance with applicable laws and regulations without relying on the SWA's systems and internal controls. Additional information on BAM procedures, historical data, and a State contacts list can be obtained at <http://www.ows.doleta.gov/unemploy/bqc.asp>.

The auditor also should review the requirements relating to the investigative process and data collection in ET Handbook No. 395, 4th Edition, Benefit Accuracy Measurement State Operations Handbook, Chapters IV, V, VI, VII, and Appendix C (Investigative Guide Source, Action, and Documentation), pertinent UI Program Letters and other sources of information including Question and Answer series on the Employment and Training Web site (see above).

**Audit Objective** – To verify that States operate a BAM program in accordance with Federal requirements to assess the accuracy of UI benefit payments and denied claims.

### **Suggested Audit Procedures**

- a. Review State BAM case investigative procedures and methodology to assess the SWA's adherence to BAM requirements.
- b. Determine whether BAM samples of UI weeks paid and disqualifying eligibility determinations (monetary, separation, and non-separation) are selected for investigation and verification once a week by the State agency's BAM unit.
- c. Determine whether the State agency is meeting its completion requirements and allowing for timely review by the State agency's BAM unit and, if not, whether the reasons have been documented.
- d. Determine whether BAM case sampling and case assignment for paid and denied claims includes review for compliance with State law and policy.
- e. Conduct reviews of a representative sub-sample of completed cases to ensure that established procedures were followed (e.g., each completed case has undergone supervisory review) and information is accurately recorded. The auditor should not attempt to conduct a new investigation, or new fact finding.

### 3. Match with IRS 940 FUTA Tax Form

**Compliance Requirement** – States are required to annually certify for each taxpayer the total amount of contributions required to be paid under the State law for the calendar year and the amounts and dates of such payments in order for the taxpayer to be allowed the credit against the FUTA tax (26 CFR section 31.3302(a)-3(a)). In order to accomplish this certification, States annually perform a match of employer tax payments with credit claimed for these payments on the employer’s IRS 940 FUTA tax form.

**Audit Objective** – Determine whether the State properly performed the match to support its certification of State FUTA tax credits.

#### **Suggested Audit Procedures**

- a. Ascertain the State’s procedures for conducting the annual match.
- b. Obtain and examine documentation supporting the annual match process from the group of employers’ State unemployment tax payments used by the State in its match process.
- c. For a sample of employer payments:
  - (1) Verify that the tax payments met the stated criteria for FUTA tax credits allowance (e.g., timely state unemployment tax filings and payments).
  - (2) Compare the audit results to the States’ reported annual match results.

## IV. OTHER INFORMATION

State unemployment tax revenues and the governmental, tribal, and non-profit reimbursements in lieu of State taxes (State UI funds) must be deposited to the Unemployment Trust Fund in the U.S. Treasury, primarily to be used to pay benefits under the federally approved State unemployment law. This Compliance Supplement includes several compliance requirements that must be tested with regard to these State UI funds. Consequently, State UI funds as well as Federal funds shall be included in the total expenditures of CFDA 17.225 when determining Type A programs. State UI funds should be included with Federal funds on the Schedule of Expenditures of Federal Awards (SEFA). A footnote to the SEFA to indicate the individual State and Federal portions of the total expenditures for CFDA 17.225 is encouraged.

## DEPARTMENT OF LABOR

### CFDA 17.235 SENIOR COMMUNITY SERVICE EMPLOYMENT PROGRAM

#### I. PROGRAM OBJECTIVES

The purpose of the Senior Community Service Employment Program (SCSEP) program is to provide, foster, and promote useful part-time work opportunities (usually 20 hours per week) in community service employment activities for low-income persons who are 55 years of age and older. To the extent feasible, SCSEP assists and promotes the transition of program participants into unsubsidized employment.

#### II. PROGRAM PROCEDURES

To allot program funds for use in each State, the Department of Labor (DOL) utilizes a statutory formula based on the number of persons aged 55 and over, per capita income, and hold-harmless considerations. Program grants are awarded to eligible applicants, which include States, U.S. Territories, and public and private non-profit entities other than political parties (Section 506 of the Act). The relative amount of funding for each type of eligible applicant has historically occurred at proportions of 22 percent to State and Territorial agencies and 78 percent to national grantees. As a result of a competition conducted in 2006, there are now 18 national grantees. The one-year grant period may be extended through a grant modification. The program year is July 1 to June 30.

#### Source of Governing Requirements

SCSEP is authorized by the Older Americans Act (OAA) of 1965, as amended by Pub. L. No. 109-365 (42 USC 3056 *et seq.*). Implementing regulations are published at 20 CFR part 641.

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

##### A. Activities Allowed or Unallowed

###### 1. *Activities Allowed*

- a. Allowable activities include, but are not limited to: outreach, orientation, assessment, counseling, classroom training, job development, community service assignments, payment of wages and fringe benefits, training, supportive services, and placement in unsubsidized employment.

- b. Costs of participating as a required partner in the One-Stop Delivery System established in accordance with section 134(c) of the Workforce Investment Act (WIA) of 1998 are allowable, as long as SCSEP services and funding are provided in accordance with the Memorandum of Understanding required by WIA and section 502(b)(1)(O) of the OAA (20 CFR section 641.850(d)).
- c. SCSEP funds may be used to meet a recipient's or subrecipient's obligations under section 504 of the Rehabilitation Act of 1973, as amended, the Americans with Disabilities Act of 1990, and any other applicable Federal disability nondiscrimination laws to provide accessibility for individuals with disabilities (20 CFR section 641.850(f)).

## 2. *Activities Unallowed*

- a. Legal expenses for the prosecution of claims against the Federal Government, including appeals to an Administrative Law Judge, are unallowable (20 CFR section 641.850(b))
- b. In addition to the prohibition contained in 29 CFR part 93, SCSEP funds cannot be used to pay any salaries or expenses related to any activity designed to influence legislation or appropriations pending before the U.S. Congress of any State legislature (29 CFR section 641.850(c)).
- c. SCSEP funds may not be used for the purchase, construction, or renovation of any building except for the labor involved in minor remodeling of a public building to make it suitable for use for project purposes; minor repair and rehabilitation of publicly used facilities for the general benefit of the community; and minor repair and rehabilitation by participants of housing occupied by persons with low incomes who are declared eligible for such services by authorized local agencies (20 CFR section 641.850(e)).

## **E. Eligibility**

### **1. Eligibility for Individuals**

Persons 55 years or older whose family is low-income (i.e., income does not exceed the low-income standards defined in 20 CFR section 641.507) are eligible for enrollment (20 CFR section 641.500). Low-income means an income of the family which, during the preceding 6 months on an annualized basis or the actual income during the preceding 12 months, at the option of the grantee, is not more than 125 percent of the poverty levels established and periodically updated by the U.S. Department of Health and Human Services (42 USC 3056p(a)(4)). The poverty guidelines are issued each year in the *Federal Register* and the Department of Health and Human Services maintains a page on the Internet which provides the poverty guidelines (<http://www.aspe.hhs.gov/poverty/index.shtml>). Enrollee eligibility is redetermined on an annual basis (20 CFR section 641.505).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

**3. Eligibility for Subrecipients - Not Applicable**

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

**1. Matching**

The grantee must contribute matching, in cash or in-kind, not less than 10 percent of the total cost of the project, except that the Federal Government may pay all costs of any project which is:

- a. An emergency or disaster project;
- b. A project located in an economically depressed area as determined by the Secretary of Labor in consultation with the Secretary of Commerce and the Director of the Office of Community Services of the Department of Health and Human Services;
- c. A project which is exempt by law (42 USC 3056(c)).

**2.1 Level of Effort - *Maintenance of Effort* - Not Applicable**

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

Employment of an enrollee shall be only in addition to budgeted employment which would otherwise be funded by the grantee, subgrantee(s), or host agency(ies) without assistance from the Act, and shall not result in employee displacement (including persons in lay-off status) or substitute project jobs for contracted work or other Federal jobs (20 CFR section 641.844).

**3. Earmarking**

The amount of Federal funds expended for enrollee wages and fringe benefits shall be no less than 75 percent of the grant (20 CFR section 641.873) except in those instances in which a grantee has requested, and DOL has approved such request, to use not less than 65 percent of the grant funds to pay for participant wage and fringe benefits so as to use up to an additional 10 percent of grant funds for participant training and supportive services (42 USC 3056(c)(6)(C)(i))

The amount of Federal funds expended for the costs of administration during the program year shall be no more than 13.5 percent of the grant (20 CFR section 641.867(a)). A waiver of this requirement to increase administrative expenditures to 15 percent may be granted by the Secretary (20 CFR section 641.867(b)).

**L. Reporting****1. Financial Reporting**

- a. ETA 9130, *Financial Report, (OMB No. 1205-0461)* – DOL requires financial reports to be cumulative by fiscal year of appropriation. All ETA grantees are required to submit quarterly financial reports for each grant award they receive. Reports are required to be prepared using the specific format and instructions for the applicable program(s); in this case, *Older Worker Program*. Reports are due 45 days after the end of the reporting quarter. Additional information can be accessed on the Internet at <http://www.doleta.gov/grants/> and scroll down to the section on Financial Status Reporting.
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through PMS and is evidenced by the PSC 272 series of reports.

**2. Performance Reporting** - Not Applicable**3. Special Reporting** - Not Applicable



## DEPARTMENT OF LABOR

### CFDA 17.245 TRADE ADJUSTMENT ASSISTANCE

#### I. PROGRAM OBJECTIVES

The purpose of the Trade Adjustment Assistance (TAA) program is to provide assistance to workers adversely affected by foreign trade. Services provided under the TAA program enable workers to return to work that will use the highest skill levels and pay the highest wages, given the workers' preexisting skill levels, and education and the condition of the labor market, and to do so as quickly as possible. The Trade Act of 1974, as amended by the TAA Reform Act of 2002 (TAA Reform Act) (Pub. L. No. 107-210), was enacted on August 6, 2002. The TAA Reform Act repealed the North American Free Trade Agreement Transitional Adjustment Assistance program and created a consolidated TAA program and a new demonstration program, the Alternative Trade Adjustment Assistance (ATAA) program for older workers. The ATAA program provides workers 50 years of age or older with the option of receiving a temporary wage subsidy upon prompt reemployment at lower pay than their previous adversely affected employment as an alternative to training and other TAA benefits.

#### II. PROGRAM PROCEDURES

Funds are provided to State Workforce Agencies (SWAs) which serve as agents of the U.S. Department of Labor (DOL) for administering the worker adjustment assistance benefit provisions of the TAA Reform Act. Funds are awarded for the costs of training, job search and relocation allowances, and administrative costs.

Through their One-Stop Career Centers and other local offices, SWAs arrange for training and provide weekly trade readjustment allowances (TRA) for eligible program participants. In addition, eligible individuals may receive (1) job search assistance, (2) a relocation allowance, and (3) transportation and/or subsistence allowances for the purpose of attending approved training outside the normal commuting distance of their place of residence (20 CFR part 617). SWAs also serve as agents of DOL for identifying potentially eligible participants and assisting them in applying for the Health Coverage Tax Credit (HCTC) program. Eligible workers 50 years of age and older may elect to receive ATAA instead of TAA. If the worker obtains new employment within 26 weeks of separation at wages less than \$50,000 and less than those earned in adversely affected employment, the ATAA program will pay 50 percent of the difference between the old wage and the new wage, up to \$10,000 over a two-year period. ATAA participants may also be eligible for the HCTC.

#### Source of Governing Requirements

This program is authorized by the Trade Act of 1974, as amended by the TAA Reform Act of 2002 (Pub. L. No. 107-210 (19 USC 2271 *et seq.*). Implementing regulations are 29 CFR part 90, subpart B, and 20 CFR part 617. Operating instructions for the TAA program are found in Training and Employment Guidance Letter (TEGL) 11-02, and operating instructions for the ATAA program are found in TEGL 2-03.

## Availability of Other Program Information

Additional information on TAA and ATAA program procedures may be obtained through the agency web site at <http://www.doleta.gov/tradeact>.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

The following requirements apply to TAA and ATAA.

##### 1. *Activities Allowed*

- a. *TAA* - Allowable activities include job search assistance, relocation allowance, training (including payments for transportation and subsistence where required for training), and payment of weekly TRA benefits to eligible participants (20 CFR sections 617.10 through .19).
- b. *ATAA* - Allowable activities include payment of ATAA wage subsidies to eligible participants (TEGL 2-03).

##### 2. *Activities Unallowed*

Funds must not be used to:

- a. Pay for testing, counseling, and job placement services; however, TAA participants may be receiving these services through other programs such as the Workforce Investment Act (WIA) (20 CFR part 617).
- b. Assist any eligible individual and such individual's qualifying family members in enrolling in a qualified health coverage plan ((Section 203(b) of Pub. L. No. 107-210, 116 Stat 963, August 6, 2002; 29 USC 2918(f)).

#### E. Eligibility

##### 1. Eligibility for Individuals

###### a. *Department of Labor Certification and Qualifying Separations*

*TAA* - In order to be eligible for training and other reemployment services under the TAA program, an individual must be an adversely affected worker covered under a DOL certification, and have a qualifying separation which occurred (i) on or after the impact date specified in the certification as the beginning of the import caused unemployment or

underemployment and (ii) before the expiration of the two-year period beginning on the date on which the Secretary of Labor issued the certification for his or her group or, if earlier, before the termination date, if any, specified in the certification (Section 123(c)(1) of Pub. L. No. 107-210, 116 Stat 944, August 6, 2002; 19 USC 2331 note). (Section 113 of Pub. L. No. 107-210, 116 Stat 937, August 6, 2002; 19 USC 2272; 29 CFR section 90.16).

b. *Qualifying Wages, Duration of Employment, and Training*

TAA - To be eligible for weekly TRA payments, the worker must:

(a) have been employed at wages of \$30 or more per week in adversely-affected employment with a single firm or subdivision of a firm for at least 26 of the previous 52 weeks ending with the week of the individual's qualifying separation (up to seven weeks of employer-authorized leave, up to seven weeks as a full-time representative of a labor organization, or up to 26 weeks of disability compensation may be counted as qualifying weeks of employment); (b) have exhausted all Unemployment Compensation to which he or she is entitled; and (c) be enrolled in or have completed an approved job training program, unless a waiver from the training requirement has been issued after a determination is made that training is not feasible or appropriate (20 CFR section 617.11).

In addition, workers must be enrolled in their approved training within eight weeks of the issuance of the certification or within 16 weeks of their most recent qualifying separation, whichever is later, unless this requirement is waived (Section 114(b) and 115(c) of Pub. L. No. 107-210, 116 Stat. 939; 19 USC 2291(a)(5)(A) and (c)).

c. *Maximum Combined Number of Weeks for Receipt of UC, EB, and TRA*

TAA - TRA becomes payable to eligible claimants only after they have exhausted their entitlement to regular unemployment compensation benefits (UC), including extended benefits (EB), if applicable. The maximum combined number of weeks for receipt of UC, EB, and TRA cannot exceed 52 weeks, except that up to 52 additional weeks of TRA may be paid to program participants enrolled in approved training and an additional 26 weeks may be paid to program participants enrolled in remedial training (20 CFR sections 617.14 and 617.15; Pub. L. No. 107-210, section 116(a)).

d. *Maximum Number of Weeks for Receipt of Approved Training*

TAA - The maximum duration for any approvable training program is 104 weeks, except that an additional 26 weeks may be approved for program participants who require remedial training, and no individual shall be

entitled to more than one training program under a single certification (20 CFR section 617.22(f)(2)).

e. *Eligibility for ATAA*

*ATAA* - To be eligible for ATAA, an individual must be an adversely affected worker covered under a DOL certification of eligibility for TAA and ATAA, and have a qualifying separation which occurred (i) on or after the impact date specified in the certification as the beginning of the import caused unemployment or underemployment and (ii) before the expiration of the two-year period beginning on the date on which the Secretary of Labor issued the certification for his or her group or, if earlier, before the termination date, if any, specified in the certification, and meet the following conditions at the time of reemployment:

- (1) Be at least age 50 at time of reemployment.
- (2) Obtain reemployment by the last day of the 26<sup>th</sup> week after the worker's qualifying separation from the TAA/ATAA certified employment.
- (3) Must not be expected to earn more than \$50,000 annually in gross wages (excluding overtime pay) from the reemployment.
- (4) Be reemployed full-time as defined by the state law where the worker is employed.
- (5) Cannot return to work to the employment from which the worker was separated.

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

**3. Eligibility for Subrecipients - Not Applicable**

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

The following requirement applies to TAA and ATAA.

Funds allotted to a State for any fiscal year are available for expenditure by the State during the year of award and the two succeeding fiscal years (Section 130 of Pub. L. No. 107-210, 116 Stat. 942; 19 USC 2317).

## L. Reporting

The following requirements apply to TAA and ATAA.

### 1. Financial Reporting

- a. ETA-9130, *Financial Report (OMB No. 1205-0461)* - All ETA grantees are required to submit quarterly financial reports for each grant award they receive. Reports are due 45 days after the end of the reporting quarter. Additional information can be accessed on the Internet at <http://www.doleta.gov/grants/> and scroll down to the section on Financial Status Reporting.
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Data equivalent to that which is required on the SF-272 is submitted electronically by the recipient. A PSC 272-E, *Major Program Statement*, is issued by the Department of Health and Human Services, Division of Payment Management as confirmation of what was electronically submitted to the Federal government for the SF-272.
- e. ETA-9117, *Trade Adjustment Assistance (TAA) Program Reserve Funding Request Form (OMB No. 1205-0275)* – SWAs are required to furnish this form to ETA, in conjunction with the SF-424, with each request for TAA program reserve training funds and/or job search and relocation allowances (20 CFR section 617.61; 29 CFR section 97.41).

### 2. Performance Reporting

*Trade Act Participant Report (TAPR) (OMB No. 1205-0392)* - SWAs are required to submit quarterly reports on participant characteristics, services and benefits received, and outcomes achieved.

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

- (1) Section I. No.2 - *Individual Identifier*
- (2) Section III. No. 44 - *Employed in first full quarter after exit*
- (3) Section III. No. 49 - *Employed in third full quarter after exit*

*Total Earnings from Wage Records:*

- (4) Section III. No. 51 - *Three quarters prior to participation quarter*
- (5) Section III. No. 52 - *Two quarters prior to participation quarter*
- (6) Section III. No. 54 - *First quarter following exit*
- (7) Section III. No. 55 - *Second quarter following exit*
- (8) Section III. No. 56 - *Third quarter following exit*

**3. Special Reporting**

- a. ETA 563, *Quarterly Determinations, Allowance Activities and Employability Services Under the Trade Act (OMB No. 1205-0016)* - This report is due quarterly from each SWA. SWAs submit an aggregate report detailing quarterly petition activity in their states (20 CFR section 617.57; 29 CFR section 97.40).
- b. *Alternative Trade Adjustment Assistance Activities Report (OMB No. 1205-0459)* - This report is due quarterly from each SWA. SWAs submit a report detailing quarterly activities regarding ATAA participation in their States (Training and Employment Guidance Letter (TEGL) 2-03).

## DEPARTMENT OF LABOR

**CFDA 17.258    WIA ADULT PROGRAM**  
**CFDA 17.259    WIA YOUTH ACTIVITIES**  
**CFDA 17.260    WIA DISLOCATED WORKERS**

### I.     PROGRAM OBJECTIVES

The Workforce Investment Act of 1998 (WIA) reforms Federal job training programs and creates a new, comprehensive workforce investment system. The reformed system is intended to be customer-focused, to help Americans access the tools they need to manage their careers through information and high quality services, and to help U.S. companies find skilled workers. The cornerstone of the new workforce investment system is One-Stop service delivery, which unifies numerous training, education and employment programs into a single, customer-friendly system in each community so that the customer has access to a seamless system of workforce investment services.

Subtitle B programs for adults and dislocated workers seek to improve employment, retention, and earnings of WIA participants and increase their educational and occupational skill attainment, thereby improving the quality of the workforce, reducing welfare dependency, and enhancing national productivity and competitiveness. Subtitle B Youth activities seek to increase attainment of basic skills, work readiness or occupational skills, and secondary diplomas or other credentials.

### II.    PROGRAM PROCEDURES

#### *Subtitle B Statewide and Local Workforce Investment Programs*

This provides the framework for delivery of workforce investment activities at the State and local levels to individuals who need those services, including job seekers, dislocated workers, youth, incumbent workers, new entrants to the workforce, veterans, persons with disabilities, and employers. Each State's Governor is required to establish a State Board; develop a State Workforce Investment Plan (WIA section 112; 29 USC 2822); designate local workforce investment areas; and oversee the creation of Local Boards and One-Stop service delivery systems in the State.

The Local Workforce Investment Board (Local Board) is appointed by the chief elected official in each local area in accordance with State criteria established under WIA section 117(b), and is certified by the Governor every two years. The Local Board, in cooperation with the chief elected official, appoints a youth council as a subgroup of the Local Board and coordinates workforce and youth plans and activities with the youth council, in accordance with WIA section 117(h). With the chief elected official, the Local Board sets policy for the portion of the Statewide workforce investment system within the local area (29 USC 2832).

Each Local Board, in partnership with the appropriate chief elected officials, develops and submits a comprehensive five-year plan to the Governor which identifies and describes certain policies, procedures and local activities that are carried out in the local area, and that is consistent with the State Workforce Investment Plan and WIA section 118(b) (29 USC 2833(b)). The plan must include a description of the One-Stop delivery system to be established or designated in the local area, including: a copy of the local Memorandums of Understanding (MOU) between the Local Board and each of the One-Stop partners describing the operation of the local One-Stop delivery system; identification of the One-Stop operator or entity responsible for the disbursement of grant funds; and a description of the competitive process to be used to award grants and contracts for activities carried out under this subtitle I of WIA, including the process to be used to procure training services that are made as exceptions to the Individual Training Account process (WIA section 134(d)(4)(G); 29 USC 2864).

The agreement (20 CFR section 662.400(c)) between the Local Board and the One-Stop operator shall specify the operator's role. That role may range between simply coordinating service providers within the center, to being the primary provider of services within the center, to coordinating activities throughout the local One-Stop system. The types of entities that may be selected to be the One-Stop operator include: a postsecondary educational institution; an Employment Service agency established under the Wagner-Peyser Act on behalf of the local office of the agency; a private, non-profit organization (including a community-based organization); a private for-profit entity; a government agency; and another interested organization or entity. The One-Stop operator may be a single entity or a consortium of entities and may operate one or more One-Stop centers. In addition, there may be more than one One-Stop operator in a local area.

The following Federal programs are required by WIA section 121(b)(1) to be partners in the local One-Stop system: programs authorized under Title I of WIA; public labor exchange programs authorized under the Wagner-Peyser Act (29 USC 49 *et seq.*); adult education and literacy activities authorized under title II of WIA; programs authorized under parts A and B of title I of the Rehabilitation Act (29 USC 720 *et seq.*); welfare-to-work programs authorized under sec. 403(a)(5) of the Social Security Act (42 USC 603(a)(5) *et seq.*); senior community service employment activities authorized under title V of the Older Americans Act of 1965 (42 USC 3056 *et seq.*); postsecondary vocational education activities under the Carl D. Perkins Vocational and Applied Technology Education Act (20 USC 2301 *et seq.*); Trade Adjustment Assistance and NAFTA Transitional Adjustment Assistance activities authorized under chapter 2 of title II of the Trade Act of 1974 (19 USC 2271 *et seq.*); activities authorized under chapter 41 of title 38, USC (local veterans' employment representatives and disabled veterans outreach programs); employment and training activities carried out under the Community Services Block Grant (42 USC 9901 *et seq.*); employment and training activities carried out by the Department of Housing and Urban Development (WIA sec. 121(b)(1)(B)(xi)); and programs authorized under State unemployment compensation laws (in accordance with applicable Federal law).

WIA also provides that other entities that carry out human resource programs, including Federal, State, or local programs and programs in the private sector, may serve as additional partners in the One-Stop system if the Local Board and chief elected official(s) approve the entity's participation. Additional partners may include: Temporary Assistance for Needy Families programs authorized under part A of title IV of the Social Security Act (42 USC 601 *et seq.*);



employment and training programs authorized under section 6(d)(4) of the Food Stamp Act of 1977 (7 USC 2015(d)(4)) and work programs authorized under section 6(o) of the Food Stamp Act of 1977 (7 USC 2015(o)); programs authorized under the National and Community Service Act of 1990 (42 USC 12501 *et seq.*); and other appropriate Federal, State or local programs, including programs related to transportation and housing and programs in the private sector (WIA sec. 121(b)(2); 29 USC 2841(b)(2)).

All required programs must: make available to participants through the One-Stop delivery system the core services that are applicable to the partner's programs (WIA sec. 121(b)(1)(A)); use a portion of funds made available to the partner's program, to the extent not inconsistent with the Federal law authorizing the partner's program, to create and maintain the One-Stop delivery system and provide core services (WIA sec. 134(d)(1)(B)); enter into a memorandum of understanding (MOU) with the Local Board relating to the operation of the One-Stop system, including a description of services, how the cost of the identified services and operating costs of the system will be funded, and methods for referrals (WIA sec. 121(c)); participate in the operation of the One-Stop system consistent with the terms of the MOU and requirements of authorizing laws (WIA sec. 121(b)(1)(B)); and provide representation on the Local Workforce Investment Board (WIA sec. 117(b)(2)(A)(vi); 20 CFR section 662.230).

The applicable core services may be made available by the provision of appropriate technology at the comprehensive One-Stop center, by co-locating personnel at the center, cross-training of staff, or through a cost-reimbursement or other agreement between service providers at the comprehensive One-Stop center and the partner programs, as described in the State Workforce Investment Plan and the local MOU. Core services may also be made available through the networks of affiliated sites and One-Stop partners described in WIA section 134(c)(2) (20 CFR section 662.250).

The workforce investment system established under WIA emphasizes informed customer choice, system performance, and continuous improvement. The eligible provider process is part of the strategy for achieving these goals. A Local Board may not itself provide training services to adults and dislocated workers unless it receives a waiver from the Governor and meets the requirements of WIA section 117(f)(1) (29 USC 2832(f)(1)). Instead, Local Boards, in partnership with the State, identify training providers and programs whose performance qualifies them to receive WIA funds to train adults and dislocated workers. After receiving core and intensive services and in consultation with case managers, eligible participants who need training use the list of these eligible providers, which contains performance and cost information on eligible providers, to make an informed choice (20 CFR section 663.440).

Individual Training Accounts (ITAs) are established for eligible individuals to finance training through these eligible providers. Payments from ITAs may be made in a variety of ways, including the electronic transfer of funds through financial institutions, vouchers, or other appropriate methods. Payments may also be made through payment of a portion of the costs at different points in the training course (20 CFR section 663.410). Exceptions to the use of ITAs are permissible only where the services provided are for on-the-job or customized training; where the Local Board determines that there is an insufficient number of eligible providers available locally; or in the case of programs of demonstrated effectiveness serving participant populations which face multiple barriers to employment (20 CFR section 663.430).

The ability of providers to successfully perform, the procedures State and Local Boards use to establish training provider eligibility, and the degree to which information, including performance information, on those providers is made available to customers eligible for training services, are key factors affecting the successful implementation of the Statewide workforce investment system (20 CFR section 663.500).

### **Source of Governing Requirements**

The WIA program is authorized by: Title I of the Workforce Investment Act of 1998 (Pub. L. No. 105-220, 112 Stat. 936-1059; 29 USC 2811 *et seq.*). The regulations are at 20 CFR parts 660-671.

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

Additional information on programs authorized under the Workforce Investment Act can be found on the Internet at [http://www.doleta.gov/programs/adult\\_program.cfm#wia](http://www.doleta.gov/programs/adult_program.cfm#wia). The *Planning and Policy Guidance* section is a particularly useful source of information on compliance issues.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable, and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

#### *1. Waivers and Work-Flex*

- a. The Secretary of Labor may waive statutory or regulatory requirements of the adult and youth provisions of the Act and of the Wagner-Peyser Act (29 USC 2939(i)(4); 20 CFR sections 661.400 through .420).
- b. Under an approved Workforce Flexibility plan, a Governor may be granted authority to approve requests for waivers of statutory or regulatory provisions of Title I submitted by local workforce areas (29 USC 2942; 20 CFR sections 661.430 and .440)).

#### *2. Statewide Activities*

Statewide workforce investment activities include (20 CFR sections 665.200 and .210):

- a. State administration of the adult, dislocated worker, and youth workforce investment activities.

- b. Providing capacity building and technical assistance to local areas, including Local Boards, One-Stop operators, One-Stop partners, and eligible providers.
- c. Conducting research and demonstrations.
- d. Establishing and implementing innovative incumbent worker training programs, which may include an employer loan program to assist in skills upgrading, and programs targeted to empowerment zones and enterprise communities.
- e. Providing support to local areas for the identification of eligible training providers.
- f. Implementing innovative programs for displaced homemakers, and programs to increase the number of individuals trained for and placed in non-traditional employment.
- g. Carrying out adult and dislocated worker employment and training activities as the State determines are necessary to assist local areas in carrying out local employment and training activities.
- h. Carrying out youth activities Statewide.
- i. Preparing the annual performance progress report and submitting it to the Secretary of Labor, as described in 20 CFR section 667.300(e).
- j. Carrying out required rapid response activities.
- k. Disseminating:
  - (1) The State list of eligible providers of training services, for adults and dislocated workers.
  - (2) Information identifying eligible providers of on-the-job training and customized training.
  - (3) Performance and program cost information about these providers.
  - (4) A list of eligible providers of youth activities.
- l. Conducting evaluations, under WIA section 136(e), of workforce investment activities for adults, dislocated workers and youth, in order to establish and promote methods for continuously improving such activities to achieve high-level performance within, and high-level outcomes from, the Statewide workforce investment system.
- m. Providing incentive grants.

- n. Providing technical assistance to local areas that fail to meet local performance measures.
  - o. Assisting in the establishment and operation of One-Stop delivery systems, in accordance with the strategy described in the State Workforce Investment Plan.
  - p. Providing additional assistance to local areas that have high concentrations of eligible youth.
  - q. Operating a fiscal and management accountability information system.
3. *Local Activities - Subtitle B Adult and Dislocated Worker Programs*
- a. Funds may be used at the local level to pay for core One-Stop system costs as well as for intensive services and training services for program participants.
  - b. *Core Services* - The following are core services (20 CFR section 662.240):
    - (1) Eligibility determination for WIA services.
    - (2) Outreach, intake, and orientation to available information and services.
    - (3) Initial assessment of skill levels, aptitudes, abilities and supportive services needs.
    - (4) Career counseling.
    - (5) Job search and placement assistance.
    - (6) Provision of employment statistics and job information.
    - (7) Provision of performance information on eligible providers of training services, youth activities, and adult education.
    - (8) Provision of information on local area performance.
    - (9) Provision of information on availability of supportive services.
    - (10) Provision of information regarding filing Unemployment Insurance (UI) claims.
    - (11) Assistance in establishing eligibility for welfare to work activities and programs of financial assistance for training and education programs.

- (12) Follow-up services including counseling for individual placed into unsubsidized employment for at least 12 months following placement (20 CFR section 663.150).
- c. *Intensive Services* - The following are intensive services (29 USC 2864(d)(3); 20 CFR section 663.200):
- (1) Specialized assessments including diagnostic testing, in-depth interviewing, and evaluation.
  - (2) Development of employment plan.
  - (3) Group counseling.
  - (4) Individual counseling and career planning.
  - (5) Case management.
  - (6) Pre-vocational services, including workplace behavior skills training.
- d. *Training Services* - The following are training services (29 USC 2864(d)(4); 20 CFR section 663.300):
- (1) Occupational training.
  - (2) On-the-Job-Training (OJT) (Employers may be reimbursed up to 50 percent of the wage rate of an OJT participant for the extraordinary costs of providing the training and additional supervision related to the OJT. The employer is not required to document its extraordinary costs (20 CFR section 663.710)).
  - (3) Skill upgrading.
  - (4) Entrepreneurial training.
  - (5) Job readiness training.
  - (6) Adult literacy.
  - (7) Customized training (Customized training is designed to meet the special needs of an employer. Such employers are required to pay at least fifty percent of the training (20 CFR section 663.715)).

- e. At the discretion of the State and Local Boards the following services may be provided (29 USC 2864(e)):
  - (1) Customized screening and referral.
  - (2) Supportive services, including needs related payments.
- 4. *Local Activities - Subtitle B Youth Activities*
  - a. Youth activities can provide a wide array of activities relating to employment, education and youth development. With the exception of the design framework component (e.g., services for intake, objective assessment, and the development of individual service strategy), these activities must be obtained by grant or contract with a service provider. The activities include but are not limited to the following (29 USC 2843 and 2854(c)(2); 20 CFR sections 664.405(a)(4) and .410):
    - (1) Tutoring, study skills training, and instruction leading to completion of secondary school, including dropout prevention strategies.
    - (2) Alternative secondary school services.
    - (3) Summer employment opportunities that are directly linked to academic and occupational learning.
    - (4) Paid and unpaid work experience, including internships and job shadowing.
    - (5) Occupational skills training.
    - (6) Leadership development opportunities, including community service and peer-centered activities encouraging responsibility and other positive social behaviors.
    - (7) Supportive services.
    - (8) Adult mentoring for a period of participation and a subsequent period, for a total of not less than 12 months.
    - (9) Follow-up services.
    - (10) Comprehensive guidance and counseling, including drug and alcohol abuse counseling and referral.

- b. Funds allocated to a local area for eligible youth shall be used for programs that (20 CFR section 664.405):
  - (1) Objectively assess academic levels, occupational skills levels, service needs (i.e., occupational, prior work experience, employability, interests, aptitudes), and supportive service needs of each participant;
  - (2) Develop service strategies that identify an employment goals, achievement objectives, and the appropriate services needed to achieve the goals and objectives for each participant; and
  - (3) Provide post-secondary education preparation, linkages between academic and occupational learning, preparation for unsubsidized employment opportunities, and effective connections to intermediaries with strong links to the job market and local and regional employers.

5. *Activities Unallowed - All WIA Programs*

WIA title I funds may not be used for the following activities:

- a. Construction or purchase of facilities or buildings (20 CFR section 667.260), with the following exceptions:
  - (1) Providing physical and programmatic accessibility and reasonable accommodation, as required under section 504 of the Rehabilitation Act of 1973, as amended, and the Americans with Disabilities Act of 1990, as amended (20 CFR section 667.260(a)).
  - (2) Repairs, renovations, alterations and capital improvements of SESA real property and JTPA-owned property which is transferred to WIA title I programs (20 CFR section 667.260(b)).
  - (3) Disaster relief employment on projects for demolition, cleaning, repair, renovation, and reconstruction of damaged and destroyed structures, facilities, and lands located within a disaster area (WIA section 173(d); 29 USC 2918(d); 20 CFR section 667.260(d)).
- b. Employment-generating activities, economic development activities, investment in revolving loan funds, capitalization of businesses, investment in contract bidding resource centers, and similar activities, unless they directly relate to training for eligible individuals. Employer outreach and job development activities are considered directly related to training for eligible individuals (WIA section 181(e); 29 USC 2931(e); 20 CFR section 667.262).

- c. The employment or training of participants in sectarian activities. Participants shall not be employed in the construction, operation, or maintenance of a facility that is or will be used for sectarian instruction or as a place for religious worship. However, WIA funds may be used for the maintenance of a facility that is not primarily or inherently devoted to sectarian instruction or religious worship if the organization operating the facility is part of a program or activity providing services to WIA participants. (WIA section 188(a)(3); 29 USC 2938(a)(3); 20 CFR section 667.266).
- d. Encouraging or inducing the relocation of a business or part of a business from any location in the United States if the relocation results in any employee losing his or her job at the original location (20 CFR section 667.268).
- e. Providing customized training, skill training, or on-the-job training or company specific assessments of job applicants or employees of a business or a part of a business that has relocated from any location in the United States, until the company has operated at that location for 120 days, if the relocation resulted in any employee losing his or her job at the original location (20 CFR section 667.268(a)).
- f. Paying the wages of incumbent employees during their participation in economic development activities provided through a Statewide workforce investment system (WIA section 181(b)(1); 29 USC 2931(b)(1); 20 CFR section 667.264(a)(1)).
- g. Public service employment, except to provide disaster relief employment, as specifically authorized in section 173(d) of WIA (WIA sec. 195(10); 29 USC 2945(10); 20 CFR section 667.264(a)(2)).

6. *Activities Unallowed - All Subtitle B Statewide and Local Programs*

Funds available to States and local areas under subtitle B may not be used for foreign travel (29 USC 2931(e)).

**B. Allowable Costs/Cost Principles**

1. *One-Stop Centers*

The Department of Labor (DOL), in a collaborative effort with other Federal agencies, published in the *Federal Register* dated May 31, 2001 (66 FR 29637) a notice that provides guidance on resource sharing methodologies for the shared costs of a One-Stop service delivery system.



2. *All Subtitle B Statewide and Local Programs*

For those selected items of cost requiring prior approval, the authority to grant or deny approval is delegated to the Governor for youth, adult, and dislocated worker programs (20 CFR section 667.200(c)).

**E. Eligibility**

**1. Eligibility for Individuals**

a. *All Programs*

*Selective Service* - No participant may be in violation of section 3 of the Military Selective Service Act (50 USC App. 453) by not presenting and submitting to registration under that Act (29 USC 2939(h)).

b. *All Subtitle B Statewide and Local Programs*

- (1) An adult must be 18 years of age or older.
- (2) A dislocated worker means an individual who meets the definition in 29 USC 2801(9).
- (3) A dislocated homemaker means an individual who meets the definition in 29 USC 2801(10).
- (4) Before receiving training services, an adult or dislocated worker must have received at least one intensive service, been determined to be unable to obtain or retain employment through intensive services, and met all of the following requirements (20 CFR sections 663.240 and 663.310):
  - (a) Had an interview, evaluation, or assessment and determined to be in need of training services and have the skills and qualifications to successfully complete the selected training program.
  - (b) Selected a training service linked to the employment opportunities.
  - (c) Was unable to obtain grant assistance from other sources, including other Federal programs, to pay the costs of the training.

c. *Subtitle B Youth Activities*

A person is eligible to receive services under Youth Activities if they are between the ages of 14 and 21 at the time of enrollment (20 CFR section 664.200) and demonstrate at least one of the following barriers to employment: deficient in basic literacy skills; a school dropout; homeless; a runaway; a foster child; pregnant or parenting; offender; or an individual who requires additional assistance to complete an educational program, or to secure and hold employment (20 CFR sections 664.200, .205, and .210).

See III.G.3.d.(2), "Matching, Level of Effort, Earmarking - Earmarking," for requirement that at least 95 percent of eligible youth participants be disadvantaged low-income youth as defined in 29 USC 2801(25).

2. **Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**
3. **Eligibility for Subrecipients - Not Applicable**

**F. Equipment and Real Property Management**

Recipients and subrecipients may permit employers to use WIA-funded, local area services, facilities, or equipment on a fee-for-service basis, to provide employment and training activities to incumbent workers if this does not interfere with utilization by eligible participants and the income generated from such fees is treated as program income (29 USC 2945(13); 20 CFR section 667.200(a)(8)).

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

1. **Matching - Not Applicable**
2. **Level of Effort - Not Applicable**
3. **Earmarking**

*Subtitle B Statewide and Local Programs*

a. *Statewide Activities*

- (1) *State Reserve* - A State may reserve up to 15 percent of the amounts allotted for Adult, Dislocated Worker, and Youth Activities. The amounts reserved may be combined and expended on activities described in 20 CFR sections 665.200 and .210 without regard to funding source (20 CFR section 667.130).

(2) *Administrative Cost Limits* - A State may spend up to five percent of the amount allotted for the State's administrative costs (i.e., one-third of the 15 percent State Reserve described in the preceding paragraph) (20 CFR section 667.210). The term "administrative costs" is defined at 20 CFR section 667.220. The funds provided for administrative costs by one of the three funding sources (Adult, Dislocated Worker, and Youth Activities) can be used for administrative costs of the other two sources.

b. *Dislocated Worker Activities - Rapid Response*

*Statewide Rapid Response* - The State must reserve for rapid response activities a portion of funds, up to 25 percent, allotted for dislocated workers. The funds are used to plan and deliver services to enable dislocated workers to transition to new employment as quickly as possible, following either a permanent closure or mass layoff, or a natural or other disaster resulting in a mass job relocation (20 CFR section 667.130(b)).

c. *Local Areas*

*Administrative Cost Limits* - A local area may expend no more than ten percent of the Adult, Dislocated Worker, and Youth Activities funds allocated to the local area under sections 128(b) and 133(b) of the Act for administrative costs. The funds provided for administrative costs by one of the three fund sources (Adult, Dislocated Worker, Youth Activities) can be used for administrative costs of the other two sources (20 CFR section 667.210(a)(2)).

d. *Youth Activities*

(1) *Out-of-School Youth* - Thirty percent of the Youth Activity funds allocated to the local areas, except for the local area expenditures for administration, must be used to provide services to out-of-school youth (20 CFR section 664.320).

(2) *Low-Income Youth* - A minimum of 95 percent of eligible participants in Youth Activities must meet the criteria of disadvantaged low-income youth as defined in 29 USC 2801(25) (20 CFR section 664.220).

e. *Adult and Dislocated Workers Funds*

*Transfers of Funds* - Section 133(b)(4) of the WIA authorizes workforce investment areas, with the approval of the Governor, to transfer up to 20 percent of the Adult Activities funds to Dislocated Workers Activities, and up to 20 percent of Dislocated Workers Activities funds to Adult Activities. Effective for Program Year 2003, the transfer limits were

raised to 30 percent by the DOL Appropriations Act (Section 133(b)(4) of the WIA, as amended by Pub. L. No. 108-7).

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

### *1. Statewide Activities*

Funds allotted to a State for any program year are available for expenditure by the State during that program year and the two succeeding program years (29 USC 2939(g)(2); 20 CFR section 667.107(a)).

### *2. Local Areas*

Funds allocated by a State to a local area for any program year are available for expenditure only during that program year and the succeeding program year. Funds which are not expended by a local area in this two-year period must be returned to the State, which can use the funds for Statewide projects during the third program year of availability, or distribute the funds to local areas which had fully expended their allocation of funds for the same program year within the two-year period (29 USC 2939(g)(2); 20 CFR section 667.107(b)).

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

### *1. All Subtitle B Statewide and Local Programs*

All procurement contracts and other transactions between Local Boards and units of State or local governments must be conducted only on a cost-reimbursement basis. No provision for profit is allowed (20 CFR section 667.200(a)(3)).

### *2. Subtitle B Youth Activities*

The Local Board for each local such area shall identify eligible providers of youth activities by awarding grants or contracts on a competitive basis, based on the recommendations of the youth council and on the criteria contained in the State plan (WIA section 123; 29 USC 2843).

## **J. Program Income**

1. The addition method is required for use on all program income earned under WIA grants. When the cost of generating program income has been charged to the program, the gross amount earned must be added to the WIA program. However, the cost of generating program income must be subtracted from the amount earned to establish the net amount of program income available for use under the grants when these costs have not been charged to the WIA program (20 CFR section 667.200(a)(5)).

2. WIA specifically includes as program income: (a) receipts from goods and services, including conferences; (b) funds provided to a service provider in excess of the costs associated with the services provided; and (c) interest income earned on funds received under WIA. Any excess of revenue over costs incurred for services provided by a governmental or non-profit entity must be included in program income earned (29 USC 2945(7)(B) and 20 CFR section 667.200(a)(6)).

## L. Reporting

### 1. Financial Reporting

- a. ETA-9130, *Financial Report (OMB No. 1205-0461)* - All ETA grantees are required to submit quarterly financial reports for each grant award they receive. Reports are required to be prepared using the specific format and instructions for the applicable program(s); in this case, *Workforce Investment Act* instructions for the following: *Statewide Adult; Workforce Statewide Youth; Statewide Dislocated Worker; Local Adult; Local Youth; and Local Dislocated Worker*. A separate ETA 9130 is submitted for each of these categories. Reports are due 45 days after the end of the reporting quarter. Additional information can be accessed on the Internet at <http://www.doleta.gov/grants/> and scroll down to the section on Financial Status Reporting.
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC 272-E, *Major Program Statement*.

### 2. Performance Reporting

ETA-9091, *WIA Annual Report (OMB Number 1205-0420)* - Sanctions related to State performance or failure to submit these reports timely can result in a total grant reduction of not more than five percent as provided in WIA Section 136 (g)(1)(B). This report is accessible on the Internet at <http://www.doleta.gov/Performance/guidance/wia.cfm>.

- (1) *WIA Tables in Annual Report* - The actual performance level information in the following tables contain critical information.
  - (a) Table B - *Adult Program Results At-A-Glance*
  - (b) Table E - *Dislocated Worker Program Results At-A-Glance*
  - (c) Table H - *Older Youth Program Results At-A-Glance*
  - (d) Table J - *Younger Youth Program Results At-A-Glance*
- (2) *Standardized Record Data (WIASRD)* - The WIASRD data records contain relevant data on individual participants' characteristics, activities and outcomes. They are submitted to DOL in support of the Tables in the Annual Report as required at WIA Section 185(d).

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

- (a) Item 101 - *Individual identifier*
- (b) Item 601 - *Employed in quarter after exit quarter*
- (c) Item 608 - *Employed in third quarter after exit quarter*
- (d) Item 610 - *Employed in fifth quarter after exit quarter*

*Total earnings from wage records for the:* (Items 612 - 618)

- (e) Item 612 - *Third quarter prior to registration*
- (f) Item 613 - *Third quarter prior to dislocation*
- (g) Item 614 - *Second quarter prior to registration*
- (h) Item 615 - *Second quarter prior to dislocation*
- (i) Item 617 - *Second quarter following the exit quarter*
- (j) Item 618 - *Third quarter following the exit quarter*
- (k) Item 621 - *Type of recognized education/occupational certificate/credential/diploma/degree attained*
- (l) Item 622 - *Other reasons for exit*
- (m) Item 623 - *In postsecondary education or advanced training in quarter after exit*

- (n) Item 624 - *In postsecondary education or advanced training in the third quarter after exit*

**3. Special Reporting - Not Applicable**

**M. Subrecipient Monitoring**

1. *Recipients and Subrecipients*

- a. Each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors in order to determine whether or not there is compliance with provisions of the Act and applicable laws and regulations and provide technical assistance as necessary and appropriate (20 CFR section 667.400(c)).
- b. Commercial organizations which are subrecipients under WIA title I and which expend more than the minimum level specified in OMB Circular A-133 must have either an organization-wide audit conducted in accordance with OMB Circular A-133 or a program specific financial and compliance audit (20 CFR section 667.200(b)(2)(ii)).

2. *States*

- a. Each State must have a monitoring system which:
- (1) Provides for annual on-site monitoring reviews of local areas' compliance with DOL uniform administrative requirements, as required by WIA section 184(a)(4);
  - (2) Ensures that established policies to achieve program quality and outcomes meet the Act's objectives, including policies relating to the provision of services by One-Stop Centers, eligible providers of training services, and eligible providers of youth activities;
  - (3) Enables the Governor to determine if subrecipients and contractors are in substantial compliance with WIA requirements;
  - (4) Enables the Governor to determine whether a local plan will be disapproved for failure to make acceptable progress in addressing deficiencies; and
  - (5) Enables the Governor to ensure compliance with WIA nondiscrimination and equal opportunity requirements (20 CFR section 667.410(b)).

- b. Each State must conduct an annual on-site monitoring review of each local area's compliance with DOL uniform administrative requirements, including the appropriate administrative requirements and cost principles for subrecipients and other entities receiving WIA funds. The State must require that prompt corrective action be taken if any substantial violations are identified and must impose the sanctions provided in WIA section 184(b) and (c) if a subrecipient fails to take required corrective action. The State may issue additional requirements and instructions to subrecipients on monitoring activities (20 CFR section 667.410(b)).



## DEPARTMENT OF LABOR

### CFDA 17.263 YOUTH OPPORTUNITY GRANTS

#### I. PROGRAM OBJECTIVES

The Workforce Investment Act of 1998 (WIA) reforms Federal job training programs and creates a new, comprehensive workforce investment system. The reformed system is intended to be customer-focused, to help Americans access the tools they need to manage their careers through information and high quality services, and to help U.S. companies find skilled workers. The cornerstone of the new workforce investment system is One-Stop service delivery, which unifies numerous training, education and employment programs into a single, customer-friendly system in each community so that the customer has access to a seamless system of workforce investment services.

Subtitle D programs (National programs) serve population segments that typically experience more severe workforce problems. Accordingly, Youth Opportunity Grants (YOG) under Subtitle D of Title I aim at increasing the long-term employment of youth who live in empowerment zones, enterprise communities, and high-poverty areas.

#### II. PROGRAM PROCEDURES

The Department of Labor (DOL) awards YOG to local areas through a grant competition open to Local Boards and WIA Section 166 Native American Grantees. The legislation restricts YOG to communities designated as urban and rural empowerment zones and enterprise communities (EZ/ECs) under the Internal Revenue Code, Indian Reservations, and Alaskan Native Villages, and high-poverty areas designated specifically by Governors as eligible for this program (29 USC 2914(c) and (d)). Grants are for a one-year period but grantees can receive up to four additional years of funding, with funding levels declining over time (29 USC 2914(a)(3)).

Typically, subgrants are made to community-based organizations, local public schools, and for-profit organizations. Services can be provided in schools outside the target area, as long as the services are limited to youth who reside in the target area. Funds are to be used to affect community-wide issues, including drop-out rates, youth and skills development, and unemployment.

#### Source of Governing Requirements

The WIA program is authorized by Title I of the Workforce Investment Act of 1998 (Pub. L. No. 105-220, 112 Stat. 936-1059; 29 USC 2811 *et seq.*). The regulations are at 20 CFR parts 660-671.

#### Availability of Other Program Information

Additional information on programs authorized under the Workforce Investment Act can be found on the Internet at <http://www.usworkforce.org> and <http://www.doleta.gov>.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable, and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

##### 1. *Activities Allowed*

YOG grantees shall use funds to provide a wide array of activities relating to employment, education, and youth development, as described in 29 USC 2843 and 2854(c)(2) and 20 CFR sections 664.405(a)(4) and 664.410. These activities include but are not limited to dropout prevention efforts, alternative schools, summer jobs, paid and unpaid work experience, occupational skills training, activities encouraging personal responsibility, supportive services, adult mentoring, follow-up services, and counseling. Activities also may include leadership development, citizenship, community service, and recreation activities (29 USC 2914(b)).

##### 2. *Activities Unallowed*

Funds may not be used for the following activities:

- a. Construction or purchase of facilities or buildings (20 CFR section 667.260), with the following exceptions:
  - (1) Providing physical and programmatic accessibility and reasonable accommodation, as required under section 504 of the Rehabilitation Act of 1973, as amended, and the Americans with Disabilities Act of 1990, as amended (20 CFR section 667.260(a)).
  - (2) Repairs, renovations, alterations, and capital improvements of SESA real property and JTPA-owned property which is transferred to WIA title I programs (20 CFR section 667.260(b)).
  - (3) Disaster relief employment on projects for demolition, cleaning, repair, renovation, and reconstruction of damaged and destroyed structures, facilities, and lands located within a disaster area (WIA sec.173(d); 29 USC 2918(d); 20 CFR section 667.260(d)).
- b. Employment generating activities, economic development activities, investment in revolving loan funds, capitalization of businesses, investment in contract bidding resource centers, and similar activities not directly related to training for eligible individuals, with the exception of employer outreach and job development activities, which are considered

directly related to training for eligible individuals (WIA section 181(e); 29 USC 2931(e); 20 CFR section 667.262):

- c. The employment or training of participants in sectarian activities. Participants shall not be employed in the construction, operation, or maintenance of a facility that is or will be used for sectarian instruction or as a place for religious worship. However, WIA funds may be used for the maintenance of a facility that is not primarily or inherently devoted to sectarian instruction or religious worship if the organization operating the facility is part of a program or activity providing services to WIA participants. (WIA section 188(a)(3); 29 USC 2938(a)(3); 20 CFR section 667.266).
- d. Encouraging or inducing the relocation of a business or part of a business from any location in the United States if the relocation results in any employee losing his or her job at the original location (20 CFR section 667.268).
- e. Providing customized training, skill training, or on-the-job training or company specific assessments of job applicants or employees of a business or a part of a business that has relocated from any location in the United States, until the company has operated at that location for 120 days, if the relocation resulted in any employee losing his or her job at the original location (20 CFR section 667.268(a)).
- f. Paying the wages of incumbent employees during their participation in economic development activities provided through a Statewide workforce investment system (WIA sec.181(b)(1); 29 USC 2931(b)(1); 20 CFR section 667.264(a)(1)).
- g. Public service employment, except to provide disaster relief employment, as specifically authorized in section 173(d) of WIA (WIA sec. 195(10); 29 USC 2945(10); 20 CFR section 667.264(a)(2)).

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

*One-Stop Centers* - DOL, in a collaborative effort with other Federal agencies, published in the *Federal Register* dated May 31, 2001 (66 FR 29637) a notice that provides guidance on resource sharing methodologies for the shared costs of a One-Stop service delivery system.

## **E. Eligibility**

### **1. Eligibility for Individuals**

- a. Youth between the ages of 14 through 21 at enrollment who reside in the target community specified in the grant document are eligible for services under YOG (20 CFR section 664.820).

- b. *Selective Service* - No participant may be in violation of section 3 of the Military Selective Service Act (50 USC App. 453) by not presenting and submitting to registration under that Act (29 USC 2939(h)).

2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients** - Not Applicable

#### **F. Equipment and Real Property Management**

Recipients and subrecipients may permit employers to use WIA-funded, local area services, facilities, or equipment on a fee-for-service basis, to provide employment and training activities to incumbent workers if this does not interfere with utilization by eligible participants and the income generated from such fees is treated as program income (29 USC 2945(13); 20 CFR section 667.200(a)(8)).

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

1. **Matching** - Not Applicable
2. **Level of Effort** - Not Applicable
3. **Earmarking**

*Administrative Cost Limits* - The percentage of grant funds that may be expended on administrative costs is specified in the grant or contract award document (20 CFR section 667.210(b)). The term “administrative costs” is defined at 20 CFR section 667.220.

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

The period of availability for expenditures is set out in the terms and conditions of the award document (20 CFR section 667.107(e)).

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

All procurement contracts and other transactions between Local Boards and units of State or local governments must be conducted only on a cost-reimbursement basis. No provision for profit is allowed (20 CFR section 667.200(a)(3)).

#### **J. Program Income**

1. The addition method is required for use on all program income earned under WIA grants. When the cost of generating program income has been charged to the program, the gross amount earned must be added to the WIA program. However, the cost of generating program income must be subtracted from the amount earned to establish the net amount of program income available for use under the

grants when these costs have not been charged to the WIA program (20 CFR section 667.200(a)(5)).

2. WIA specifically includes as program income: (1) receipts from goods and services, including conferences; (2) funds provided to a service provider in excess of the costs associated with the services provided; and (3) interest income earned on funds received under WIA. Any excess of revenue over costs incurred for services provided by a governmental or non-profit entity must be included in program income earned (29 USC 2945(7)(B) and 20 CFR section 667.200(a)(6)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC 272-E, *Major Program Statement*.

### **2. Performance Reporting** – Not Applicable

### **3. Special Reporting** – Not Applicable

## **M. Subrecipient Monitoring**

1. Each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors in order to determine whether or not there is compliance with provisions of the Act and applicable laws and regulations and provide technical assistance as necessary and appropriate (20 CFR section 667.400(c)).
2. Commercial organizations that are subrecipients under WIA title I and which expend more than the minimum level specified in OMB Circular A-133 must have either an organization-wide audit conducted in accordance with OMB Circular A-133 or a program specific financial and compliance audit (20 CFR section 667.200(b)(2)(ii)).

## DEPARTMENT OF LABOR

### CFDA 17.264 NATIONAL FARMWORKER JOBS PROGRAM

#### I. PROGRAM OBJECTIVES

The Workforce Investment Act of 1998 (WIA) reformed Federal job training programs and created a new, comprehensive workforce investment system. The reformed system is intended to be customer-focused, to help Americans access the tools they need to manage their careers through information and high quality services, and to help U.S. companies find skilled workers. The cornerstone of the workforce investment system is One-Stop service delivery, which unifies numerous training, education and employment programs into a single, customer-friendly system in each community so that the customer has access to a seamless system of workforce investment services.

Programs under Subtitle D of Title I of WIA (National programs) serve population segments which typically experience more severe workforce problems. Accordingly, the National Farmworker Jobs Program seeks to assist eligible migrant and seasonal farmworkers and their families to achieve economic self-sufficiency.

#### II. PROGRAM PROCEDURES

The National Farmworker Jobs Program (NFJP) provides funding to assist migrant and seasonal farmworkers and their families achieve economic self-sufficiency by providing supportive services to them while they work in agriculture or by assisting them to acquire new job skills in occupations offering better pay and a more stable employment outlook. The Department of Labor (DOL) awards grants competitively to eligible applicants that submit two-year strategic plans for operating the NFJP in State, substate and multi-State service areas (20 CFR sections 669.200 through 669.210). Awards are for a two-year period, with provision for an additional two-year period without competition when performance is satisfactory.

The NFJP is a required One-Stop partner. Grantees must therefore negotiate Memorandums of Understanding (MOUs) with the local workforce investment boards in the areas of the State where the program operates (20 CFR section 669.220(a)).

#### Source of Governing Requirements

The WIA program is authorized by: Title I of the Workforce Investment Act of 1998 (Pub. L. No. 105-220, 112 Stat. 936-1059; 29 USC 2811 *et seq.*). The regulations are at 20 CFR parts 660-671.

#### Availability of Other Program Information

Additional information on programs authorized under the WIA can be found on the Internet at <http://www.usworkforce.org> and <http://www.doleta.gov>. The *Questions and Answers* and *Policy-Related Information* sections are particularly useful sources of information on compliance issues.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable, and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

##### 1. *Activities Allowed*

Activities allowed are in accordance with a service delivery strategy described in the grantee's approved two-year grant plan (20 CFR section 669.300). The services available from the NFJP for assisting migrant and seasonal farmworkers are organized as Core Services, Intensive Services, Training Services, and Related Assistance Services (20 CFR section 669.310).

- a. *Core Services* include skills assessment, job search, WIA program eligibility determination, and access to the other core services of the Local One-Stop Center (20 CFR sections 669.340 and 350).
- b. *Intensive Services* include objective assessment, employment development planning, basic education, dropout prevention, allowance payments, work experience, and Literacy and English-as-a-Second language (20 CFR section 669.370).
- c. *Training Services* include occupational skills and job training (which includes On-The-Job Training (OJT)), and classroom training (20 CFR section 669.410).
- d. *Related Assistance Services* are short-term forms of direct assistance that support farmworkers and their families to retain or stabilize their agricultural employment or participation in an Intensive or Training Services activity (20 CFR section 669.430).

##### 2. *Activities Unallowed*

WIA title I funds may not be used for the following activities:

- a. Construction or purchase of facilities or buildings (20 CFR section 667.260), with the following exceptions:
  - (1) Providing physical and programmatic accessibility and reasonable accommodation, as required under section 504 of the Rehabilitation Act of 1973, as amended, and the Americans with Disabilities Act of 1990, as amended (20 CFR section 667.260(a)).

- (2) Repairs, renovations, alterations and capital improvements of SESA real property and JTPA-owned property which is transferred to WIA title I programs (20 CFR section 667.260(b)).
  - (3) Disaster relief employment on projects for demolition, cleaning, repair, renovation, and reconstruction of damaged and destroyed structures, facilities, and lands located within a disaster area (WIA Section 173(d); 29 USC 2918(d); 20 CFR section 667.260(d)).
- b. Employment generating activities, economic development activities, investment in revolving loan funds, capitalization of businesses, investment in contract bidding resource centers, and similar activities not directly related to training for eligible individuals, with the exception of employer outreach and job development activities, which are considered directly related to training for eligible individuals (WIA Section 181(e); 29 USC 2931(e); 20 CFR section 667.262).
- c. The employment or training of participants in sectarian activities. Participants shall not be employed in the construction, operation, or maintenance of a facility that is or will be used for sectarian instruction or as a place for religious worship. However, WIA funds may be used for the maintenance of a facility that is not primarily or inherently devoted to sectarian instruction or religious worship if the organization operating the facility is part of a program or activity providing services to WIA participants. (WIA Section 188(a)(3); 29 USC 2938(a)(3); 20 CFR section 667.266).
- d. Encouraging or inducing the relocation of a business or part of a business from any location in the United States if the relocation results in any employee losing his or her job at the original location (20 CFR section 667.268).
- e. Providing customized training, skill training, or on-the-job training or company specific assessments of job applicants or employees of a business or a part of a business that has relocated from any location in the United States, until the company has operated at that location for 120 days, if the relocation resulted in any employee losing his or her job at the original location (20 CFR section 667.268(a)).
- f. Paying the wages of incumbent employees during their participation in economic development activities provided through a Statewide workforce investment system (WIA Section 181(b)(1); 29 USC 2931(b)(1); 20 CFR section 667.264(a)(1)).
- g. Public service employment, except to provide disaster relief employment, as specifically authorized in section 173(d) of WIA (WIA Section 195(10); 29 USC 2945(10); 20 CFR section 667.264(a)(2)).



**E. Eligibility****1. Eligibility for Individuals**

- a. *Selective Service* - No participant may be in violation of section 3 of the Military Selective Service Act (50 USC App. 453) by not presenting and submitting to registration under that Act (29 USC 2939(h)).
- b. To be eligible for participation in the NFJP, individuals must (20 CFR section 669.320):
  - (1) Have been a migrant or seasonal farmworker whose family was disadvantaged (see definition of “disadvantaged” as defined in 20 CFR section 669.110) during any consecutive 12-month period within the 24-month period preceding application for enrollment.
    - (a) A “seasonal farmworker” is a person who, for 12 consecutive months out of the 24 months prior to application for the program, has been primarily employed in agricultural labor that is characterized by chronic unemployment or underemployment (29 USC 2912(h)(4)).
    - (b) A “migrant farmworker” is a seasonal farmworker as described in (a) above whose agricultural labor requires travel to a job site such that the farmworker is unable to return to a permanent place of residence within the same day (29 USC 2912(h)(3)).
  - (2) Be a dependent of the seasonal or migrant farmworker in (1)(a) or (1)(b) above.

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

**3. Eligibility for Subrecipients - Not Applicable**

**F. Equipment and Real Property Management**

Recipients and subrecipients may permit employers to use WIA-funded, local area services, facilities, or equipment on a fee-for-service basis, to provide employment and training activities to incumbent workers if this does not interfere with utilization by eligible participants and the income generated from such fees is treated as program income (29 USC 2945(13); 20 CFR section 667.200(a)(8)).

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

1. **Matching** - Not Applicable
2. **Level of Effort** - Not Applicable
3. **Earmarking**

*Administrative Cost Limits* - The percentage of grant funds which may be expended on administrative costs is specified in the grant or contract award document (20 CFR section 667.210(b)). The term “administrative cost” is defined at 20 CFR section 667.220.

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

The period of availability for expenditures is set out in the terms and conditions of the award document (20 CFR section 667.107(e)).

**I. Procurement and Suspension and Debarment**

All procurement contracts and other transactions between Local Boards and units of State or local governments must be conducted only on a cost-reimbursement basis. No provision for profit is allowed (20 CFR section 667.200(a)(3)).

**J. Program Income**

1. The addition method is required for use on all program income earned under WIA grants. When the cost of generating program income has been charged to the program, the gross amount earned must be added to the WIA program. However, the cost of generating program income must be subtracted from the amount earned to establish the net amount of program income available for use under the grants when these costs have not been charged to the WIA program (20 CFR section 667.200(a)(5)).
2. WIA specifically includes as program income: (a) receipts from goods and services, including conferences; (b) funds provided to a service provider in excess of the costs associated with the services provided; and (c) interest income earned on funds received under WIA. Any excess of revenue over costs incurred for services provided by a governmental or non-profit entity must be included in program income earned (29 USC 2945(7)(B) and 20 CFR section 667.200(a)(6)).

## **L. Reporting**

### **1. Financial Reporting**

- a. ETA 9130, *Financial Report (OMB 1205-0461)* - DOL requires financial reports to be cumulative by fiscal year of appropriation. All ETA grantees are required to submit quarterly financial reports for each grant award which they receive. Reports are required to be prepared using the specific instructions for the applicable program(s); in this case, *National Farmworkers Jobs Program*. Reports are due 45 days after the end of the reporting quarter. Additional information can be accessed on the Internet at <http://www.doleta.gov/grants/> and scroll down to the section on Financial Status Reporting.
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC 272-E, *Major Program Statement*.

### **2. Performance Reporting**

ETA 9095 - *NFJP Program Status Summary (OMB No. 1205-0425)* - Grantees report cumulative data on participants on a quarterly and annual basis. This data is used to determine the levels of program service and accomplishments for the program year.

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

- a. Line II A - *Placed in Unsubsidized Employment*
- b. Line II B - *Completed Training Services*

## **M. Subrecipient Monitoring**

Each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors in order to determine whether or not there is compliance with provisions of the Act and applicable laws and regulations and provide technical assistance as necessary and appropriate (20 CFR section 667.400(c)).

## DEPARTMENT OF LABOR

### CFDA 17.265 NATIVE AMERICAN EMPLOYMENT AND TRAINING

#### I. PROGRAM OBJECTIVES

The Workforce Investment Act of 1998 (WIA) reforms Federal job training programs and creates a new, comprehensive workforce investment system. The reformed system is intended to be customer-focused, to help Americans access the tools they need to manage their careers through information and high quality services, and to help U.S. companies find skilled workers. The cornerstone of the new workforce investment system is One-Stop service delivery, which unifies numerous training, education and employment programs into a single, customer-friendly system in each community so that the customer has access to a seamless system of workforce investment services.

Programs under Subtitle D of Title I of WIA (National programs) serve population segments which typically experience more severe workforce problems. Accordingly, Indian and Native American Employment and Training grants also seek to promote the economic and social development of Indian, Alaskan Native, and Native Hawaiian communities in accordance with the goals and values of such communities.

#### II. PROGRAM PROCEDURES

The Department of Labor (DOL) awards Indian and Native American Employment and Training grants to federally recognized Indian tribes, tribal organizations, Alaskan Native entities, Indian-controlled organizations, and Native Hawaiian organizations (20 CFR Subpart B, sections 668.200 through 668.294). Funds are made available for comprehensive workforce investment activities for Indians, Alaskan Natives, and Native Hawaiians (29 USC 2911(d)(2)(A)(i)). Supplemental Youth Services funding is made available to entities serving Native American youth “on or near Indian reservations and in Oklahoma, Alaska, or Hawaii” (29 USC 2911(d)(2)(A)(ii)).

Grantees are required to submit a Comprehensive Services Plan for DOL approval. The Plan must identify program emphasis areas, designate a specific target population to be served by the grant, select appropriate performance measures and standards, establish specific plans for serving youth (if they receive Supplemental Youth Services funding), develop a budget and identify the level of administrative costs needed for the two-year plan, and identify appropriate program linkages with other agencies (20 CFR section 668.720). Services provided under the Plan may include any of the core services (20 CFR section 668.340(b)), intensive services (20 CFR section 668.340(c)), training services (20 CFR section 668.340(d)), and youth services (20 CFR section 668.340(e)) which other Title I grantees may provide, as well as tribal job development, outreach, and related services (20 CFR section 668.340(f)). Grantees are required to negotiate Memorandums of Understanding (MOUs) with the local workforce investment board(s) which operate in whole or in part within the grantee’s service area (29 USC 2841(c)).

## Source of Governing Requirements

This program is authorized by Title I of the Workforce Investment Act of 1998 (Pub. L. 105-220, 112 Stat. 936-1059; 29 USC 2811 *et seq.*). The regulations are at 20 CFR parts 660-671.

## Availability of Other Program Information

Additional information on programs authorized under the Workforce Investment Act can be found on the Internet at <http://www.usworkforce.org> and <http://www.doleta.gov>. The *Questions and Answers* and *Policy-Related Information* sections are particularly useful sources of information on compliance issues.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable, and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

#### 1. *Activities Allowed*

- a. Indian and Native American Employment and Training Grantees can provide a wide array of activities relating to employment, training, education, supportive and community services, and youth development as outlined in 20 CFR section 668.340.
- b. *Core Services* include skills assessment, job search, WIA program eligibility determination, and access to the other core services of the Local One-Stop Center (20 CFR section 668.340(b)).
- c. *Intensive Services* include objective assessment, employment development planning, basic education, dropout prevention, allowance payments, work experience, and Literacy and English-as-a-Second language (20 CFR section 668.340(c)).
- d. *Training Services* include, but are not limited to, occupational skills and job training, including On-The-Job Training (OJT), and classroom training (20 CFR section 668.340(d)).
- e. *Youth Activities* include, but are not limited to, improving educational and skill competencies, adult mentoring, training opportunities, supportive services, incentive programs, opportunities for leadership development, preparation for post-secondary education, tutoring, alternative secondary school services, summer employment opportunities, work-experiences, occupational skill training, follow-up services, and comprehensive guidance and counseling (20 CFR section 668.340(e)).

- f. *Job Development Activities* include, but are not limited to, support of the Tribal Employment Rights Office (TERO) program, job development contacts with employers, and linkages with education and training programs and other service providers (20 CFR section 668.340(f)).

2. *Activities Unallowed*

WIA title I funds may not be used for the following activities:

- a. Construction or purchase of facilities or buildings (20 CFR section 667.260), with the following exceptions:
  - (1) Providing physical and programmatic accessibility and reasonable accommodation, as required under section 504 of the Rehabilitation Act of 1973, as amended, and the Americans with Disabilities Act of 1990, as amended (20 CFR section 667.260(a)).
  - (2) Repairs, renovations, alterations and capital improvements of SESA real property and JTPA-owned property which is transferred to WIA title I programs (20 CFR section 667.260(b)).
  - (3) Disaster relief employment on projects for demolition, cleaning, repair, renovation, and reconstruction of damaged and destroyed structures, facilities, and lands located within a disaster area (WIA sec.173(d); 29 USC 2918(d); 20 CFR section 667.260(d)).
- b. Employment-generating activities, economic development activities, investment in revolving loan funds, capitalization of businesses, investment in contract bidding resource centers, and similar activities are prohibited, unless they directly relate to training for eligible individuals. Employer outreach and job development activities are considered directly related to training for eligible individuals. (WIA section 181(e); 29 USC 2931(e); 20 CFR section 667.262):
- c. The employment or training of participants in sectarian activities. Participants shall not be employed in the construction, operation, or maintenance of a facility that is or will be used for sectarian instruction or as a place for religious worship. However, WIA funds may be used for the maintenance of a facility that is not primarily or inherently devoted to sectarian instruction or religious worship if the organization operating the facility is part of a program or activity providing services to WIA participants (WIA section 188(a)(3); 29 USC 2938(a)(3); 20 CFR section 667.266).
- d. Encouraging or inducing the relocation of a business or part of a business from any location in the United States if the relocation results in any employee losing his or her job at the original location (20 CFR section 667.268).

- e. Providing customized training, skill training, or on-the-job training or company-specific assessments of job applicants or employees of a business or a part of a business that has relocated from any location in the United States, until the company has operated at that location for 120 days, if the relocation resulted in any employee losing his or her job at the original location (20 CFR section 667.268(a)).
- f. Paying the wages of incumbent employees during their participation in economic development activities provided through a Statewide workforce investment system (WIA sec.181(b)(1); 29 USC 2931(b)(1); 20 CFR section 667.264(a)(1)).
- g. Public service employment, except to provide disaster relief employment, as specifically authorized in section 173(d) of WIA (WIA sec. 195(10); 29 USC 2945(10); 20 CFR section 667.264(a)(2)).

## **E. Eligibility**

### **1. Eligibility for Individuals**

- a. *Selective Service* - No participant may be in violation of section 3 of the Military Selective Service Act (50 USC App. 453) by not presenting and submitting to registration under that Act (29 USC 2939(h)).
- b. A person is eligible to receive services under the INA program if they meet the definition of an Indian, as determined by a policy of the Native American grantee, and are also one of the following (20 CFR section 668.300).
  - (1) Unemployed.
  - (2) Underemployed as defined in 20 CFR section 668.150.
  - (3) Low-income individual as defined in 29 USC 2801(25). (See III.G.3.b, "Matching, Level of Effort, Earmarking - Earmarking," for requirement that at least 95 percent of eligible participants in supplemental youth services be disadvantaged low-income youth.)
  - (4) The recipient of a bona fide lay-off notice which has taken effect in the last six months or will take effect in the following six month period, who is unlikely to return to a previous industry or occupation, and who is in need of retraining for either employment with another employer or for job retention with the current employer.
  - (5) An individual who is employed, but is determined by the grantee to be in need of employment and training services to obtain or retain employment that allows for self-sufficiency.

2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable

3. **Eligibility for Subrecipients** - Not Applicable

**F. Equipment and Real Property Management**

Recipients and subrecipients may permit employers to use WIA-funded, local area services, facilities, or equipment on a fee-for-service basis, to provide employment and training activities to incumbent workers if this does not interfere with utilization by eligible participants and the income generated from such fees is treated as program income (29 USC 2945(13); 20 CFR section 667.200(a)(8)).

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

1. **Matching** - Not Applicable

2. **Level of Effort** - Not Applicable

3. **Earmarking**

a. *Administrative Cost Limits* - The percentage of grant funds which may be expended on administrative costs is specified in the grant or contract award document (20 CFR section 667.210(b)). The term “administrative costs” is defined at 20 CFR section 667.220.

b. *Supplemental Youth Services* - A minimum of 95 percent of eligible participants in supplemental youth services activities must meet the low-income criteria as defined in 29 USC 2801(25) to participate in the program (20 CFR sections 668.300 and 668.430(b)).

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

The period of availability for expenditures is set out in the terms and conditions of the award document (20 CFR section 667.107(e)).

**J. Program Income**

1. The addition method is required for use on all program income earned under WIA grants. When the cost of generating program income has been charged to the program, the gross amount earned must be added to the WIA program. However, the cost of generating program income must be subtracted from the amount earned to establish the net amount of program income available for use under the grants when these costs have not been charged to the WIA program (20 CFR section 667.200(a)(5)).



2. WIA specifically includes as program income: (a) receipts from goods and services, including conferences; (b) funds provided to a service provider in excess of the costs associated with the services provided; and (c) interest income earned on funds received under WIA. Any excess of revenue over costs incurred for services provided by a governmental or non-profit entity must be included in program income earned (29 USC 2945(7)(B) and 20 CFR section 667.200(a)(6)).

## **L. Reporting**

### **1. Financial Reporting**

- a. ETA-9130, *Indian and Native American Programs-Workforce Investment Act-Grantee Activities (OMB No.1205-0461)* - This electronic reporting format, based on the ETA 9130, Financial Report, is used to report accrued income, cash on hand, and program and administrative expenditures funded by grants under WIA section 166. Tribes participating in the "477" program authorized by the Indian Employment, Training, and Related Services Demonstration Act of 1992 (Pub. L. No. 102-477) are required to submit a single financial report covering all Federal formula programs that are part of their 477 plan to the Bureau of Indian Affairs.
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC 272-E, *Major Program Statement*.

### **2. Performance Reporting**

- a. ETA-9084, *Indian and Native American Comprehensive Services Report (OMB No. 1205-0422)* - Reports cumulative data on participation, termination, performance measures outcomes, and the socio-economic characteristics of all terminees on a semi-annual and annual basis. The information is used to determine the levels of program service and program accomplishments for the Program Year. Grantees receiving these funds are required to submit a semi-annual and annual report except federally recognized Indian tribes participating in the demonstration under Pub. L. 102-477 (as is the case for ETA-9080 and ETA-9085).

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

- (1) Line B.1. – *Total Exiters*
- (2) Line B. 3. – *Total Participants Served*
- (3) Line D.1. – *Entered Employment Rate*
- (4) Line D. 2. – *Retention Rate*
- (5) Line D. 3. – *Average Earnings*

- b. ETA-9085, *Indian and Native American Supplemental Youth Services Program Report (OMB No. 1205-0422)* - Reports cumulative data on participation, termination, performance outcomes, and socio-economic characteristics of participants. Grantees receiving these funds are required to submit a semi-annual and annual report except federally recognized Indian tribes participating in the demonstration under Pub. L. 102-477 (as is the case for ETA-9080 and ETA-9084).

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

- (1) Line 1 - *Total Participants*
- (2) Line 2 - *Total Terminations*
- (3) Line 3 - *Total Current Participants*
- (4) Line 18 - *Entered Unsubsidized Employment*
- (5) Line 23 - *Attained High School Diploma*
- (6) Line 24 - *Attained GED*
- (7) Line 28 - *Total Participants who Attained 2 or More Goals*

## **M. Subrecipient Monitoring**

1. Each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors in order to determine whether or not there is compliance with provisions of the Act and applicable laws and regulations and provide technical assistance as necessary and appropriate (20 CFR section 667.400(c)).
2. Commercial organizations which are subrecipients under WIA title I and which expend more than the minimum level specified in OMB Circular A-133 must have either an organization-wide audit conducted in accordance with OMB Circular A-133 or a program specific financial and compliance audit (20 CFR section 667.200(b)(2)(ii)).

## DEPARTMENT OF TRANSPORTATION

### CFDA 20.106 AIRPORT IMPROVEMENT PROGRAM

#### I. PROGRAM OBJECTIVES

The objective of the Airport Improvement Program is to assist sponsors, owners, or operators of public-use airports in the development of a nationwide system of airports adequate to meet the needs of civil aeronautics.

#### II. PROGRAM PROCEDURES

States, counties, municipalities, U.S. Territories and possessions, and other public agencies, including Indian tribes or Pueblos (sponsors) are eligible for airport development grants if the airport on which the development is required is listed in the National Plan of Integrated Airport Systems (NPIAS). Applications for grants must be submitted to the appropriate Federal Aviation Administration (FAA) Airports Office. Primary airport sponsors must notify FAA by January 31 or another date specified in the *Federal Register* of their intent to apply for funds to which they are entitled under Pub. L. No. 97-248 (49 USC Chapter 31). A reminder is published annually in the *Federal Register*. Other sponsors are encouraged to submit early in the fiscal year and to contact the appropriate FAA Airports Office for any local deadlines. Sponsors must formally accept grant offers no later than September 30 for grant funds appropriated for that fiscal year.

#### Source of Governing Requirements

This program is authorized by 49 USC Chapter 471.

#### Availability of Other Program Information

Additional program information is provided in FAA Order 5100.38C, *Airport Improvement Program Handbook* (available on the Internet at [http://www.faa.gov/airports\\_airtraffic/airports/aip/aip\\_handbook](http://www.faa.gov/airports_airtraffic/airports/aip/aip_handbook)) and FAA Advisory Circulars in the 150/5100 series (available on the Internet at [http://www.faa.gov/airports\\_airtraffic/airports/aip/](http://www.faa.gov/airports_airtraffic/airports/aip/)). The FAA also maintains an Airports *Federal Register* Notice page available on the Internet at [http://www.faa.gov/airports\\_airtraffic/airports/resources/publications/federal\\_register\\_notices/](http://www.faa.gov/airports_airtraffic/airports/resources/publications/federal_register_notices/).

Program related questions may be directed to Kendall Ball, FAA Airports Financial Assistance Division, at 202-267-7436 (direct) and 202-267-3831 (main) or by e-mail at [Kendall.Ball@faa.dot.gov](mailto:Kendall.Ball@faa.dot.gov). Questions related to the revenue diversion requirement may be directed to Lyle Fjermedal, FAA Airport Compliance Division at 202-267-5879 (direct) and 202-267-3446 (main) or by e-mail at [Lyle.Fjermedal@faa.dot.gov](mailto:Lyle.Fjermedal@faa.dot.gov).

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

##### 1. *Activities Allowed*

Grants can be made for planning, constructing, improving, or repairing a public-use airport or portion thereof and for acquiring safety or security equipment. Eligible terminal building development is limited to non-revenue-producing public-use areas that are directly related to the movement of passengers and baggage in air carrier and commuter service terminal facilities within the boundaries of the airport. Eligible construction is limited to items of work and to the quantities listed in the grant description and/or special conditions (49 USC 47110).

##### 2. *Activities Unallowed*

a. In general, Federal funds cannot be expended for:

- (1) Passenger automobile parking facilities, buildings to be used as hangars, and portions of terminals that are revenue-producing or not directly related to the safe movement of passengers and baggage at the airports, and
- (2) Costs incurred before the execution of the grant agreement, unless such costs are for land, necessary costs in formulating a project, or costs covered by a letter of intent. However, an airport designated by the FAA as a primary airport may use passenger entitlement funding made available under 49 CFR section 47114(c) for costs incurred: (1) prior to the execution of the grant agreement; (2) in accordance with the airport layout plan approved by the FAA; and (3) according to all statutory and administrative requirements that would have applied had work on the project not commenced until after the grant agreement had been executed (49 USC 47110(b)(2)(C)).

b. The following are examples of items for which FAA funds cannot be expended (FAA Order 5100.38C, *Airport Improvement Program Handbook*, and FAA Advisory Circulars in the 150/5100 series.)

- Fuel farms.
- Emergency planning.

- Decorative landscaping, sculpture, or art works.
- Communication systems except those used for safety/security.
- Training facilities, except those included in an otherwise eligible project as an integral part of that project and that are of a relatively minor or incidental cost, i.e., less than 10 percent of the project cost. An example of an exception would be a training room included as part of a new Aircraft Rescue and Firefighting (ARFF) facility. Interactive training systems and “live fire” ARFF training facilities are eligible.
- Roads of whatever length, exclusively for the purpose of connecting public parking facilities to an access road.
- Roads serving solely industrial or non-aviation-related areas or facilities.
- General aviation terminals.
- Equipment that is used by air traffic controllers such as Airport surface detection systems (ASDE).
- Maintenance/service facilities except for those allowed to service required ARFF equipment.
- Office/administrative equipment, including data processing equipment, computers, recorders, etc.
- Projects for the determination of latitude, longitude, and elevation except as an incidental part of master planning.

### 3. *Exception*

For a non-hub airport (one that accounts for less than 0.05 percent of total U.S. passenger boardings), the FAA may approve as allowable costs the expenses of terminal development in a revenue-producing area and construction, repair, and improvement of parking lots (49 USC 47110(d)(2)).

#### **D. Davis-Bacon Act**

The requirements of the Davis-Bacon Act are applicable to construction work for airport development projects financed with grants under this program (49 USC 47112).

#### **F. Equipment and Real Property Management**

Under this program, FAA is authorized by 49 USC 47107(c), as amended, to allow recipients to reinvest the proceeds from the disposition of real property acquired with Federal awards for noise compatibility or airport development purposes.

**G. Matching, Level of Effort, Earmarking****1. Matching**

The shares of allowable costs for a particular grant-supported project to be borne by FAA and by other parties are established in the grant agreement.

**2. Level of Effort - Not Applicable****3. Earmarking - Not Applicable****L. Reporting****1. Financial Reporting**

a. SF-269, *Financial Status Report* - Applicable

b. SF-270, *Request for Advance or Reimbursement* - Applicable

c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Applicable

d. SF-272, *Federal Cash Transactions Report* - Not Applicable

e. FAA Form 5100-125, *Operating and Financial Summary (OMB No. 2120-0557)*

Sponsors of commercial service airports are required to submit this report, which captures revenues and expenditures at the airport, including revenue surplus.

f. FAA Form 5100-126, *Financial Government Payment Report (OMB No. 2120-0557)*

This report captures amounts paid and services provided to other units of government. This reporting requirement technically applies to all sponsors of federally assisted airports who accepted grants with assurance no. 26(d)(I)(ii); however, FAA is currently requiring submission only from commercial service airports. Commercial service airports are the airports most likely to generate excess revenue that could be diverted to non-airport uses.

**2. Performance Reporting - Not Applicable****3. Special Reporting - Not Applicable**

## N. Special Tests and Provisions

### Revenue Diversion

**Compliance Requirement** - The basic requirement for use of airport revenues is that all revenues generated by a public airport must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport and are directly and substantially related to the actual air transportation of passengers or property. The limitation on the use of revenue generated by the airport shall not apply if the governing statutes controlling the owner's or operator's financing, that was in effect before September 3, 1982, provided for the use of any revenue from the airport to support not only the airport but also the airport owner's or operator's general debt obligations or other facilities (49 USC 47107(b)).

*Policies and Procedures Concerning the Generation and Use of Airport Revenue*, issued February 16, 1999 (64 FR 7695), contains definitions of airport revenue and unlawful revenue diversion; provides examples of airport revenue; and describes permitted and prohibited uses of airport revenue. The policy can be obtained from FAA's Airports *Federal Register* Notices Page on the Internet ([http://www.faa.gov/airports\\_airtraffic/airports/resources/publications/federal\\_register\\_notices/](http://www.faa.gov/airports_airtraffic/airports/resources/publications/federal_register_notices/)).

Penalties imposed for revenue diversion may be up to three times the amount of the revenues that are used in violation of the requirement (49 USC 4603(a)(5)).

**Audit Objective** - Determine whether the airport revenues were used for required or permitted purposes.

### Suggested Audit Procedures

- a. Review the policy for using airport revenue.
- b. Perform tests of airport revenue generating activities (e.g., passenger facilities charges, leases, and telephone contracts) to ascertain that all airport-generated revenue is accounted for.
- c. Test expenditures of airport revenue to verify that airport revenue is used for permitted purposes.
- d. Perform tests of transactions to ascertain that payments from airport revenues to the sponsors, related parties, or other governmental entities are airport-related, properly documented, and are commensurate with the services or products received by the airport.
- e. Perform tests to assure that indirect costs charged to the airport from the sponsor's cost allocation plan were allocated in accordance with the FAA policy on cost allocation.

#### IV. OTHER INFORMATION

The Federal Aviation Reauthorization Act of 1996, Section 805 (49 USC 47107(m)) requires public agencies that are subject to the Single Audit Act Amendments of 1996 (Act) that have received Federal financial assistance for airports to include as part of their single audit a review and opinion of the public agency's funding activities with respect to their airport or local airport revenue system. In the February 16, 1999, *Federal Register* (64 FR 7675), the FAA issued a notice titled *Policy and Procedures Concerning the Use of Airport Revenue*. This notice provides that the opinion required by 49 USC 47107(m) is only required when the Airport Improvement Program (AIP) is audited as major program under Circular A-133 and that the auditor reporting requirements of Circular A-133 satisfy the opinion requirement. However, the notice provides that the AIP may be selected as a major program based upon either the risk-based approach prescribed in Circular A-133 §\_\_.520 or the FAA designating the AIP as a major program under §\_\_.215(c).



## DEPARTMENT OF TRANSPORTATION

### CFDA 20.205 HIGHWAY PLANNING AND CONSTRUCTION (Federal-Aid Highway Program)

### CFDA 23.003 APPALACHIAN DEVELOPMENT HIGHWAY SYSTEM

#### I. PROGRAM OBJECTIVES

The objectives of the Highway Planning and Construction Cluster are to: (1) assist States in the planning and development of an integrated, interconnected transportation system important to interstate commerce and travel by constructing and rehabilitating the National Highway System (NHS), including Interstate highways and most other public roads; (2) provide aid for the repair of Federal-aid highways following disasters; (3) foster safe highway design, and replace or rehabilitate structurally deficient or functionally obsolete bridges; and (4) to provide for other special purposes. This cluster also provides for the improvement of roads in Puerto Rico, Guam, the Virgin Islands, American Samoa, the Northern Marina Islands, the Alaskan Highway, and the Appalachian Development Highway System (ADHS). The objective of the ADHS program is to provide a highway system which, in conjunction with other federally aided highways, will open up areas with development potential within the Appalachian region where commerce and communication have been inhibited by lack of adequate access.

#### II. PROGRAM PROCEDURES

Federal-aid highway funds are generally apportioned by statutory formulas to the States and generally restricted to use on Federal-aid highways (i.e., roads open to the public and not functionally classified as local). Exceptions to the use on Federal-aid highways include planning and research activities, bridge and safety improvements which may be on any public road, and the Federal Lands Highway Program. Some categories of funds may be granted directly to Local Public Agencies (LPAs), such as cities, counties, tribal governments, Metropolitan Planning Organizations (MPOs), and other political subdivisions. States also may pass funds through to such agencies. Federal-aid funds may be used for: surveying; engineering; right-of-way acquisition and relocation assistance; capital improvements classified as new construction or reconstruction; improvements for functional, geometric, or safety reasons; 4R projects (restoration, rehabilitation, resurfacing, and reconstruction); planning; research, development, and technology transfer; intelligent transportation systems projects; roadside beautification; wetland and natural habitat mitigation; traffic management and control improvements; improvements necessary to accommodate other transportation modes; development and establishment of transportation management systems; billboard removal; construction of bicycle facilities and pedestrian facilities; fringe and corridor parking; car pool and van pool projects; and transportation enhancements, such as scenic and historic highway improvements. These funds generally cannot be used for routine highway operational activities, such as police patrols, mowing, snow plowing, or maintenance, unless it is preventative maintenance. Also, certain authorizations (e.g., Surface Transportation Program (STP) Congestion Mitigation and Air Quality (CMAQ) Improvement Program) may be used for improvements to transit; CMAQ funds are for projects and programs in air quality, non-attainment and maintenance areas for ozone, carbon monoxide, and small particulate matter, which reduce transportation related emissions.

ADHS projects are subject to the same standards, specifications, policies, and procedures as other Federal-aid highway projects.

Eligibility criteria for the programs differ, so program guidance should be consulted. Projects in urban areas of 50,000 or more population must be based on a transportation planning process carried out by the MPOs in cooperation with the State and transit operators, and be included in metropolitan plans and programs. Projects in nonmetropolitan areas of a State must be consistent with the State's Transportation Plan. All projects must also be included in the approved Statewide transportation improvement program (STIP) developed as part of the required Statewide transportation planning process.

The ADHS is a cost-to-complete program (i.e., sufficient funding is to be provided over time to complete the approved initial construction/upgrading of the system) authorized by Section 201 of the Appalachian Regional Development Act of 1965. The Appalachian Regional Commission (ARC) has programmatic oversight responsibilities, which include approval of the location of the corridors and of State-generated estimates of the cost to complete the ADHS. FHWA has project-level oversight responsibilities for the ADHS program. If the location, scope, and character of proposed ADHS projects are in agreement with the latest approved cost-to-complete estimate and all Federal requirements have been satisfied, FHWA authorizes the work and disburses the ADHS funds. FHWA oversees the construction and accepts the ADHS projects upon satisfactory completion of the work.

### **Source of Governing Requirements**

The primary sources of program requirements are 23 USC (Highways). Implementing regulations are found in 23 CFR (Highways) and 49 CFR (Transportation).

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

The Federal Highway Administration maintains a web site that provides program laws, regulations, and other general information (<http://www.fhwa.dot.gov/>).

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

1. Federal funds can be used only to reimburse costs that are: (a) incurred subsequent to the date of authorization to proceed, except for certain property acquisition costs permitted under 23 USC 108; (b) in accordance with the conditions contained in the project agreement and the plans, specifications, and estimates (PS&E); (c) allocable to a specific project; and (d) claimed for reimbursement subsequent to the date of the project agreement (23 CFR sections 1.9, 630.106, and 630.205).

2. Federal funds can be used to reimburse for administrative settlement costs incurred in defending contract claim proceedings before arbitration boards or State courts only if approved by FHWA for Federal-aid projects. If special counsel is used, it must be recommended by the State Attorney or State Department of Transportation (DOT) legal counsel and approved in advance by FHWA (23 CFR section 140.505).
3. ADHS funds may be used only for work included in the ADHS cost estimate approved by the ARC.

**D. Davis-Bacon Act**

The requirements of the Davis-Bacon Act are applicable to construction work on highway projects on Federal-aid highways or with ADHS funds (23 USC 113 and 40 USC 14701).

**F. Equipment and Real Property Management**

The State shall charge, at a minimum, a fair market value for the sale, lease, or use of real property acquired with Federal assistance from the Highway Trust Fund (other than the Mass Transit Account) for the non-transportation purposes and shall use such income for projects eligible under 23 USC. Exceptions may be granted when the property is used for social, environmental or economic purposes (23 USC 156).

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

**1. Matching**

- a. The State is generally required to pay a portion of the project costs. Portions vary according to the type of funds authorized and the type of project and are stated in project agreements.
- b. A State's matching share for a project may be credited by certain toll revenues used to build or improve highways, bridges and tunnels (23 USC 120(j)).
- c. Donations of funds, materials, and services by a person or local government may be credited towards a State's matching share. Donated materials and services must meet the eligibility requirements of the project (23 USC 323(c)).
- d. The fair market value of land provided by State or local governments for highway purposes is eligible for matching share on a project. The fair market value of donated land shall not include any increase or decrease in value of donated land caused by the project. The fair market value of donated land shall be established as of the earlier of (1) the date on which the donation becomes effective or (2) the date on which equitable title to the land vests in the State (23 USC 323(b)).

- e. For transportation enhancement (TE) projects, funds from Federal agencies (except U.S. DOT) may be used for the non-Federal share of the project. Credit for the value of donations of funds, materials, land, or services (including the value of local and State government services, materials and land applied to the project and the cost of preliminary engineering prior to project approval) may be credited toward the non-Federal share (23 USC 133(e)(5)(C)).
- f. Funds appropriated to any Federal land management agency may be used to pay the non-Federal share of any Federal-aid highway project funded under 23 USC 104 (23 USC 120(k)).
- g. Federal Lands Highway Program funds may be used to pay the non-Federal share of Federal-aid highway projects which provide access to or within Federal or Indian lands (23 USC 120(l)).
- h. For TE projects, the non-Federal share may be calculated on a project, multi-project, or program basis (23 USC 133(e)(5)(C)).
- i. Any cost in excess of 20 percent of the cost of the replacement or rehabilitation of a bridge not on a Federal-aid highway that is wholly funded with State and local funds may be used to meet the matching share requirement of projects funded under 23 USC 144 (23 USC 144(n)).

**2. Level of Effort** - Not Applicable

**3. Earmarking** - Not Applicable

## **J. Program Income**

State and local governments may only use the Federal share of net income from the sale, use, or lease of real property previously acquired with Federal funds if the income is used for projects eligible under 23 USC (23 USC 156).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

- e. PR-20, *Voucher for Work Under Provisions of the Federal-Aid and Federal Highway Acts, as Amended (OMB No. 2125-0507)*

**2. Performance Reporting - Not Applicable**

**3. Special Reporting - Not Applicable**

**N. Special Tests and Provisions**

**1. Use of Other State or Local Government Agencies**

**Compliance Requirement** - A State may use other public land acquisition organizations or private consultants to carry out the State's authorities under 23 CFR section 710.201(b) in accordance with a written agreement (23 CFR section 710.201(h)).

**Audit Objective** - Determine whether other public land acquisition organizations or private consultants are carrying out the State's authorities under 23 CFR section 710.201(b) in accordance with their agreements with the State.

**Suggested Audit Procedures**

- a. Examine records and ascertain if other agencies were used for right-of-way activities on Federal-aid projects.
- b. Review a sample of right-of-way agreements with other agencies.
- c. Perform tests of selected right-of-way activities to other agencies to verify that they comply with the written agreement.

**2. Replacement of Publicly Owned Real Property**

**Compliance Requirement** - Federal funds may be used to reimburse the reasonable costs actually incurred for the functional replacement of publicly owned and publicly used real property provided that FHWA concurs that it is in the public interest. The cost of increases in capacity and other betterments are not eligible except: (1) if necessary to replace utilities; (2) to meet legal, regulatory, or similar requirements; or (3) to meet reasonable prevailing standards for the type of facility being replaced (23 CFR section 710.509).

**Audit Objective** - Determine whether the functional replacement of real property was accomplished within FHWA requirements.

**Suggested Audit Procedures**

- a. Ascertain if there were any functional replacements of publicly owned real property.
- b. Verify that FHWA concurred in the State's determination that the functional replacement is in the public interest.

- c. Review a sample of transactions involving functional replacements and verify that the transactions were consistent with the FHWA requirements.

### 3. Project Extensions

**Compliance Requirement** - FHWA must approve extensions affecting project costs or the amount of liquidated damages, except those for projects administered by the State DOT under 23 USC 106(c) which allow the State DOT to assume the responsibilities for design, plans, specifications, estimates, contract awards and inspection of progress (23 USC 106(c); 23 CFR section 635.121).

**Audit Objective** - Determine whether proper FHWA approvals were obtained for contract extensions affecting project costs and the amount of liquidated damages assessed.

#### Suggested Audit Procedures

- a. Review the systems for monitoring and controlling contract time and review project files to determine if there were project extensions.
- b. Verify that FHWA approval was obtained for time extensions affecting project cost and, where applicable, the amount of liquidated damages assessed.

### 4. Sampling Program

**Compliance Requirement** - A State DOT or LPA must have a sampling and testing program for construction projects to ensure that materials and workmanship generally conform to approved plans and specifications (23 CFR section 637.205).

**Audit Objective** - Determine whether the State is following a quality assurance program that meets FHWA's requirements.

#### Suggested Audit Procedures

- a. Obtain an understanding of the recipient's sampling and testing program.
- b. Review documentation of test results on a sample basis to verify that the proper number of tests is being taken in accordance with the program.

### 5. Contractor Recoveries

**Compliance Requirement** - When a State recovers funds from highway contractors for project overcharges due to bid-rigging, fraud, or anti-trust violations or otherwise recovers compensatory damages, the Federal-aid project involved shall be credited with the Federal share of such recoveries (Tennessee v. Dole 749 F.2d 331 (6th Cir. 1984); 57 Comp. Gen. 577 (1978); 47 Comp. Gen. 309 (1967)).

**Audit Objective** - Determine whether the proper credit was made to the Federal share of a project when recoveries of funds are made.

**Suggested Audit Procedures**

- a. Determine the extent to which the State has recovered overcharges and other compensatory damages on Federal-aid projects through appropriate interviews and a review of legal, claim, and cash receipt records.
- b. Review a sample of cash receipts and verify that appropriate credit is reflected in billings to the Federal Government.

**6. Project Approvals**

**Compliance Requirement** - FHWA project approval and authorization to proceed is required before costs are incurred for all construction projects other than those administered by the State DOT under 23 USC 106(c). Construction projects administered under standard procedures cannot be advertised nor force account work commenced until FHWA: (1) approves the plans, specifications, and estimates; and (2) authorizes the State DOT to advertise for bids or approves the force account work (23 CFR sections 630.205(c), 635.112(a), 635.204, and 635.309). Construction cannot begin until after FHWA concurs in the contract award (23 CFR section 635.114). This requirement does not apply to construction projects administered by the State DOT under 23 USC 106(c) which allow the State DOT to assume the responsibilities for design, plans, specifications, estimates, contract awards, and inspection of progress (23 USC 106(c)).

**Audit Objective** - Determine whether project activities are started with required Federal approvals.

**Suggested Audit Procedures**

- a. Review a sample of projects and identify dates of the necessary approvals, authorizations, and concurrences.
- b. Identify dates that projects were advertised and contract or force account work was initiated and compare to FHWA's approval dates.





### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

##### 1. *Activities Allowed*

- a. Under the 5307 and 5309 programs, capital activities, as defined in 49 USC 5302 (a), are eligible, including preventive maintenance and certain expenses related to crime prevention and security (49 USC 5307(b) and 5309(b)).
  - (1) For projects authorized after August 10, 2005, the only capital projects authorized under 49 USC 5309 are:
    - (a) Bus and bus facilities;
    - (b) New fixed guideways, including Small Starts;
    - (c) Fixed guideway modernization; and
    - (d) Corridor improvements (49 USC 5309(b)(1) through (b)(4)).
  - (2) Under the 5307 program, operating expenses related to the conduct of emergency response drills with public transportation agencies and local first-response agencies and security training for public transportation employees are eligible capital expenses (49 USC 5302(a)(1)(J)).
- b. Under the 5307 program, mobility management, as defined in 49 USC 5302(a)(1)(L), and planning (49 USC 5307 (b)(1)).
- c. Under the 5307 and 5309 programs, preliminary engineering and final design, as defined in 49 USC 5302(a)(1)(A)) (49 USC 5307(b) and 5309(b)).
- d. Under the 5307 program, operating assistance for all urbanized areas under 200,000 population, and certain larger urbanized areas under limited exceptions (49 USC 5307(b)(1)(D) and (1)(E)).

2. *Activities Unallowed*
  - a. Under the 5309 program:
    - (1) Mobility management;
    - (2) Operating expenses; and
    - (3) Alternatives analysis, including planning, with funds appropriated after FY 2005 (49 USC 5309 (b)(1) and 5339).
  - b. Under the 5307 program, operating assistance in areas over 200,000, unless under certain limited exceptions (49 USC 5307(b)(2)(A)).

**D. Davis-Bacon Act**

The requirements of the Davis-Bacon Act are applicable to construction work financed with a grant or loan under this program (49 USC 5333).

**F. Equipment and Real Property Management**

Recipients, with FTA approval, are allowed to transfer, sell, or lease property, equipment, or supplies acquired with Federal transit funds that are no longer needed for transit purposes. FTA may authorize the recipient to transfer the asset to a local governmental authority to be used for a public purpose (49 USC 5334 (h)(1) through (h)(3)). If a recipient sells the asset, the proceeds must be used to reduce the gross project costs of another federally funded capital transit project (49 USC 5334(h)(4) or handled as stated in 49 CFR sections 18.31 or 18.32 (49 USC 5334(h)).

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

**1. Matching**

The share of allowable costs for a particular grant is established in the grant agreement.

**2. Level of Effort - Not Applicable**

**3. Earmarking**

- a. One percent of 5307 program funds apportioned to urbanized areas with a population of at least 200,000 shall be made available for transit enhancement activities (49 USC 5307(d)(K)(i)).
- b. One percent of 5307 program funds apportioned to urbanized areas with a population of at least 200,000 shall be expended for public transportation security projects. These projects may include increased lighting in or adjacent to a public transportation system (including bus stops, subway stations, parking lots, and garages), increased camera surveillance of an

area in or adjacent to that system, providing an emergency telephone line to contact law enforcement or security personnel in an area in or adjacent to that system, and any other project intended to increase the security and safety of an existing or planned public transportation system. The recipient may certify that the expenditure for security projects is not necessary and then one percent expenditure will not be required (49 USC 5307 (d)(1)(J)(i)).

- c. Both of these requirements are at the urbanized area, not grant or grantee level (49 USC 5307).

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

1. *Buy America* - All steel, iron, and manufactured products used in the project must be manufactured in the U.S., as demonstrated by a Buy America certificate, or, in the case of rolling stock, the cost of components produced in the United States is more than 60 percent of the cost of all components and final assembly of the vehicle takes place in the United States (49 CFR part 661).
  - a. The FTA Administrator may grant specific waivers following case-by-case determinations that: (1) applying the requirement would be inconsistent with the public interest; (2) the goods are not produced in the U.S. in a sufficient and reasonably available quantity and of satisfactory quality; or (3) the inclusion of the domestically produced material will increase the overall project cost by more than 25 percent (49 CFR sections 661.7(b) through (d)).
  - b. Appendix A to 49 CFR section 661.7 provides general waivers for the following items:
    - (1) Those articles, materials, and supplies exempted from the Buy America Act of 1933 as listed in 48 CFR section 25.104;
    - (2) Microprocessors, computers, microcomputers, or software, or other such devices, which are used solely for the purpose of processing or storing data; and
    - (3) All “small purchases” (under \$100,000) made by FTA recipients.
  - c. Appendix A to 49 CFR section 661.11 provides a general Buy America waiver when foreign-sourced spare parts for buses and other rolling stock (including train control, communication, and traction power equipment) whose total cost is 10 percent or less of the overall contract cost are being procured as part of the same contract for the major capital item.

- d. A recipient that purchases rolling stock for transportation of fare-paying passengers must conduct, or cause to be conducted, a pre-award audit before entering a formal contract for the purchase of rolling stock, and certify that a post-delivery audit is complete before title to the rolling stock is transferred. Pre-award and post-delivery audits verify the accuracy of the Buy America certification, purchaser's requirements certification, and certification of compliance with or inapplicability of Federal motor vehicles safety standards (49 CFR part 663).
2. *Disadvantaged Business Enterprises (DBE)* - Recipients shall require that each transit vehicle manufacturer certify that it has complied with the requirements of 49 CFR section 26.49, as a condition to bid on a transit vehicle procurement in which FTA funds are involved. Recipients may, with FTA approval, establish project-specific goals for DBE participation in the procurement of transit vehicles that a transit vehicle manufacturer must meet (49 CFR section 26.49(d)).
3. *Procurement of Vehicles and Facilities* - In prohibiting discrimination in the provision of transportation services against persons with disabilities, the Americans with Disabilities Act of 1990 requires that vehicles purchased or leased after August 25, 1990, and new and altered facilities designed and constructed (as marked by the notice to proceed) after January 25, 1992, must comply with the applicable standards of accessibility in 49 CFR parts 37 and 38 (42 USC 12101-12213).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269A, *Financial Status Report* - Applicable - (submitted through the FTA electronic grants management system (TEAM)).
- b. SF-270, *Request for Advance or Reimbursement* - Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

### **2. Performance Reporting** - Not Applicable

### **3. Special Reporting**

*Report of DBE Awards or Commitments and Payments (OMB No. 2105-0510)* - Based on the level of FTA funding, exclusive of transit vehicle purchases, recipients are required to implement a DBE program. To monitor the progress of the DBE program, the recipient is required to submit semi-annual reports based on a recordkeeping system (49 CFR section 26.11 and Appendix B to part 26).

## N. Special Tests and Provisions

### 1. Environmental Review

**Compliance Requirement** - For construction projects, Federal transit law requires that no adverse environmental effect result from the project, or that no feasible and prudent alternative to the adverse effect of the project exist and that all reasonable steps be taken to minimize the adverse effect (49 USC 5324(b)). The National Environmental Policy Act (NEPA) and its implementing regulation (23 CFR part 771) require that the significant environmental effects of public transportation projects proposed for FTA assistance be documented, and that alternatives to avoid, minimize, and mitigate the adverse effects be considered (42 USC 4321 et seq.). Section 6002 of SAFETEA-LU requires that the sponsor of an FTA-assisted project (i.e., the grant recipient) comply with all design and mitigation commitments made in any environmental document prepared for the project (49 USC 139(c)(4)).

Accordingly, the measures to mitigate the adverse environmental and community impacts of a project, if any, are described in NEPA and related environmental documents. For projects requiring an Environmental Impact Statement (EIS), mitigation measures are summarized in a Record of Decision. For projects requiring an Environmental Assessment, mitigation measures are summarized in a Finding of No Significant Impact (FONSI). For categorically excluded projects, mitigation is usually not required, but if any mitigation measure is required, it will be documented in the FTA approval memorandum for the project. In all cases, these environmental documents should be referenced in the construction grant agreement with the recipient.

**Audit Objective** - Determine whether the measures to mitigate the adverse impacts on the community and the environment that were specified in the environmental documents referenced in the grant agreement for construction projects were implemented.

#### Suggested Audit Procedures

- a. Identify any FTA-assisted construction projects and review the grant agreement and environmental documents to identify mitigation measures specified.
- b. For sample of mitigation measures, compare the status of implementation with the commitments made in the environmental documents or grant agreement.

### 2. Charter Service

**Compliance Requirement** - As part of the annual certifications and assurances required by the FTA, a recipient must execute an agreement with the FTA which provides that neither the recipient nor any of its subrecipients will provide charter service that uses equipment or facilities acquired with FTA funds, unless: (a) there are no willing and able private charter service operators, or (b) one or more of the exceptions listed in 49 CFR part 604 are met and the charter service is incidental to the provision of mass transportation. Charter service is defined as transportation, using buses or vans (funded in whole or in part by FTA), of a group of persons pursuant to a common purpose, under

a single contract at a fixed charge for the vehicle or service, which has acquired the exclusive use of the vehicle or service to travel together under an itinerary either specified in advance or modified after leaving the place of origin. This definition includes the incidental use of FTA-funded equipment for the exclusive transportation of school students, personnel and equipment, and the housing of charter vehicles in FTA-funded facilities. "Incidental charter service" is defined as service that does not: (a) interfere with or detract from the provision of the mass transportation service for which the facilities or equipment were funded under the Act, or (b) shorten the mass transportation life of the equipment or facilities (49 CFR part 604).

**Audit Objective** - Determine whether the use in charter service of equipment and facilities acquired with FTA funds conformed to 49 CFR part 604.

### **Suggested Audit Procedures**

- a. Ascertain if the recipient provides charter service with FTA-funded equipment by:  
(1) obtaining written representation from the recipient, (2) reviewing revenue accounts for indications of charter bus revenue statements, and (3) reviewing the recipient's web site and local business "Yellow Pages" for indications of charter-service operations.
- b. Review the recipient's policies and procedures for charter, rental, or lease of its transit equipment.
- c. Test transactions that meet the definition of charter service and ascertain if:
  - (1) FTA-assisted equipment or facilities (e.g., parking lots and maintenance garages) were used;
  - (2) Documentation was available evidencing the absence of a willing and able private operator or an exception provided in 49 CFR part 604;
  - (3) Documentation was available evidencing a charter fee that recovers the entire operating and capital costs of equipment used; and
  - (4) Inventory records were adjusted to extend the useful life of the FTA subsidized transit equipment by the amount of charter service.

### **3. School Bus Operation**

**Compliance Requirement** - As part of the annual certifications and assurances required by FTA, a recipient must enter into an agreement with the FTA Administrator stating that the recipient will not engage in school bus operations exclusively for the transportation of students and school personnel in competition with private school bus operators, unless it demonstrates to the FTA Administrator any one of the exceptions listed in 49 CFR section 605.11 and the Administrator concurs. Indicators of exclusive school bus service are:

- a. Bus schedules that only operate one way to schools in the morning and the other way from schools in the afternoon.
- b. Destination signs that say “school bus” “school special” or a school name are indicative of prohibited exclusive school bus service.
- c. Buses that have flashing lights and swing arms like standard yellow school buses are indicative of prohibited exclusive school bus service.
- d. Bus stop signs that say “school” are indicative of prohibited exclusive school bus service.
- e. Bus stops that are located on school property away from general public thoroughfares are indicative of prohibited exclusive school bus service.

However, all recipients can operate “Tripper Service,” which is defined as regularly scheduled mass transportation service that is open to the public, and designed or modified to accommodate the needs of school students and personnel, using various fare collections or subsidy systems. Buses used in “Tripper Service” are required to be clearly marked as open to the public and should not carry designations such as “school bus” or “school special.” All routes traveled by tripper buses must be within a grantee or operator’s regular route service as indicated in their published schedules (49 CFR part 605).

**Audit Objective** - Determine whether school bus service provided with FTA-funded equipment was approved by FTA or that FTA-assisted equipment and facilities used to accommodate students conformed to the definition of “Tripper Service.”

### **Suggested Audit Procedures**

- a. Ascertain if the recipient operates any transit service exclusively for school children through: (1) reviews of bus schedules, published fares, and service contracts; (2) discussions with recipient officials; and (3) reviews of school district or individual school web sites for information on bus transportation of school students.
- b. Ascertain if FTA-funded equipment (e.g., buses or vans) or facilities (e.g., bus maintenance garages) were used to provide school service by reviewing inventory records, maintenance logs, parking sites, names on bus and van destination signs, school facilities, or by performing other appropriate procedures.
- c. If exclusive school bus service is identified, review documentation that the service was approved by the FTA.

## DEPARTMENT OF TRANSPORTATION

### CFDA 20.509 FORMULA GRANTS FOR OTHER THAN URBANIZED AREAS (Nonurbanized Area Formula Program)

#### I. PROGRAM OBJECTIVES

The objectives of the Section 5311 formula program are to initiate, improve, or continue public transportation service in nonurbanized areas by providing financial assistance for operating and administrative expenses, and for the acquisition, construction, and improvement of facilities and equipment. In addition, Section 5311(f) specifically provides for the support of rural intercity bus service. The Rural Transit Assistance Program (RTAP), Section 5311(b)(2), provides additional funding to provide training, technical assistance, research and related support services to support rural transit service.

#### II. PROGRAM PROCEDURES

##### State Agencies

The Federal Transit Administration (FTA) annually publishes formula apportionments to the States in a Federal Register Notice published within ten days after the Department of Transportation (DOT) Appropriations Act is signed into law. The Governor of each State designates a State agency to administer the program. The State is responsible for fair distribution of the funds in the State, including Indian reservations. The State may also provide transit service directly or through contracts with private operators. The State describes its procedures for administering the program in a State management plan. The State applies to FTA for approval of a program of projects, usually annually, and reports annually to FTA on financial status and revisions to the program of projects. The State agency may be the recipient on behalf of Indian tribes that are subrecipients, but federally recognized tribes may also elect to apply to FTA as a direct recipient.

FTA monitors compliance with Federal requirements through administrative "State Management Reviews," generally every three years.

##### Tribal Transit Program

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) (Pub. L. No. 109-59) created a new Tribal Transit Program under the Nonurbanized Area Formula Program, and funded it as a takedown under the Section 5311 program. Under the Tribal Transit Program, federally recognized Indian tribes are eligible direct recipients. Based on an annual national competitive selection process conducted by FTA, FTA awards Tribal Transit grants directly to eligible Indian tribes. Recipients of Tribal Transit Program funds may use these funds for any purpose that is eligible under Section 5311. Only federally recognized tribes are eligible recipients under the Tribal Transit Program.



## Subrecipients

The State selects subrecipients and monitors their compliance with Federal requirements. FTA does not directly monitor the subrecipients, but checks the State's procedures for monitoring during the State Management Review. The State may impose program criteria in addition to those imposed by the FTA and may require additional reports from subrecipients. These State requirements are included in the State Management Plan.

## Source of Governing Requirements

This program is authorized by 49 USC 5311. Program regulations are in 49 CFR. Note that certain exceptions or dollar thresholds in these rules may exclude many rural transit activities.

## Availability of Other Program Information

Information about the program may be found on the FTA web site at <http://www.fta.dot.gov/>. Program Guidance and Application Instructions are contained in FTA Circular 9040.1F which may be found on the web site. In referring to the program, FTA uses the term "rural" to include both rural and small urban areas (all areas not included in the urbanized areas designated by the U.S. Bureau of the Census).

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

#### 1. *Activities Allowed*

- a. The project must provide local transportation service (transit service available to the public) in an area other than an urbanized area (49 USC 5311(d)) or support intercity bus transportation (49 USC 5311(f)). Coordination of mass transportation assisted under this section with transportation service assisted by other United States Government sources is permitted and encouraged (49 USC 5311(b)).
- b. RTAP funds may be used to provide training, technical assistance, research and other related support services for providers of rural public transit and related services (49 USC 5311(b)(2)).

### D. Davis-Bacon Act

The requirements of the Davis-Bacon Act are applicable to construction work financed with a grant under this program (49 USC 5333).

**E. Eligibility**

- 1. Eligibility for Individuals - Not Applicable**
- 2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**
- 3. Eligibility for Subrecipients**

Eligible subrecipients are State and local governments, Indian tribes, non-profit organizations, or operators of public transportation or intercity bus service (49 USC 5311(a)).

**F. Equipment and Real Property Management**

Recipients, with FTA approval, are allowed to transfer, sell, or lease property, equipment, or supplies acquired with Federal transit funds that are no longer needed for transit purposes. FTA may authorize the recipient to transfer the asset to a local governmental authority to be used for a public purpose (49 USC 5334 (h) (1) through (3)). If a recipient sells the asset, the proceeds must be used to reduce the gross project costs of another federally funded capital transit project (49 USC 5334(h)(4) or handled as stated in 49 CFR sections 18.31 or 18.32 (49 USC 5334(h)).

**G. Matching, Level of Effort, Earmarking****1. Matching**

- a. Operating assistance requires a 50 percent match, half of which must be non-Federal. Capital and administration require a 20 percent non-Federal match. No match is required for State administration or RTAP. Revenues from providing mass transportation (e.g., farebox revenue) may not be used for the match. Amounts received under a service agreement with a State or local social service agency or a private social service organization may be used to match operating assistance. Recipients may use funds from other Federal agencies (non-DOT) for the entire local match if the other agency makes the funds available to the recipient for the purposes of the project. The only DOT funds that States can use as local match for Section 5311 projects are from the Federal Lands Highway Program (49 USC 5311(g)).
- b. Higher Federal share rates (sliding-scale match rates) for capital costs are available to 14 States described in 23 USC 120(b). These sliding scale rates are based on the ratio of designated public lands area to the total area of these 14 States. For FTA capital grants, the Federal share increases from 80 percent in proportion to the share of public lands in the State. For FTA operating grants in these same States, the Federal share increases from 50 percent to 62.5 percent (5/8) of the rate for capital grants in those States (49 USC 5311(g)(1)(B)).

**2. Level of Effort - Not Applicable**

**3. Earmarking**

- a. The State may expend no more than 15 percent of its annual Section 5311 apportionment for state administration, including planning and technical assistance (49 USC 5311(e)).
- b. A State must use at least 15 percent of the annual apportionment to support intercity bus service unless the Governor certifies, after consultation with affected intercity bus service providers, that the intercity bus needs of the State are adequately met (49 USC 5311(f)).

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

The funds are available to the State for the year of apportionment plus two years. Once the funds are obligated for an approved project, they remain available to the State until expended (49 USC 5311(c)).

**I. Procurement and Suspension and Debarment**

1. *Buy America* - All steel, iron, and manufactured products used in the project must be manufactured in the U.S., as demonstrated by a Buy America certificate, or, in the case of rolling stock, the cost of components produced in the United States is more than 60 percent of the cost of all components and final assembly of the vehicle takes place in the United States (49 CFR part 661).
  - a. The FTA Administrator may grant specific waivers following case-by-case determinations that: (1) applying the requirement would be inconsistent with the public interest; (2) the goods are not produced in the U.S. in a sufficient and reasonably available quantity and of satisfactory quality; or (3) the inclusion of the domestically produced material will increase the overall project cost by more than 25 percent (49 CFR sections 661.7(b) through (d)).
  - b. Appendix A to 49 CFR section 661.7 provides general waivers for the following items:
    - (1) Those articles, materials, and supplies exempted from the Buy America Act of 1933 as listed in 48 CFR section 25.104;
    - (2) Microprocessors, computers, microcomputers, or software, or other such devices, which are used solely for the purpose of processing or storing data; and
    - (3) All “small purchases” (under \$100,000) made by FTA recipients.

- c. Appendix A to 49 CFR section 661.11 provides a general Buy America waiver when foreign-sourced spare parts for buses and other rolling stock (including train control, communication, and traction power equipment) whose total cost is 10 percent or less of the overall project contract cost are being procured as part of the same contract for the major capital item.
  - d. A recipient that purchases rolling stock for transportation of fare-paying passengers must conduct, or cause to be conducted, a pre-award audit before entering a formal contract for the purchase of rolling stock, and certify that a post-delivery review is complete before title to the rolling stock is transferred. Pre-award and post-delivery reviews verify the accuracy of the Buy America certification, purchaser's requirements certification, and certification of compliance with or inapplicability of Federal motor vehicles safety standards (49 CFR part 663).
2. *Disadvantaged Business Enterprises (DBE)* - Recipients shall require that each transit vehicle manufacturer certify that it has complied with the requirements of 49 CFR section 26.49, as a condition to bid on a transit vehicle procurement in which FTA funds are involved. Recipients may, with FTA approval, establish project-specific goals for DBE participation in the procurement of transit vehicles that a transit vehicle manufacturer must meet (49 CFR section 26.49(d)).
  3. *Procurement of Vehicles and Facilities* - In prohibiting discrimination in the provision of transportation services against persons with disabilities, the Americans with Disabilities Act of 1990 requires that vehicles purchased or leased after August 25, 1990, and new and altered facilities designed and constructed (as marked by the notice to proceed) after January 25, 1992, must comply with the applicable standards of accessibility in 49 CFR parts 37 and 38 (42 USC 12101-12213).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269A, *Financial Status Report* - Applicable (submitted through the FTA electronic grants management system (TEAM))
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

### **2. Performance Reporting - Not Applicable**

### 3. Special Reporting

*National Transit Database (NTD) (OMB No. 2132-0008)* - Recipient are required to submit an annual report containing financial and operating information. The State agency administering the 5311 program is responsible for submitting the rural report on behalf of the State and its subrecipients. The NTD web site is located at <http://www.ntdprogram.gov/>. Data to be reviewed is on the Rural General Public Service Transit form (RU-20).

*Key line items:* The following line items contain critical information:

- a. Line 05 - Total Annual Operating Expenses
- b. Line 08 - Local Operating Assistance
- c. Line 13 - Annual Capital Costs
- d. Lines 25a, 25b, 25c (Mode), Column g - Total Trips

## N. Special Tests and Provisions

### 1. Charter Service

**Compliance Requirement** - As part of the annual certifications and assurances required by the FTA, a recipient must execute an agreement with the FTA which provides that neither the recipient nor any of its subrecipients will provide charter service that uses equipment or facilities acquired with FTA funds, unless: (a) there are no willing and able private charter service operators or (b) one or more of the exceptions listed in 49 CFR part 604 are met and the charter service is incidental to the provision of mass transportation. Charter service is defined as transportation, using buses or vans (funded in whole or in part by FTA), of a group of persons pursuant to a common purpose, under a single contract at a fixed charge for the vehicle or service, which has acquired the exclusive use of the vehicle or service to travel together under an itinerary either specified in advance or modified after leaving the place of origin. This definition includes the incidental use of FTA-funded equipment for the exclusive transportation of school students, personnel and equipment, and the housing of charter vehicles in FTA-funded facilities. Incidental charter service is defined as service that does not: (a) interfere with or detract from the provision of the mass transportation service for which the facilities or equipment were funded under the Act or (b) shorten the mass transportation life of the equipment or facilities (49 CFR part 604).

**Audit Objective** - Determine whether the use in charter service of equipment and facilities acquired with FTA funds conformed to 49 CFR part 604.

### Suggested Audit Procedures

- a. Ascertain if the recipient provides charter service with FTA-funded equipment by: (1) obtaining written representation from the recipient, (2) reviewing revenue

accounts for indications of charter bus revenue statements, and (3) reviewing the recipient's web site and local business "Yellow Pages" for indications of charter service operations.

- b. Review the recipient's policies and procedures for charter, rental, or lease of its transit equipment.
- c. Test transactions that meet the definition of charter service and ascertain if:
  - (1) FTA-assisted equipment or facilities (e.g., parking lots and maintenance garages) were used;
  - (2) Documentation was available evidencing the absence of a willing and able private operator or an exception provided in 49 CFR part 604;
  - (3) Documentation was available evidencing a charter fee that recovers the entire operating and capital costs of equipment used; and
  - (4) Inventory records were adjusted to extend the useful life of the FTA subsidized transit equipment by the amount of charter service.

## 2. School Bus Operation

**Compliance Requirement** - As part of the annual certifications and assurances required by FTA, a recipient must enter into an agreement with the FTA Administrator stating that the recipient will not engage in school bus operations exclusively for the transportation of students and school personnel in competition with private school bus operators, unless it demonstrates to the FTA Administrator any one of the exceptions listed in 49 CFR section 605.11 and the Administrator concurs. Indicators of exclusive school bus service are:

- a. Bus schedules that only operate one way to schools in the morning and the other way from schools in the afternoon.
- b. Destination signs that say "school bus" "school special" or a school name are indicative of prohibited exclusive school bus service.
- c. Buses that have flashing lights and swing arms like standard yellow school buses are indicative of prohibited exclusive school bus service.
- d. Bus stop signs that say "school" are indicative of prohibited exclusive school bus service.
- e. Bus stops that are located on school property away from general public thoroughfares are indicative of prohibited exclusive school bus service.

However, all recipients can operate “Tripper Service,” which is defined as regularly scheduled mass transportation service that is open to the public, and designed or modified to accommodate the needs of school students and personnel, using various fare collections or subsidy systems. Buses used in “Tripper Service” are required to be clearly marked as open to the public and should not carry designations such as “school bus” or “school special.” All routes traveled by tripper buses must be within a grantee or operator’s regular route service as indicated in their published schedules (49 CFR part 605).

**Audit Objective** - Determine whether school bus service provided with FTA-funded equipment was approved by FTA or that FTA-assisted equipment and facilities used to accommodate students conformed to the definition of “Tripper Service.”

### **Suggested Audit Procedures**

- a. Ascertain if the recipient operates any transit service exclusively for school children through: (1) a review of bus schedules, published fares, and service contracts; (2) discussions with recipient officials; and (3) reviews of school district or individual school web sites for information on bus transportation of school students.
- b. Ascertain if FTA-funded equipment (e.g., buses or vans) or facilities (e.g., bus maintenance garages) were used to provide school service by reviewing inventory records, maintenance logs, parking sites, names on bus and van destination signs, school facilities, or by performing other appropriate procedures.
- c. If exclusive school bus service is identified, review documentation that the service was approved by the FTA.

## DEPARTMENT OF TRANSPORTATION

- CFDA 20.513 CAPITAL ASSISTANCE PROGRAM FOR ELDERLY PERSONS AND PERSONS WITH DISABILITIES**  
**CFDA 20.516 JOB ACCESS - REVERSE COMMUTE**  
**CFDA 20.521 NEW FREEDOM PROGRAM**

### I. PROGRAM OBJECTIVES

#### **Capital Assistance Program for Elderly Persons and Persons with Disabilities (Section 5310)**

The objective of the Section 5310 program is to improve mobility for elderly individuals and individuals with disabilities throughout the country. Toward this, the Federal Transit Administration (FTA) provides financial assistance for transportation services planned, designed, and carried out to meet the special transportation needs of elderly individuals and individuals with disabilities in all areas—urbanized, small urban, and rural.

#### **Job Access - Reverse Commute (JARC)**

The objectives of the JARC program are to improve access to transportation services to employment and employment-related activities for welfare recipients and eligible low-income individuals and to transport residents of urbanized areas and nonurbanized areas to suburban employment opportunities. Under this program, FTA provides financial assistance for transportation services planned, designed, and carried out to meet the transportation needs of welfare recipients and eligible low-income individuals, and of reverse commuters regardless of income.

#### **New Freedom**

The New Freedom program aims to provide additional tools to overcome barriers facing Americans with disabilities seeking integration into the work force and full participation in society. Lack of adequate transportation is a primary barrier to work for individuals with disabilities. The 2000 Census showed that only 60 percent of people between the ages of 16 and 64 with disabilities are employed. The New Freedom program seeks to reduce barriers to transportation services and expand the transportation mobility options available to people with disabilities beyond the requirements of the Americans with Disabilities Act (ADA) of 1990.

### II. PROGRAM PROCEDURES

FTA annually publishes formula apportionments to the States and urbanized areas with populations of 200,000 persons or greater (i.e., large urbanized area) in a *Federal Register* notice published within 10 days after the Department of Transportation (DOT) Appropriations Act is signed into law. In the case of the Section 5310 program, the Governor of each State designates a State agency to administer the program. In the case of the JARC and New Freedom programs, the Governor: (1) designates a State agency to administer the program in nonurbanized areas and in urbanized areas with populations between 50,000 and 199,999 persons; and (2) in consultation with responsible local officials and public transportation providers, designates a recipient to



administer the program for the large urbanized area(s). The State agencies and designated recipients are responsible for fair distribution of the funds. State agencies and designated recipients must describe their procedures for administering the program in a State management plan (SMP), or program management plan (PMP) for those JARC and New Freedom-designated recipients serving large urbanized areas.

State agencies and designated recipients apply to FTA for approval of a program of projects, usually annually, and report annually to FTA on financial status and revisions to their program of projects. Federal transit law, as amended by Safe Accountable Flexible Efficient Transportation Equity Act, a Legacy for Users (SAFETEA-LU), requires that projects selected for funding under the Section 5310, JARC, and New Freedom programs be derived from a locally developed, coordinated public transit-human services transportation plan and that the plan be developed through a process that includes representatives of public, private, and non-profit transportation and human services providers and participation by members of the public.”

FTA monitors compliance with Federal requirements through administrative “State Management Reviews,” in which a State agency is generally reviewed every 3 years. Designated recipients who also receive FTA financial assistance under the Urbanized Area Formula Program (CFDA 20.509) are also subject to a “Triennial Review” from the FTA.

### **Subrecipients**

State agencies and designated recipients select subrecipients and monitor their compliance with Federal requirements. FTA does not directly monitor the subrecipients, but checks the State agency and designated recipient’s procedures for monitoring during the State Management Review and Triennial Review. The State agency and designated recipient may impose program criteria in addition to those imposed by the FTA and may require additional reports from subrecipients. These State and designated recipient’s requirements are included in the State Management Plan or Program Management Plan.

### **Source of Governing Requirements**

The programs in this cluster were authorized by SAFETEA-LU (Pub. L. No. 109-059, enacted on August 10, 2005). The Section 5310 program is authorized by 49 USC 5310, the JARC program is authorized by 49 USC 5316 and the New Freedom program is authorized by 49 USC 5317. Program regulations are in 49 CFR.

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

Information about the programs may be found on the FTA web site at <http://www.fta.dot.gov/>. Program guidance and application instructions for the Section 5310, JARC, and New Freedom programs are contained in FTA Circulars 9070.1F, 9050.1, and 9045.1, respectively. These circulars can be found at the “Legislation, Regulations, and Guidance” section of the FTA web site.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. Under the Section 5310 program, funds are available for capital expenses (and associated administrative, planning, and technical assistance) to support the provision of transportation services to meet the special needs of elderly persons and persons with disabilities (49 USC 5310(a)).
2. Under the JARC program, funds may be used for capital, planning, and operating expenses (and associated administrative, planning, and technical assistance) that support access to jobs and reverse commute projects (49 USC 5316(b)).
3. “Access to jobs” projects are defined as projects relating to the development and maintenance of transportation services designed to transport welfare recipients and eligible low-income individuals to and from jobs and activities related to their employment, including:
  - a. Transportation projects to finance planning, capital, and operating costs of providing access to jobs under this chapter;
  - b. Promoting public transportation by low-income workers, including the use of public transportation by workers with nontraditional work schedules;
  - c. Promoting the use of transit vouchers for welfare recipients and eligible low-income individuals; and
  - d. Promoting the use of employer-provided transportation, including the transit pass benefit program under section 132 of the Internal Revenue Code of 1986 (49 USC 5316(a)(1)).
4. “Reverse commute” projects are defined as public transportation projects designed to transport residents of urbanized areas and other-than-urbanized areas to suburban employment opportunities, including any projects to:
  - a. Subsidize the costs associated with adding reverse commute bus, train, carpool, van routes, or service from urbanized areas and other-than-urbanized areas to suburban workplaces;
  - b. Subsidize the purchase or lease by a nonprofit organization or public agency of a van or bus dedicated to shuttling employees from their residences to a suburban workplace; or

- c. Otherwise facilitate the provision of public transportation services to suburban employment opportunities (49 USC 5316(a)(4)).
5. Under the New Freedom program, funds are available for capital and operating expenses (and associated administrative, planning, and technical assistance) that support new public transportation services beyond those required by the ADA and new public transportation alternatives beyond those required by the ADA designed to assist individuals with disabilities with accessing transportation services, including transportation to and from jobs and employment support services (49 USC 5317(b)(1)).

**D. Davis-Bacon Act**

The requirements of the Davis-Bacon Act apply to construction work financed by a grant under this program (49 USC 5333).

**E. Eligibility**

1. **Eligibility for Individuals** - Not Applicable
2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients**
  - a. Eligible subrecipients for the Section 5310 program are:
    - (1) Private non-profit organizations;
    - (2) Governmental authorities that certify that no non-profit corporations or associations are readily available in an area to provide the service; and
    - (3) Governmental authorities approved by the State to coordinate services for elderly individuals and individuals with disabilities (49 USC 5310 (a)(2)).
  - b. Eligible subrecipients for the JARC and New Freedom programs are:
    - (1) Private non-profit organizations;
    - (2) State or local governmental authorities; and
    - (3) Operators of public transportation services, including private operators of public transportation services (49 USC 5316(a)(5) and 5317(a)(2)).

**F. Equipment and Real Property Management**

Recipients, with FTA approval, are allowed to transfer, sell, or lease property, equipment, or supplies acquired with Federal transit funds that are no longer needed for transit purposes. FTA may authorize the recipient to transfer the asset to a local governmental authority to be used for a public purpose (49 USC 5334 (h) (1)). If a recipient sells the asset, the proceeds must be used to reduce the gross project costs of another federally funded capital transit project (49 USC 5334(h)(4)) or handled as stated in 49 CFR sections 18.31 or 18.32) (49 USC 5334(h)).

**G. Matching, Level of Effort, Earmarking****1. Matching**

- a. For the Section 5310 program, the Federal share of eligible project costs may not exceed 80 percent of the net cost of the activity (49 USC 5310(c)(1)(a)).
- b. For the JARC and New Freedom programs, the Federal share of eligible capital and planning costs may not exceed 80 percent of the net cost of the activity. The Federal share of the eligible operating costs may not exceed 50 percent of the net operating costs of the activity (49 U.S.C. 5316(h) and 5317(g)).
- c. For all three programs, the 10 percent that is eligible to fund program administrative costs including administration, planning, and technical assistance may be funded at 100 percent Federal share (49 USC 5310(a)(4), 5316(b)(2), and 5317(b)(2)). (See III.G.3, below)
- d. For all three programs, the Federal share is 90 percent for vehicle-related equipment and facilities required by the Clean Air Act (CAA) or the ADA (49 U.S.C. 5323(i)).

**2. Level of Effort - Not Applicable****3. Earmarking**

For all three programs, no more than 10 percent of the recipient's total fiscal year apportionment may be used to fund program administration costs including administration, planning, and technical assistance (49 USC 5310(a)(4), 5316(b)(2), and 5317(b)(2)).

## I. Procurement and Suspension and Debarment

1. *Buy America* - All steel, iron, and manufactured products used in the project must be manufactured in the U.S., as demonstrated by a Buy America certificate, or, in the case of rolling stock, the cost of components produced in the United States is more than 60 percent of the cost of all components and final assembly of the vehicle takes place in the United States (49 CFR part 661).
  - a. The FTA Administrator may grant specific waivers following case-by-case determinations that: (1) applying the requirement would be inconsistent with the public interest; (2) the goods are not produced in the U.S. in a sufficient and reasonably available quantity and of satisfactory quality; or (3) the inclusion of the domestically produced material will increase the overall project cost by more than 25 percent (49 CFR sections 661.7(b) through (d)).
  - b. Appendix A to 49 CFR section 661.7 provides general waivers for the following items:
    - (1) Those articles, materials, and supplies exempted from the Buy America Act of 1933 as listed in 48 CFR section 25.104;
    - (2) Microprocessors, computers, microcomputers, or software, or other such devices, which are used solely for the purpose of processing or storing data; and
    - (3) All “small purchases” (under \$100,000) made by FTA recipients.
  - c. Appendix A to 49 CFR section 661.11 provides a general Buy America waiver when foreign-sourced spare parts for buses and other rolling stock (including train control, communication, and traction power equipment) whose total cost is 10 percent or less of the overall project contract cost are being procured as part of the same contract for the major capital item.
  - d. A recipient that purchases rolling stock for transportation of fare-paying passengers must conduct, or cause to be conducted, a pre-award audit before entering a formal contract for the purchase of rolling stock, and certify that a post-delivery audit is complete before title to the rolling stock is transferred. Pre-award and post-delivery audits verify the accuracy of the Buy America certification, purchaser’s requirements certification, and certification of compliance with or inapplicability of Federal motor vehicles safety standards (49 CFR part 663).

2. *Disadvantaged Business Enterprises (DBE)* - Recipients shall require that each transit vehicle manufacturer certify that it has complied with the requirements of 49 CFR section 26.49, as a condition to bid on a transit vehicle procurement in which FTA funds are involved. Recipients may, with FTA approval, establish project-specific goals for DBE participation in the procurement of transit vehicles that a transit vehicle manufacturer must meet (49 CFR section 26.49(d)).
3. *Procurement of Vehicles and Facilities* - In prohibiting discrimination in the provision of transportation services against persons with disabilities, the ADA requires that vehicles purchased or leased after August 25, 1990, and new and altered facilities designed and constructed (as marked by the notice to proceed) after January 25, 1992, must comply with the applicable standards of accessibility in 49 CFR parts 37 and 38 (42 USC 12101-12213).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269A, *Financial Status Report* - Applicable - (submitted through FTA's electronic grants management system (TEAM)).
- b. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

### **2. Performance Reporting** - Not Applicable

### **3. Special Reporting** - Not Applicable

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

### **1. Coordinated Planning**

**Compliance Requirement** - Recipients must certify that the projects selected for funding were derived from a locally developed coordinated public transit-human services transportation plan and the plan was developed through a process that included representatives of public, private, and nonprofit transportation and human services provides and participation from the public. The recipient's SMP or PMP should contain information on the project selection process and on the local coordination plan (49 USC 5310(d)(2)(B), 5316(g)(3), and 5317(f)(3)).

**Audit Objective** - Determine whether subgrants awarded by the State or designated recipient were derived from a locally developed coordinated public transit-human services transportation plan and the plan was developed through a process that included representatives of public, private, and nonprofit transportation and human services provides and participation from the public.

### **Suggested Audit Procedures**

- a. Obtain and review the recipient's SMP or PMP for designated recipients.
- b. Ascertain if the SMP or PMP includes a section on project selection criteria and method of distributing funds.
- c. Obtain and review the State or designated recipient's applications for funding submitted to FTA.
- d. Obtain and review the State or designated recipients locally developed transportation human services coordinated plan.
- e. Ascertain if the applications document the coordinated plan from which each project listed is derived.

### **2. Competitive Selection Process.**

**Compliance Requirement** - Designated recipients of JARC and New Freedom funds for large urbanized areas are required to conduct, in cooperation with the appropriate metropolitan planning organization, an area-wide solicitation for applications for grants to the recipient and subrecipient. State recipients of JARC and New Freedom funds are required to conduct a statewide solicitation for applications for grants to the recipient and subrecipients (49 USC 5310(d), 5316(d), and 5317(d)).

Recipients of Section 5310, JARC, and New Freedom grants are required to certify that allocations to subrecipients were distributed on a fair and equitable basis (49 USC 5310(d)(2)(B), 5316(f)(2), and 5317(e)(2)). An equitable distribution refers to equal access to, and equal treatment by, a fair and open competitive process, although the results of such a process may not be a quantitatively equal allocation of funds among projects or communities. Documentation of the process for ensuring a fair and equitable competitive selection process should be in the recipient's SMP or PMP. These documents should describe the designated recipient's competitive process for selecting projects and distributing funds among various applicants, including the policy rationale and the methods used. Procedure that might indicate a competitive selection process would be: (1) announcements for funding be made on an annual basis or not less than once every 3 years; (2) announcements include the program requirements, the process for receiving funds, the timeline for the competitive selection, and selection criteria; (3) public advertisement of the availability of funds and selection criteria in formats and forums appropriate to the potential recipients and subrecipients; and (4) publishing a list of selected projects following the competitive selection process.

**Audit Objective** - Determine whether the State or designated recipient awarded subgrants based on a competitive selection process and determine whether grants were distributed on a fair and equitable basis.

### **Suggested Audit Procedures**

- a. Obtain and review the recipient's State Management Plan (SMP) or Program Management Plan (PMP) for designated recipients.
- b. Ascertain if the SMP or PMP includes a section on project selection criteria and method of distributing funds.
- c. Obtain and review the State or designated recipient's announcements for Section 5310, JARC, and New Freedom projects.
- d. Ascertain if announcements provide for a fair and equitable process.
- e. Ascertain that announcements invite applications on an area-wide or state-wide basis as appropriate.

### **3. Charter Service**

**Compliance Requirement** - As part of the annual certifications and assurances required by the FTA, a recipient must execute an agreement with the FTA which provides that neither the recipient nor any of its subrecipients will provide charter service that uses equipment or facilities acquired with FTA funds, unless: (a) there are no willing and able private charter service operators, or (b) one or more of the exceptions listed in 49 CFR part 604 are met and the charter service is incidental to the provision of mass transportation. Charter service is defined as transportation, using buses or vans (funded in whole or in part by FTA), of a group of persons pursuant to a common purpose, under a single contract at a fixed charge for the vehicle or service, who have acquired the exclusive use of the vehicle or service to travel together under an itinerary either specified in advance or modified after leaving the place of origin. This definition includes the incidental use of FTA-funded equipment for the exclusive transportation of school students, personnel and equipment, and the housing of charter vehicles in FTA-funded facilities. "Incidental charter service" is defined as service that does not (a) interfere with or detract from the provision of the mass transportation service for which the facilities or equipment were funded under the Act, or (b) shorten the mass transportation life of the equipment or facilities (49 CFR part 604).

**Audit Objective** - Determine whether any use in charter service of equipment and facilities acquired with FTA funds conformed to 49 CFR part 604.



### **Suggested Audit Procedures**

- a. Ascertain if the recipient provides charter service with FTA-funded equipment by:
  - (1) Obtaining written representation from the recipient,
  - (2) Reviewing revenue accounts for indications of charter bus revenue statements, and
  - (3) Reviewing the recipient's web site and local business "Yellow Pages" for indications of charter-service operations.
- b. Review the recipient's policies and procedures for charter, rental, or lease of its transit equipment.
- c. Test transactions that meet the definition of charter service and ascertain if:
  - (1) FTA-assisted equipment or facilities (e.g., parking lots and maintenance garages) were used;
  - (2) Documentation was available evidencing the absence of a willing and able private operator or an exception provided in 49 CFR part 604;
  - (3) Documentation was available evidencing a charter fee that recovers the entire operating and capital costs of equipment used; and
  - (4) Inventory records were adjusted to extend the useful life of the FTA subsidized transit equipment by the amount of charter service.

### **4. School Bus Operation**

**Compliance Requirement** - As part of the annual certifications and assurances required by FTA, a recipient must enter into an agreement with the FTA Administrator stating that the recipient will not engage in school bus operations exclusively for the transportation of students and school personnel in competition with private school bus operators, unless it demonstrates to the FTA Administrator any one of the exceptions listed in 49 CFR section 605.11 and the Administrator concurs. Indicators of exclusive school bus service are:

- a. Bus schedules that only operate one way to schools in the morning and the other way from schools in the afternoon.
- b. Destination signs that say "school bus" "school special" or a school name are indicative of prohibited exclusive school bus service.
- c. Buses that have flashing lights and swing arms like standard yellow school buses are indicative of prohibited exclusive school bus service.

- d. Bus stop signs that say “school” are indicative of prohibited exclusive school bus service.
- e. Bus stops that are located on school property away from general public thoroughfares are indicative of prohibited exclusive school bus service.

However, all recipients can operate “Tripper Service,” which is defined as regularly scheduled mass transportation service that is open to the public, and designed or modified to accommodate the needs of school students and personnel, using various fare collections or subsidy systems. Buses used in “Tripper Service” are required to be clearly marked as open to the public and should not carry designations such as “school bus” or “school special.” All routes traveled by tripper buses must be within a grantee or operator’s regular route service as indicated in their published schedules (49 CFR part 605).

**Audit Objective** - Determine whether school bus service provided with FTA-funded equipment was approved by FTA or that FTA-assisted equipment and facilities used to accommodate students conformed to the definition of “Tripper Service.”

#### **Suggested Audit Procedures**

- a. Ascertain if the recipient operates any transit service exclusively for school children through:
  - (1) Reviews of bus schedules, published fares, and service contracts;
  - (2) Discussions with recipient officials; and
  - (3) Reviews of school district or individual school web sites for information on bus transportation of school students.
- b. Ascertain if FTA-funded equipment (e.g., buses or vans) or facilities (e.g., bus maintenance garages) were used to provide school service by reviewing inventory records, maintenance logs, parking sites, names on bus and van destination signs, school facilities, or by performing other appropriate procedures.
- c. If exclusive school bus service is identified, review documentation that the service was approved by the FTA.

**DEPARTMENT OF TRANSPORTATION**

<b>CFDA 20.600</b>	<b>STATE AND COMMUNITY HIGHWAY SAFETY</b>
<b>CFDA 20.601</b>	<b>ALCOHOL TRAFFIC SAFETY AND DRUNK DRIVING PREVENTION INCENTIVE GRANTS</b>
<b>CFDA 20.602</b>	<b>OCCUPANT PROTECTION</b>
<b>CFDA 20.603</b>	<b>FEDERAL HIGHWAY SAFETY DATA IMPROVEMENTS INCENTIVE GRANTS</b>
<b>CFDA 20.604</b>	<b>SAFETY INCENTIVE GRANTS FOR USE OF SEATBELTS</b>
<b>CFDA 20.605</b>	<b>SAFETY INCENTIVES TO PREVENT OPERATION OF MOTOR VEHICLES BY INTOXICATED PERSONS</b>
<b>CFDA 20.609</b>	<b>SAFETY BELT PERFORMANCE GRANTS</b>
<b>CFDA 20.610</b>	<b>STATE TRAFFIC SAFETY INFORMATION SYSTEM IMPROVEMENTS GRANTS</b>
<b>CFDA 20.611</b>	<b>INCENTIVE GRANT PROGRAM TO PROHIBIT RACIAL PROFILING</b>
<b>CFDA 20.612</b>	<b>INCENTIVE GRANT PROGRAM TO INCREASE MOTORCYCLIST SAFETY</b>
<b>CFDA 20.613</b>	<b>CHILD SAFETY AND CHILD BOOSTER SEAT INCENTIVE GRANTS</b>

**I. PROGRAM OBJECTIVES**

The objective of the highway traffic safety grant programs is to provide a coordinated national highway safety program to reduce traffic accidents, deaths, injuries, and property damage.

**II. PROGRAM PROCEDURES**

Funds are provided to the States, following submission of their highway safety plans, in accordance with a predefined formula and incentive grants. All funding is administered as one combined program.

**Source of Governing Requirements**

This program is authorized under 23 USC Chapter 4 (Highway Safety) and Pub. L. No. 109-59, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). Implementing regulations are 23 CFR parts 1200, 1225, 1240, 1250, 1252, 1313, 1335, 1345, and 1350.

**Availability of Other Program Information**

The National Highway Traffic Safety Administration maintains a web site that provides program laws, regulations, and other general information (<http://www.nhtsa.dot.gov>). Program procedures for some programs have been published in the *Federal Register* at 71 FR 4196 (CFDA 20.604), 71 FR 5110 (CFDA 20.613), 71 FR 5727 (CFDA 20.611), 71 FR 5729 (CFDA 20.610).

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

Funds must be expended as specified in the grantee's highway safety plan. Certain specific costs which will not be approved or that require prior approval have been identified in Highway Safety Grant Funding Policy for the National Highway Traffic Safety Administration (NHTSA)/Federal Highway Administration (FHWA) Field-Administered Grants and are listed below (23 CFR section 1200.20).

1. The following costs are allowable or allowable with specific conditions:
  - a. *Equipment* - Major equipment (tangible, nonexpendable, personal property having a useful life of more than one year and an acquisition cost of \$5000 or more per unit) purchases for new and replacement equipment must be pre-approved.
  - b. *Installation* - The purchase and installation of regulatory and warning signs and supports and field reference markers are allowable for roads off the Federal aid system.
  - c. *Travel* - Travel for out-of-state individuals benefiting the host State's highway safety program is allowable.
  - d. *Training* - The cost of training personnel and the development of new training curricula and materials are allowable. However, training costs for Federal employees, with the exception of Department of the Interior personnel assigned Section 402 responsibility, are unallowable.
  - e. *Program Administration* - The costs for consultant services, promotional activities, alcoholic beverages to support police "sting" operations, and meetings and conferences are allowable.
  - f. *Public Communications* - Advertising space.
  - g. *Child Safety Seats* - For *Child Safety and Child Booster Seat Incentive Grants* (CFDA 20.613), child safety seat purchases are limited to 50 percent of the annual award (Section 2011(d) of SAFETEA-LU).

2. The following costs are unallowable:
  - a. *Facilities and Construction*: highway construction, maintenance or design, construction or reconstruction of permanent facilities, highway safety appurtenances, office furnishings and fixtures, and land (except for *Incentive Grant Program to Increase Motorcyclist Safety* (CFDA 20.612) funds, which may be used to purchase facilities, including the purchase of land (Section 2010(e)(1)(B)(iv) of SAFETEA-LU)).
  - b. *Equipment*: truck scales, traffic signal preemption systems.
  - c. *Training*: individual's salary, and training employees of Federal agencies, except as noted above.
  - d. *Program Administration*: research costs, expenses to defray activities of Federal agencies, and commercial drivers' compliance requirements.

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

### **1. Matching**

- a. *State and Community Highway Safety* (CFDA 20.600) and *Safety Incentive Grants for Use of Seatbelts* (CFDA 20.604) - The State shall pay at least 20 percent, or the applicable sliding scale rate, as stated in the grant award, of the total cost of the program. The State shall pay at least 50 percent of the costs for planning and administration (23 USC 120(b) and 402(d); 23 CFR section 1252.4).
- b. For *Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants* (CFDA 20.601), *Occupant Protection* (CFDA 20.602), and *Federal Highway Safety Data Improvements Incentive Grants* (CFDA 20.603), States are required to match Federal funds at 25 percent the first and second years, 50 percent the third and fourth years, and 75 percent the fifth and sixth years (23 USC 405, 410, and 411; 23 CFR sections 1313.4(b), 1335.10, and 1345.4(a)).
- c. *Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Individuals* (CFDA 20.605), and *Safety Belt Performance Grants* (CFDA 20.609) are 100 percent federally funded (23 USC 163 and 406(g); 23 CFR section 1225.4(b)(3)).
- d. *State Traffic Safety Information System Improvements Grants* (CFDA 20.610) and *Incentive Grant Program to Prohibit Racial Profiling* (CFDA 20.611) are 80 percent federally funded (Indian Nations and Territories are exempt from matching requirements and are 100 percent federally funded) (23 USC 408(e)(4); Section 1906(e)(2) of SAFETEA-LU).

- e. *Child Safety and Child Booster Seat Incentive Grants* (CFDA 20.613) - States are required to match Federal funds at 25 percent the first, second, and third years, and 50 percent the fourth year (Section 2011(c) of SAFETEA-LU).
- f. Additional matching requirements may be specified in the grantee's highway safety plan to limit the maximum Federal share of an ambulance, helicopter, automated external defibrillators, or aircraft to 25 percent.

## 2. Level of Effort

### 2.1 Level of Effort – *Maintenance of Effort*

- a. For *Incentive Grant Program to Increase Motorcyclist Safety* (CFDA 20.612), a State must maintain its aggregate expenditures from all other sources for motorcyclist safety training programs and motorcyclist awareness programs at or above the average level of such expenditures in fiscal years 2003 and 2004 (23 CFR part 1350).
- b. For *Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants* (CFDA 20.601), a State must maintain its aggregate expenditures from all other sources for alcohol traffic safety programs at or above the average level of such expenditures in fiscal years 2003 and 2004 (23 USC 410(a)(2)).
- c. For *Occupant Protection* (CFDA 20.602), a State must maintain its aggregate expenditures from all other sources for programs to reduce highway deaths and injuries resulting from individuals riding unrestrained or improperly restrained in motor vehicles at or above the average level of such expenditures in fiscal years 2003 and 2004 (23 USC 405(a)(2)).
- d. For *State Traffic Safety Information System Improvements Grants* (CFDA 20.610), a State must maintain its aggregate expenditures from all other sources for highway safety data programs at or above the average level of such expenditures in fiscal years 2003 and 2004 (23 USC 408(e)(3)).
- e. For *Child Safety and Child Booster Seat Incentive Grants* (CFDA 20.613), a State must maintain its aggregate expenditures from all other sources for child safety seat and child restraint programs at or above the average level of such expenditures in fiscal years 2003 and 2004 (Section 2011(b) of SAFETEA-LU).

### 2.2 Level of Effort – *Supplement Not Supplant* – Not Applicable

### **3. Earmarking**

- a. At least 40 percent of Federal funds apportioned to a State under *State and Community Highway Safety* (CFDA 20.600) for any fiscal year shall be expended by or for the political subdivisions of the State in carrying out local highway safety programs (23 USC 402(b)(1)(C); 23 CFR part 1250).
- b. The costs for planning and administration under *State and Community Highway Safety* (CFDA 20.600) and *Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants* (CFDA 20.601) shall not exceed 10 percent of the funds received by the State (23 CFR section 1252.4).
- c. States receiving grants as High Fatality Rate States under *Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants* (CFDA 20.601) must use at least one half of those grant monies toward High Visibility Enforcement Campaigns (23 USC 410(g)(2)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. HS-217, *Highway Safety Plan Cost Summary (OMB No. 2127-0003)*
- f. *Federal-Aid Reimbursement Voucher (OMB No. 2127-0003)*

### **2. Performance Reporting** - Not Applicable

### **3. Special Reporting** - Not Applicable

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**DEPARTMENT OF THE TREASURY****CFDA 21.020 COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS PROGRAM****I. PROGRAM OBJECTIVES**

The Community Development Financial Institutions (CDFI) Program is administered by the Community Development Financial Institutions Fund (CDFI Fund), a wholly owned government corporation within the Department of the Treasury. The CDFI Program is designed to facilitate the creation of a national network of financial institutions dedicated to community development by providing financial and technical assistance to CDFIs. Assistance under the CDFI Program is intended to enhance the ability of CDFIs to make loans and investments and provide services to distressed communities and individuals who have been unable to take full advantage of the financial services industry (12 CFR sections 1805.100 and 1805.101).

**II. PROGRAM PROCEDURES**

The CDFI Program provides CDFIs with: (1) financial assistance in the form of grants, loans, equity investments, deposits and credit union shares and/or (2) technical assistance in the form of grants. Financial and technical assistance are provided through a competitive nationwide evaluation and selection process. After selection, each CDFI Program award recipient will enter into an assistance agreement, which will include performance goals and other terms and conditions.

In order to be eligible to apply for assistance, entities must meet or propose to meet specific CDFI eligibility criteria (12 CFR sections 1805.200 and 1805.201(b)). CDFIs include, among others, entities such as community development banks, community development credit unions, depository institution holding companies, non-profit loan funds, micro-enterprise loan funds, and community development venture capital funds.

**Source of Governing Requirements**

The CDFI Program is authorized by the Community Development Banking and Financial Institutions Act of 1994 (Pub. L. No. 103-325, 12 USC 4701 *et seq.*). The CDFI Program implementing regulations are codified at 12 CFR part 1805 and can be found on the Internet at <http://www.cdfifund.gov>.

**Availability of Other Program Information**

Additional information on the CDFI Program is available on the CDFI Fund's web site at <http://www.cdfifund.gov>. If there are specific questions regarding the CDFI Program, the CDFI Fund may be contacted via telephone at (202) 622-8662, by e-mail at [cdfihelp@cdfi.treas.gov](mailto:cdfihelp@cdfi.treas.gov), or by facsimile at (202) 622-7754.



### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. *Financial Assistance* - The CDFI Fund may provide financial assistance intended to strengthen the capital position and enhance the ability of a CDFI Program award recipient to provide financial products and financial services. The Assistance Agreement prescribes the specific authorized uses of such financial assistance amounts for each CDFI award recipient. Such uses may be supplemented by letter agreements. However, the CDFI Fund does not require CDFI Program award recipients to account for the actual costs incurred using financial assistance amounts (12 CFR sections 1805.300 and 1805.301).
2. *Technical Assistance* - The CDFI Fund may provide technical assistance grants to build the capacity of a CDFI or an entity that proposes to become a CDFI. Such technical assistance may include training for management and other personnel; development of programs, products, and services; improving financial management and internal operations; enhancing a CDFI's community impact; or other activities deemed appropriate by the CDFI Fund. The Assistance Agreement prescribes the specific authorized uses of such technical assistance amounts for each CDFI award recipient. Such uses may be supplemented by letter agreements (12 CFR section 1805.303).
3. *Community Partnerships* - Assistance provided upon approval of an application involving a community partnership shall only be distributed to the CDFI Program award recipient and shall not be used to fund any activities carried out by a community partner or an affiliate of a community partner (12 CFR section 1805.302(c)).

#### B. Allowable Costs/Cost Principles

The provisions of OMB Circular A-122 apply to non-profit CDFI award recipients, but only for costs associated with technical assistance amounts, because the CDFI Fund does not require CDFI Program award recipients to account for actual costs incurred using financial assistance amounts.

The assistance agreement will set forth the specific types of direct costs (e.g., general purpose equipment, professional services, training, and travel costs associated with such training, etc.) that each CDFI Program award recipient may incur using technical assistance amounts. The CDFI Program award recipients have generally requested such types of direct costs in their applications for technical assistance.

**E. Eligibility**

1. **Eligibility for Individuals** - Not Applicable
2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients**

A CDFI Program award recipient may not distribute assistance to an affiliate without the consent of the CDFI Fund (12 CFR section 1805.302(b)).

**G. Matching, Level of Effort, Earmarking****1. Matching**

- a. *Financial Assistance* - Each CDFI Program award recipient must match financial assistance provided by the CDFI Fund under the CDFI Program with an amount that is at least comparable in: (1) form to the type of financial assistance provided by the CDFI Fund and (2) value, on a dollar-for-dollar basis, to the financial assistance provided by the CDFI Fund. Such match must come from sources other than the Federal Government, and must consist of non-Federal Government funds. For example, funds provided to a CDFI pursuant to the Housing and Community Development Act of 1974 are generally considered to be Federal Government funds, and may not be used to meet the match requirements. Funds used to satisfy a legal requirement for obtaining funds under a Federal grant or award program may not be used as a match for financial assistance under the CDFI Program. The applicable time frame for raising the match is set forth in the Notice of Funds Availability (NOFA) published in the *Federal Register* for each funding round. The most recent NOFAs can be retrieved from the Internet at <http://www.cdfifund.gov> (12 CFR sections 1805.500 through 1805.504).

The amount of financial assistance disbursed by the CDFI Fund to a CDFI Program award recipient will not exceed the amount of match that the CDFI has in hand. As a result, the CDFI Fund may make multiple disbursements of financial assistance as the CDFI Program award recipient receives the requisite match funds.

- b. *Technical Assistance* - There is no match requirement for technical assistance amounts under the CDFI Program (12 CFR section 1805.303(d)).
2. **Level of Effort** - Not Applicable
3. **Earmarking** - Not Applicable

**L. Reporting****1. Financial Reporting**

- a. SF-269A, *Financial Status Report* - Applicable to Technical Assistance
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

**2. Performance Reporting – Not Applicable****3. Special Reporting – Not Applicable****IV. OTHER INFORMATION**

As described under II, “Program Procedures,” the CDFI program provides (1) financial assistance and (2) technical assistance grants. Financial assistance and technical assistance grants are considered Federal awards expended for determining whether the audit threshold is met and determining Type A programs when the expenditure/expense transactions associated with the grant occur.

## NATIONAL ENDOWMENT FOR THE HUMANITIES

### CFDA 45.129 PROMOTION OF THE HUMANITIES - FEDERAL/STATE PARTNERSHIP

#### I. PROGRAM OBJECTIVES

To provide funding through grants to humanities councils in each State (including the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Commonwealth of Northern Mariana Islands). The 56 State humanities councils support, on a competitive basis, locally initiated humanities programs. State councils also design and conduct humanities projects.

#### II. PROGRAM PROCEDURES

The National Endowment for the Humanities (NEH) makes grants to each of the 56 State humanities councils upon submission and approval of the *Federal/State Partnership General Support Grants Application Cover Sheet and Compliance Plan (OMB No. 3136-0134)*. Generally, the grant is for a five-year period with annual awards in the first three years. The grants provide administrative and program support. After receipt of the grant, the State humanities council is required to submit a *Summary Budget for the Funding Period (OMB No. 3136-0134)*. The State humanities councils may subgrant funds, referred to as “regrants” in this program, to local non-profit organizations, institutions, groups, and individuals.

#### Source of Governing Requirements

The laws for this program are found in 20 USC 956.

#### Availability of Other Program Information

NEH maintains a web site on the Internet (<http://www.neh.gov>) which provides general information about NEH programs. Two publications, titled *General Terms and Conditions for General Support Grants to State Humanities Councils* and *Matching Guidelines for General Support Grants to State Humanities Councils* can be obtained from the NEH web-site [www.neh.gov](http://www.neh.gov) under find grant guidelines then click on the Grant Management tab or by calling 202-606-8494.

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

**A. Activities Allowed or Unallowed**

1. Funds may be used to initiate and support programs and research which have substantial scholarly and cultural significance; to insure that the benefit of programs will also be available to citizens where such programs would otherwise be unavailable due to geographic or economic reasons; and to foster education in and public understanding and appreciation of the humanities. (20 USC 956(c)(4), 956(c)(7), and 956(c)(9)).
2. The State humanities councils may regrant funds to organizations (including institutions of higher education and units of State and local governments), groups or persons that form an association to carry out a project, not-for-profit groups (do not have to be incorporated), or individuals. Re-grants may not be made to for-profit organizations (20 USC 956(c)(2), 956(h)(1), and 956(l)).
3. Federal regrant funds must be expended according to the *Summary Budget for the Funding Period (OMB No. 3136-0134)* and any amendments as approved by NEH. Transfers can be made from other categories to re-grants, but written permission from the NEH is required to transfer funds from the regrant category.

**G. Matching, Level of Effort, Earmarking****1. Matching**

Under this program, State humanities councils receive two types of funding from the NEH: Outright Funds and offers to provide Federal Matching Funds. The amount of each type of funding is identified in the grant award documents.

Councils must cost share in Outright Funds on a dollar-for-dollar basis. Cost Sharing for Outright Funds may take the form of cash contributions to the councils from any source (including funds from other Federal agencies), program income the councils have earned, unreimbursed allowable costs that a re-grantee incurs in carrying out a council-funded project, or in-kind contributions made by third parties (20 USC 956(f)(1)).

Federal Matching Funds must also be matched dollar for dollar. The NEH releases Federal Matching Funds to a council only upon certification that the council or its re-grantee have raised the required amount of eligible third-party cash gifts per the *Matching Funds Certification Letter (OMB No. 3136-0134)* and accompanying instructions (20 USC 960(a)(2)(B)).

For those councils covered by the Economic Development of the Territories Act (the Virgin Islands, Guam, American Samoa, and the Commonwealth of Northern Mariana Islands), the matching requirements do not apply to the first \$200,000 in Outright Funds (48 USC 1469a(d)).

**2. Level of Effort - Not Applicable**

**3. Earmarking - Not Applicable**

**L. Reporting**

**1. Financial Reporting**

- a. SF-269A, *Financial Status Report (Short Form)* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Applicable

**2. Performance Reporting - Not Applicable**

**3. Special Reporting**

*Matching Funds Certification Letter (OMB No. 3136-0134)* - This letter is used to describe and certify the qualification of third-party gifts for the Federal Matching Funds.

## ENVIRONMENTAL PROTECTION AGENCY

### CFDA 66.458 CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS

#### I. PROGRAM OBJECTIVES

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

#### II. PROGRAM PROCEDURES

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

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

The State shall provide an annual report to EPA on its CWSRF program.

#### Source of Governing Requirements

The CWSRF program is authorized under Title VI of the Clean Water Act (33 USC 1381 *et seq.*) and the implementing regulations are found in 40 CFR part 35, subpart K. Guidance on cross-collateralization is found in the policy statement entitled *Transfer and Cross-Collateralization of Clean Water Revolving Funds and Drinking Water State Revolving Funds*, published in the October 13, 2000 *Federal Register* (65 FR 60940). Guidance on fees collected under the CWSRF program is found in the policy statement entitled *Fees Charged by States to Recipients of Clean Water State Revolving Fund Assistance*, published in the October 20, 2005 *Federal Register* (70 FR 61039). This guidance supplements the coverage of 40 CFR part 35.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

The audit focus is on a State's CWSRF program, rather than individual capitalization grants awarded to States by EPA.

#### A. Activities Allowed or Unallowed

1. *Financial Assistance*
  - a. The CWSRF may provide financial assistance: (1) to municipalities, inter-municipal, interstate, or State agencies for the construction of publicly owned treatment works, as defined in section 212 of the Act that are on the State's project priority list; (2) for implementing nonpoint source management programs under section 319 of the Act; and (3) for developing and implementing estuary management plans under section 320 of the Act (33 USC 1383(c)).
  - b. The allowable types of financial assistance are (33 USC 1383(d)):
    - (1) Making loans (not grants) for eligible projects;
    - (2) Buying or refinancing of debt obligations of municipal, intermunicipal, and interstate agencies incurred after March 7, 1985;
    - (3) Guaranteeing or purchasing insurance for local debt obligations;
    - (4) Using as a source of revenue or security for CWSRF debt obligations (providing that the net proceeds of the sale of such bonds are deposited in the CWSRF); and
    - (5) Guaranteeing loan guarantees for similar revolving funds established by municipalities or intermunicipal agencies.
2. CWSRF funds may be used by States for the reasonable costs of administering and managing the CWSRF (33 USC 1383(d)(7)).



## C. Cash Management

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

1. *Loans* - when the CWSRF receives a request from a loan recipient, based on incurred costs, including pre-building and building costs.
2. *Refinance or Purchase of Municipal Debt* - generally, when at a rate no greater than equal amounts over the maximum number of quarters that payments can be made, and up to the amount committed to the refinancing or purchase of the local debt.
3. *Purchase of Insurance* - when insurance premiums are due.
4. *Guarantees and Security for Bonds* - immediately, in the event of imminent default in debt service payments on the guaranteed/secured debt; otherwise, up to an amount dedicated for the guarantee or security based on incurred construction costs.
5. *Administrative Expenses* - cash can be drawn based on a schedule that coincides with the rate at which administrative expenses will be incurred (40 CFR section 35.3160).

## G. Matching, Level of Effort, Earmarking

### 1. Matching

States are required to deposit into the CWSRF from State monies, an amount equal to 20 percent of each grant payment. If the State provides a match in excess of the required amount, the excess balance may be banked toward subsequent match requirements. States generally report the total amount of their matching for a capitalization grant in an annual CWSRF report to EPA. The match is required to be made on or before the time that EPA funds are drawn (40 CFR section 35.3135(b)).

### 2. Level of Effort - Not Applicable

### 3. Earmarking

The maximum amount allowable for administering and managing the CWSRF is 4 percent of the cumulative amount of capitalization grant awards received. When the administrative expense of the CWSRF exceeds 4 percent, the excess must be paid from sources outside the CWSRF (40 CFR section 35.3120(g)).

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

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

## **J. Program Income**

1. If States collect fees as a result of loans made with grant funds (i.e., funds awarded by EPA in the capitalization grant) and the fees are not included as principal in the loan, they are considered program income and must be accounted for as follows:
  - a. The permissible use of fees resulting from loans awarded from a particular capitalization grant varies depending on when the fee is collected.
    - (1) Regardless of when the funds are used, if the fee is collected during the grant period, i.e., before submission of the final Financial Status Report for the capitalization grant giving rise to the fee, it may be used under either the addition or cost sharing or matching alternatives for use of program income (40 CFR sections 31.25(g)(2) or (g)(3)). Under either alternative or combination of alternatives, use of program income is limited to the activities allowed under section III.A. above, as well as administrative expenses exceeding the four percent limitation under section III.G.3.
    - (2) Fees collected after the grant period may be used as indicated under paragraph 1.a(1) as well as for other water quality-related purposes and combined financial administration of the CWSRFs and DWSRFs where the programs are administered by the same State agency.

*(Fees Charged by States to Recipients of Clean Water State Revolving Fund Assistance, section II.C. (October 20, 2005 Federal Register, 70 FR 61039).*
2. Fees included in loan principal are not considered program income (see section III.N.3, “Special Tests and Provisions – Fund Establishment, Loan Repayments, Fund Earnings, and Use of Funds,” below).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
  - d. SF-272, *Federal Cash Transactions Report* - Applicable
2. **Performance Reporting** - Not Applicable
3. **Special Reporting**

The State must provide an Annual Report to EPA according to the schedule in the grant agreement (*OMB No. 2040-0118*) (40 CFR sections 35.3165(a) and (b)).

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

### 1. **Environmental Review Requirements**

**Compliance Requirement** - The State must conduct reviews of the potential environmental impacts of all Section 212 construction projects receiving assistance from the CWSRF, including nonpoint source pollution control and estuary protection projects that are also Section 212 projects (40 CFR section 35.3140).

**Audit Objective** - Determine whether the State is performing environmental reviews before construction proceeds.

#### **Suggested Audit Procedures**

- a. Inquire of CWSRF management about the environmental review procedures in place.
- b. Select a sample of projects that began during the year to ascertain that the decisions were rendered prior to the project proceeding and were approved in the State environmental review process.

### 2. **Binding Commitments**

**Compliance Requirement** - A “binding commitment” is a legal obligation by a State to a local recipient that defines the terms for assistance under the CWSRF. Cumulative binding commitments must equal at least 120 percent of cumulative capitalization grant payments received one year earlier. Binding commitments requirements are intended to help ensure that the State utilizes grant funds in a timely manner. EPA may withhold future payments and require adjustments to the payment schedules before releasing further payments if the State does not meet the binding commitment requirement. States generally report the total amount of their binding commitments in an annual CWSRF report to EPA (40 CFR sections 35.3135(c) and 35.3165(a)).

**Audit Objective** - Determine whether States have complied with the requirement to make binding commitments equal to or greater than 120 percent of the amount of the capitalization grants.

### **Suggested Audit Procedures**

- a. Review binding commitments in conjunction with EPA payment schedules to ascertain if the State entered into cumulative binding commitments in an amount at least equal to 120 percent of the cumulative grant payments received one year earlier (i.e., cumulative binding commitments in the current year should be equal to or greater than 120 percent of cumulative grant payments made through the previous year).
- b. Test a sample of binding commitments reported by the State to verify that the amount and date agree with supporting documentation.

### **3. Fund Establishment, Loan Repayments, Fund Earnings, and Use of Funds**

**Compliance Requirements** - The State shall establish a separate account or series of accounts that is dedicated solely to providing loans and other forms of financial assistance. All loan repayments (including principal and interest), interest earnings on investments, capitalization grants, State match, and transfers from the DWSRF must be credited directly to the CWSRF. Repayment of loans shall begin within one year after project completion, and loans shall be fully amortized over not more than 20 years after project completion (40 CFR sections 35.3110(b) and 35.3120(a) and the policy statement titled *Transfer and Cross-Collateralization of Clean Water Revolving Funds and Drinking Water State Revolving Funds* published in the October 13, 2000, *Federal Register* (65 FR 60940)). Fees included in loan principal must be used as provided in *Fees Charged by States to Recipients of Clean Water State Revolving Fund Assistance*, section I.

**Audit Objectives** - Determine whether the State has a separate account or series of accounts for the CWSRF. Determine whether principal and interest payments, interest earnings on investments, capitalization grants, State match, and transfers from the DWSRF, were properly credited to the CWSRF. Determine whether fees included in loan principal were used for authorized purposes.

### **Suggested Audit Procedures**

- a. Ascertain if the CWSRF is a separate account, or series of accounts, dedicated solely to purposes of the program.
- b. Test a sample of projects funded by the CWSRF and for which repayments were due during the year to determine that principal and interest payments were properly credited to the CWSRF accounts and, if spent, were used for authorized purposes.
- c. Test a sample of loan agreements and other project records to ascertain if the repayments began within one year of project completion and the loans are scheduled for full amortization within 20 years.

- d. Obtain a list of investments made during the year and ascertain if earnings on investments were properly recorded in the CWSRF.

#### **4. CWSRF as Security for Bonds**

**Compliance Requirement** - When funds from the CWSRF are used as security or as a source of revenue for the payment of principal and interest on revenue or general obligation bonds issued by the State, the net proceeds (i.e., funds raised from the sale of bonds less issuance costs) of the sale of such bonds must be deposited in the CWSRF (40 CFR section 35.3120(d)). Generally, bond proceeds are deposited in accounts established by the bond trust indenture and identified in the Official Offering Statement. This requirement includes the situation where the State employs the cross-collateralization process permitted by the CWSRF program. Cross-collateralization allows for certain assets of both the DWSRF and the CWSRF programs to be pledged as collateral for a single or joint bond issue in proportion to the assets offered as collateral. Proportionality may be achieved at different levels of security: (1) at reserve level; (2) at loan repayment level; or (3) using an alternative structure approved by EPA (40 CFR section 35.3530(d)) and the policy statement titled *Transfer and Cross-Collateralization of Clean Water Revolving Funds and Drinking Water State Revolving Funds* published in the October 13, 2000, *Federal Register* (65 FR 60940).

**Audit Objective** - Determine whether the State placed the net proceeds from the sale of bonds guaranteed by the CWSRF into the CWSRF.

#### **Suggested Audit Procedures**

- a. Review bond documentation and trace amounts qualifying as net proceeds to accounts in the CWSRF.
- b. Ascertain that the net bond proceeds were deposited into the CWSRF.
- c. If the State has employed a cross-collateralization technique, ascertain that the net proceeds deposited into the CWSRF were proportionate to the assets offered as collateral.

#### **IV. OTHER INFORMATION**

*Subrecipients* - In years after the subrecipient has expended loan proceeds and completed construction, and the subrecipient's only ongoing financial activity of the program is the payment of principal and interest on outstanding balances, the prior loan balances at the subrecipient level are not considered to have continuing compliance requirements under OMB Circular A-133 § \_\_.205(d). Prior loans that do not have continuing compliance requirements other than to repay the loans are not considered Federal awards expended and therefore are not required to be audited under OMB Circular A-133.

## ENVIRONMENTAL PROTECTION AGENCY

### CFDA 66.468 CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS

#### I. PROGRAM OBJECTIVES

Capitalization grants are awarded to States to create and maintain Drinking Water State Revolving Funds (DWSRF) programs. States can use capitalization grant funds to establish a revolving loan fund (DWSRF) to assist public water systems finance the costs of infrastructure needed to achieve or maintain compliance with Safe Drinking Water Act (SDWA) requirements and protect the public health objectives of the Act. The DWSRF can be used to provide loans and other types of financial assistance for qualified communities, local agencies, and private entities. States may also set aside certain percentages of their capitalization grant or allotment for various activities that promote source water protection and enhanced water systems management.

#### II. PROGRAM PROCEDURES

The DWSRF program is established in each State by capitalization grants from the Environmental Protection Agency (EPA) and State match equaling 20 percent of the EPA capitalization grants. EPA implements the DWSRF program in a manner that preserves flexibility for States in operating their program in accordance with their unique needs and circumstances. States have the flexibility to set aside up to 31 percent of their capitalization grants for other related activities. States may also transfer an amount up to 33 percent of its DWSRF capitalization grant to the Clean Water State Revolving Fund (CWSRF) (CFDA 66.458) or an equivalent amount from the CWSRF to the DWSRF program. A State may transfer capitalization grant dollars, State match, investment earnings, or principal and interest repayments.

Capitalization grant agreements include: (1) an application; (2) an Intended Use Plan (IUP), which describes how the State intends to use funds made available to it, including a list of proposed projects eligible for financing and a description of the financial status of the program; (3) a proposed payment schedule; (4) certain certifications and demonstrations which can be included in an optional operating agreement; and (5) workplans containing a least a general description of the use of set-aside funds.

The State must annually provide an IUP which describes how the State will use available DWSRF program funds for the year to meet the objectives of the SDWA and further the goal of protecting public health. The IUP explains how all of the funds available to the DWSRF program (including bond proceeds, interest earnings, loan repayments, Federal capitalization grants, State match, etc.) will be expended (40 CFR section 35.3555).

The State also must provide a Biennial Report to the EPA containing detailed information on how the State met the goals and objectives of the previous two fiscal years as stated in its IUP and grant agreement. Such report must cover the State's entire DWSRF program, including its set-aside activities. EPA conducts Annual Review of State programs to assess the success of each program, including activities identified in the IUP and Biennial Report.

## Source of Governing Requirements

This program is authorized under Section 1452 of the Public Health Service Act (Title XIV), commonly known as the SDWA (42 USC 300j-12). The implementing regulations for the program can be found at 40 CFR part 35, subpart L.

## Availability of Other Program Information

Other general information about the program is available on the EPA Drinking Water State Revolving Fund home page (<http://www.epa.gov/safewater/dwsrf.html>).

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

The audit focus is on a State's DWSRF program, rather than individual capitalization grants awarded to States by EPA.

### A. Activities Allowed or Unallowed

1. The DWSRF program may provide the following financial assistance to publicly- or privately-owned community water systems and non-profit non-community water systems for eligible drinking water infrastructure projects (40 CFR sections 35.3520 and 35.3525):
  - a. Making loans for eligible projects (40 CFR section 35.3520(b)).
  - b. Purchasing or refinancing existing debt obligations of municipal, intermunicipal and interstate agencies entered into on or after July 1, 1993.
  - c. Guarantee of or purchasing insurance for local debt obligations.
  - d. Providing a source of revenue or security for DWSRF debt obligations, provided that the net proceeds of the sale of such debt obligations are deposited in the DWSRF.
2. A State may set aside funds for the following designated set-aside activities (40 CFR section 35.3535):
  - a. Administrative expenses (including technical assistance).
  - b. Technical assistance to small water systems that regularly serve 10,000 or fewer persons (40 CFR section 35.3505).
  - c. State program management.

- d. Local assistance and other state programs.
3. The DWSRF may not provide assistance for (40 CFR sections 35.3520(d) through (f)):
  - a. Dams or reservoirs, water rights, laboratory fees for monitoring, system operation and maintenance, or projects that are primarily fire protection.
  - b. Expansion projects pursued solely in anticipation of future growth.

### **C. Cash Management**

The State may draw cash through the Automated Clearing House (ACH) or the Automated Standard Application for Payments (ASAP) system for (40 CFR sections 35.3560 and 35.3565):

1. *Loans* - when the DWSRF receives a request from a loan recipient, based on incurred costs, including pre-building and building costs.
2. *Refinance or Purchase of Municipal Debt* - generally, at a rate not greater than equal amounts over the maximum number of quarters that payments can be made, and up to the amount committed to the refinancing or purchase of the local debt. A State may immediately draw cash for up to the greater of \$2 million or 5 percent of each fiscal year's capitalization grant to refinance costs.
3. *Purchase of Insurance* - when insurance premiums are due.
4. *Guarantees and Security for Bonds* - immediately, in the event of imminent default in debt service payments on the guaranteed/secured debt; otherwise, up to the amount dedicated for the guarantee or security based on actual construction cost.
5. *Set-Asides* - generally, on an incurred cost basis after workplans have been approved by EPA (40 CFR section 35.3560(e)).

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

#### **1. Matching**

- a. States are required to deposit into the DWSRF from State monies an amount equal to 20 percent of each grant payment. The match is required to be made on or before the time that EPA funds are drawn. When a letter of credit (LOC) mechanism or similar financial arrangement is used for the State match, payments to the LOC account must be made proportionally on the same schedule as payments for the capitalization grant. Monies from this State match LOC must be drawn into the DWSRF as monies are drawn on the Federal automated clearinghouse account. A State may issue general obligation or revenue bonds to derive the State



match. If the State provides a match in excess of the required amount, the excess balance may be banked toward subsequent match requirements (40 CFR section 35.3550(g)).

- b. In the case of the State Program Management set-aside, the State must also provide an amount equal to 100 percent of said payments. A State is authorized to use the amount of State funds expended on its Public Water System Supervision (PWSS) program in fiscal year 1993 (including PWSS match) as a credit toward meeting its match requirement. The value of this credit can be up to, but not greater than, 50 percent of the amount of match that is required. A State must provide the additional funds necessary to meet the remainder of the match requirement. The sources of these additional funds can be State monies (excluding PWSS match) or documentation of in-kind services. Although required PWSS match cannot be used as a source of additional State monies, State overmatch can be used (40 CFR sections 35.3535(d)(2) and 35.3550(h)).

## **2. Level of Effort - Not Applicable**

## **3. Earmarking**

Up to 31 percent of the allotment can be earmarked for set-aside activities as follows:

- a. *Administrative Expenses* - Not to exceed 4 percent of the cumulative allotment (40 CFR section 35.3535(b)).
- b. *Technical Assistance to Small Systems* - Not to exceed 2 percent of the cumulative allotment (40 CFR section 35.3535(c)).
- c. *State Program Management* - Not to exceed 10 percent of the cumulative allotment (40 CFR section 35.3535(d)).
- d. *Local Assistance and Other State Programs* - Not to exceed 15 percent of the capitalization grant and no more than 10 percent is used on any one of the defined activities (40 CFR section 35.3535(e)).

A State cannot use more than 30 percent of any particular fiscal year's capitalization grant to provide subsidies in the form of principal forgiveness or negative interest rate loans to communities meeting the State's definition of disadvantaged, or communities the State expects to become disadvantaged as a result of the project (40 CFR section 35.3525(b)).

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

Grant payments from a capitalization grant, which increase the ceiling of funds from which a State may draw cash for eligible costs, shall begin no earlier than the quarter in which the grant is awarded, and generally end no later than eight quarters after the grant

is awarded, not to exceed 12 quarters from the date of allotment of grant funds to the States. State must obligate funds for eligible projects within one year of accepting a payment. States disburse, or liquidate, grant funds for projects in accordance with construction schedules. Funds are disbursed for set-aside activities in accordance with costs being incurred under approved workplans (40 CFR sections 35.3550(e) and 35.3560).

## **J. Program Income**

The State may charge fees to process, manage, or review an application for Federal assistance. Such fees may be collected in an account outside the DWSRF and used to supplement administrative expenses and for other allowable purposes for which a grant is awarded under 42 USC 300j-12. However, if these fees are deposited into the DWSRF, they are subject to the uses of the DWSRF, which do not include the use of funds for administrative purposes (40 CFR section 35.3530(b)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269A, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Applicable

### **2. Performance Reporting** - Not Applicable

### **3. Special Reporting** - Not Applicable

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

### **1. Environmental Review Requirements**

**Compliance Requirement** - The State must conduct reviews of the potential environmental impacts of all infrastructure projects and those set-aside activities that impact the quality of the human environment receiving assistance from the DWSRF program. A State Environmental Review Process (SERP) that is equivalent to a National Environmental Policy Act (NEPA) review must be performed on projects and activities with cumulative costs equal to the annual capitalization grant. Other projects must be reviewed under an alternative SERP (40 CFR section 35.3580).

**Audit Objective** - Determine whether the State performed environmental reviews before projects and activities proceeded.

### **Suggested Audit Procedures**

- a. Inquire of DWSRF management about the environmental review procedures in place.
- b. Select a sample of projects that began during the year to ascertain that decisions were rendered prior to the project proceeding and were reviewed in accordance with the SERP.

## **2. Binding Commitments**

**Compliance Requirement** - A “binding commitment” is a legal obligation by a State to a local recipient that defines the terms for assistance under the DWSRF program. Cumulative binding commitments must be made in an amount equal to the amount of each grant payment plus the required State match that is deposited into the DWSRF within one year after the receipt of each grant payment. Payments for set-asides are not included in the binding commitment calculation. Binding commitment requirements are intended to help assure that the State utilizes grant funds in a timely manner. A State may initiate an adjustment to payment schedules if the State believes that it will not meet the binding commitment requirement. States generally report the total amount of their binding commitments in the Biennial Report to EPA (40 CFR section 35.3550(e)).

**Audit Objective** - Determine whether the State complied with the requirements to make binding commitments in an amount equal to the amount of each grant payment plus the required State match deposited into the DWSRF within one year after the receipt of each grant payment.

### **Suggested Audit Procedures**

- a. Review binding commitments in conjunction with the EPA payment schedules to ascertain if the State entered into binding commitments in an amount equal to the cumulative amount of grant payments plus the cumulative required State match deposited into the Fund, less cumulative set-aside funds, within one year after the receipt of each grant payment.
- b. Test a sample of binding commitments reported by the State to verify that the amount and date agree with supporting documentation.

## **3. Deposits to DWSRF**

**Compliance Requirements** - The State shall establish a separate account, or series of accounts, that is dedicated solely to providing loans and other forms of financial assistance from the DWSRF. All loan repayments (including principal and interest) interest earnings on investments, capitalization grants (except that portion the State intends to use as set-asides), State match and transfers from the CWSRF must be credited directly to the DWSRF. A State must maintain separate and identifiable accounts for the portion of the capitalization grant to be used for set-aside activities (40 CFR sections 35.3550(f) and (g)).

Transfers between the DWSRF and CWSRF must be approved by the State Governor (40 CFR section 35.3530(c)). Repayment of loans shall begin within one year after project completion, and loans shall be fully amortized over not more than 20 years after project completion, with the exception that loans to qualified disadvantaged communities can be amortized over 30 years (40 CFR sections 35.3525(a) and (b)(3)).

**Audit Objectives** - Determine whether the State has a separate account or series of accounts for the DWSRF program. Determine whether principal and interest payments, interest earnings on investments, set-aside funds, applicable portions of capitalization grants, and State match were credited to the appropriate accounts.

#### **Suggested Audit Procedures**

- a. Ascertain if the DWSRF is a separate account, or series of accounts, dedicated solely to purposes of the program and that the set-aside funds are deposited into a separate accounts identified for the use of set-aside activities.
- b. Test a sample of projects funded by the DWSRF and for which repayments were due during the year to determine that principal and interest payments were properly credited directly to the DWSRF.
- c. Test a sample of loan agreements and other project records to ascertain if the repayments began within one year of project completion and the loans are scheduled for full amortization within 20 years, or 30 years for loans to disadvantaged communities.
- d. Obtain a list of investments made during the year and ascertain if earnings on investments were directly credited to the DWSRF account.
- e. Obtain cash draw records or reports from the EPA Regional office and ascertain if cash draws were directly credited to the DWSRF account and the appropriate State match was deposited.
- f. Ascertain if a transfer of funds between the DWSRF and CWSRF programs occurred and if the transfer was approved by the State Governor.

#### **4. DWSRF as Security for Bonds**

**Compliance Requirement** - When funds from the DWSRF are used as security or as a source of revenue for the payment of principal and interest on revenue or general obligation bonds issued by the State, the net proceeds (i.e., funds raised from the sale of bonds less issuance costs) of the sale of such bonds must be deposited in the DWSRF (40 CFR section 35.3525(e)). Generally bond proceeds are deposited in accounts established by the bond trust indenture and identified in the Official Offering Statement. This requirement includes the situation where the State employs the cross-collateralization process permitted by the DWSRF program. Cross-collateralization allows for certain assets of both the DWSRF and the CWSRF programs to be pledged as collateral for a single or joint bond issue in proportion to the assets offered as collateral.

Proportionality may be achieved at different levels of security: (1) at reserve level; (2) at loan repayment level; or (3) using an alternative structure approved by EPA (40 CFR section 35.3530(d)).

**Audit Objective** - Determine whether the State properly deposited and recorded the net proceeds from the sale of bonds guaranteed by the DWSRF into the DWSRF.

#### **Suggested Audit Procedures**

- a. Review bond documentation and trace amounts qualifying as net proceeds to the appropriate accounts in the DWSRF.
- b. Ascertain that the net bond proceeds were deposited into the DWSRF.
- c. If the State has employed a cross-collateralization technique, ascertain that the net proceeds deposited into the DWSRF were proportionate to the assets offered as collateral.

### **5. Repayment of Set-Aside Loans**

**Compliance Requirement** - Assistance from the Local Assistance and Other State Programs set-aside for assistance for land acquisition or conservation easements for source water protection of a public water system or for implementation of voluntary, incentive-based source water quality protection measures for a community water system must be made in the form of a loan which must be repaid within 20 years after completion of the project. Principal and interest payments on these and other set-aside loans must be placed in the DWSRF or in a separate dedicated account or accounts for use of the same set-aside activity in accordance with 40 CFR section 35.3535(e)(2).

**Audit Objective** - Determine whether principal and interest payments on set-aside loans directly credited to the DWSRF or a separate account to be used for the same set-aside activity.

#### **Suggested Audit Procedures**

Test a sample of set-aside loan repayments to ascertain that they were credited to the DWSRF or in a separate dedicated account or accounts for loans made under the set-asides.

## **IV. OTHER INFORMATION**

*Subrecipients* - In years after the subrecipient has expended loan proceeds and completed construction, and the subrecipient's only ongoing financial activity of the program is the payment of principal and interest on outstanding balances, the prior loan balances at the subrecipient level are not considered to have continuing compliance requirements under OMB Circular A-133 § \_\_\_.205(d). Prior loans that do not have continuing compliance requirements other than to repay the loans are not considered Federal awards expended and therefore are not required to be audited under OMB Circular A-133.

## DEPARTMENT OF ENERGY

### CFDA 81.042 WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS

#### I. PROGRAM OBJECTIVES

The objective of the Weatherization Assistance for Low-Income Persons (WAP) program is to increase the energy efficiency of dwellings owned or occupied by low-income persons, reduce their total expenditures on energy, and improve their health and safety. WAP has a special interest in addressing these needs for low-income persons who are particularly vulnerable, such as the elderly, disabled persons, and families with children, as well as those with high energy usage and high energy burdens.

#### II. PROGRAM PROCEDURES

##### Program Administration

States may submit an application and plan to the Department of Energy (DOE). The submission describes the proposed weatherization projects and contains a budget, a production schedule of dwelling units to be weatherized with grant funds, a monitoring plan, a training and technical assistance plan, rental procedures, and a health and safety plan. Upon approval, States receive funds from DOE and may enter into sub-agreements with local administering agencies having approved plans. If a State does not submit an application or if the State plan is rejected, a local applicant may submit a plan to carry out weatherization projects.

##### Source of Governing Requirements

WAP is authorized under Title IV, Part A, of the Energy Conservation and Production Act (Act), as amended (10 USC 6851 through 6872). Implementing regulations are published at 10 CFR part 440.

##### Availability of Other Program Information

Program notices are available on the Internet at <http://www.waptac.org>.

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

**A. Activities Allowed or Unallowed**

1. *Allowable activities include only:*
  - a. The cost of purchase and delivery of weatherization materials (10 CFR section 440.18(d)(1)). Funds may only be expended on weatherization materials listed in Appendix A of 10 CFR part 440 or as approved by DOE.
  - b. Labor costs in accordance with 10 CFR section 440.19.
  - c. Transportation of weatherization materials, tools, and equipment, and work crews to a storage site and/or to the site of weatherization work (10 CFR section 440.18(d)(3)).
  - d. Maintenance, operation, and insurance of vehicles used to transport weatherization materials (10 CFR section 440.18(d)(4)).
  - e. Maintenance of tools and equipment (10 CFR section 440.18(d)(5)).
  - f. Purchase or annual lease of tools, equipment and/or vehicles, except that any purchase of vehicles shall be referred to DOE in every instance (10 CFR section 440.18(d)(6)).
  - g. Employment of on-site supervisory personnel (10 CFR section 440.18(d)(7)).
  - h. Storage of weatherization materials, tools, and equipment (10 CFR section 440.18(d)(8)).
  - i. The costs of incidental repairs to make the installation of weatherization materials effective (10 CFR section 440.18(d)(9)).
  - j. The cost of liability insurance for weatherization projects for personal injury and property damage (10 CFR section 440.18(d)(10)).
  - k. The cost of carrying out low cost/no cost weatherization assistance (10 CFR section 440.20).
  - l. The cost of WAP financial audits in accordance with 10 CFR section 440.23.
  - m. Administrative costs (10 CFR section 440.18(d)(13)).
  - n. The costs of eliminating health hazards, necessary to ensure the safe installation of weatherization materials (10 CFR section 440.18(d)(15)).

- o. Leveraging activities, as specified in leveraging section of the State Plan and grant agreement (10 CFR section 440.18(d)(14)). Leveraging entails a State obtaining additional program-targeted non-Federal or in-kind contributions as a result of WAP-funded activities. Leveraging should be limited to contributions that can be clearly attributed to a State's weatherization activities, and that are used to augment those activities.
- p. Expenditures for labor, weatherization materials, and related matters for a renewable energy system, as defined in 10 CFR section 440.3, shall not exceed an average of \$3,000 per dwelling unit or adjusted amount (as provided in III.B below) (42 USC 6865(c)(4); 10 CFR section 440.18(b)).

2. *Unallowable activities*

- a. Funds shall not be used to weatherize a dwelling unit which is designated for acquisition or clearance by a Federal, State or local program within 12 months from the date of the weatherization (10 CFR section 440.18(f)(1)).
- b. Funds may not be used to install or otherwise provide weatherization materials for a dwelling unit weatherized previously with grant funds, unless:
  - (1) The weatherization activities may be considered "low cost/no cost" as described in 10 CFR section 440.20: inexpensive weatherization materials are used; no labor paid with funds provided is used to install weatherization materials referred to here; and a maximum of 10 percent of the amount allocated to a subgrantee, not to exceed \$50 in materials costs per dwelling unit, is expended (10 CFR section 440.18(f)(2)(i));
  - (2) Such a dwelling has been damaged by fire, flood or other act of God and the repair of the damage is not paid for by insurance (10 CFR section 440.18(f)(2)(ii)); or
  - (3) The dwelling unit was weatherized under the Act or other Federal program during the period September 30, 1975 through September 30, 1985 (10 CFR section 440.18(f)(2)(iii)).

**B. Allowable Costs/Cost Principles**

Expenditures shall not exceed an average dollar amount per dwelling unit weatherized in the State. This number is adjusted annually by DOE and appears in the grant agreement (10 CFR section 440.18(c)(1)).



## **E. Eligibility**

### **1. Eligibility for Individuals**

- a. A dwelling unit is eligible for weatherization assistance if it is occupied by a family unit:
- (1) Whose income is at or below 150 percent of the poverty level determined in accordance with the criteria established by the Director of the Office of Management and Budget;
  - (2) That contains a member who has received cash assistance payments under Title IV or XVI of the Social Security Act or applicable State or local law at any time during the 12-month period preceding the determination of eligibility for weatherization assistance; or
  - (3) If the State elects, is eligible for assistance under the Low-Income Home Energy Assistance Act of 1981, provided that such basis is at least 125 percent of the poverty level.

The poverty guidelines are issued each year in the *Federal Register* and HHS maintains a page on the Internet which provides the poverty guidelines (<http://aspe.hhs.gov/poverty/index.shtml>).

- b. In addition, the following requirements apply:
- (1) Written permission has been obtained from the owner of the dwelling or her agent (10 CFR section 440.22(b)(1)).
  - (2) Not less than 66 percent (50 percent for duplexes and four-unit buildings and certain types of eligible large multifamily buildings) of the dwelling units in the building:
    - (a) Are eligible dwelling units in the manner defined in III.E.1.a, Eligibility for Individuals, above (10 CFR section 440.22(b)(2)(i)); or
    - (b) Will become eligible within 180 days under a Federal, State, or local program for rehabilitating the building or making similar improvements to the building (10 CFR section 440.22(b)(2)(ii)).
  - (3) If the dwelling to be weatherized is rented, a formal agreement between landlord and tenant has been reached addressing issues of eviction from and sale of property receiving weatherization materials (10 CFR section 440.22(c)).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

**3. Eligibility for Subrecipients**

A subrecipient is eligible to provide weatherization services under WAP provided that:

- a. It is a public or non-profit entity, or a Community Action Agency (CAA) (i.e., a private corporation or public agency established under the Economic Opportunity Act of 1964, which is authorized to administer funds received from Federal, State, or local entities to assess, design, operate, finance, and oversee antipoverty programs) (10 CFR section 440.15(a)(1)); and
- b. It has been selected as a participant in the weatherization program on the basis of public comment received during a public hearing (10 CFR section 440.15(a)(2)).

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

**1. Matching - Not Applicable**

**2. Level of Effort - Not Applicable**

**3. Earmarking**

- a. Not more than 10 percent of funds may be used in total or in part for administrative costs. A State shall not expend more than 5 percent for such administrative costs, with at least 5 percent going to subrecipients for administration. Subrecipients may spend no more than 10 percent of the grant for administration; however, for subrecipients receiving grants of less than \$350,000, a State may permit that entity to expend more than 10 percent of its subgrant for administrative purposes (10 CFR section 440.18(e)).
- b. Not more than 10 percent of the funds may be used to provide, directly or indirectly, training and/or technical assistance to any grantee or subgrantee (10 CFR section 440.23(e)).

**L. Reporting**

**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

- c. SF-271, *Outlay Report and Request for Reimbursement and Construction Programs* - Not Applicable
  - d. SF-272, *Federal Cash Transactions Report* - Applicable
- 2. Performance Reporting** - Not Applicable
  - 3. Special Reporting** - Not Applicable

## DEPARTMENT OF EDUCATION

### CROSS-CUTTING SECTION

#### INTRODUCTION

This section contains compliance requirements that apply to more than one Department of Education (ED) program either because the program was authorized under the Elementary and Secondary Education Act (ESEA), or the program is subject to the General Education Provisions Act (GEPA), or both. The compliance requirements in this Cross-Cutting Section reference the applicable programs in Part 4, Agency Compliance Requirements. Similarly, the applicable programs in Part 4 reference this Cross-Cutting Section.

<b>CFDA No.</b>	<b>Program Name</b>	<b>Listed as</b>
<b>ESEA Programs</b>		
84.010	Title I Grants to Local Educational Agencies (LEAs)	Title I, Part A
84.011	Migrant Education—State Grant Program	MEP
84.186	Safe and Drug-Free Schools and Communities—State Grants	SDFSCA
84.282	Charter Schools	CSP
84.287	Twenty-First Century Community Learning Centers	21st CCLC
84.288	Bilingual Education—Program Development and Implementation Grants	
84.290	Bilingual Education—Comprehensive School Grants	Bilingual
84.291	Bilingual Education—Systemwide Improvement Grants	
84.298	State Grants for Innovative Programs	Title V, Part A
84.318	Education Technology State Grants	Ed Tech
84.357	Reading First State Grants	Reading First
84.365	English Language Acquisition Grants	Title III, Part A
84.366	Mathematics and Science Partnerships	MSP
84.367	Improving Teacher Quality State Grants	Title II, Part A
<b>Other Programs</b>		
84.002	Adult Education—State Grant Program	Adult Education
84.027	Special Education—Grants to States (IDEA, Part B)	IDEA
84.173	Special Education—Preschool Grants (IDEA Preschool)	

84.042 TRIO—Student Support Services	TRIO Cluster
84.044 TRIO—Talent Search	
84.047 TRIO—Upward Bound	
84.066 TRIO—Educational Opportunity Centers	
84.217 TRIO—McNair Post-Baccalaureate Achievement	
84.048 Career and Technical Education - Basic Grants to States (Perkins IV)	CTE
84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States	Vocational Rehabilitation
84.181 Special Education—Grants for Infants and Families with Disabilities	IDEA, Part C
84.938 Hurricane Education Recovery Act Programs	HERA

### **No Child Left Behind Act**

The Elementary and Secondary Education Act (ESEA) was amended January 8, 2002 by the No Child Left Behind (NCLB) Act of 2001 (Pub. L. No.107-110).

### **Waivers and Expanded Flexibility**

Under Title IX of the ESEA, States, Indian tribes, LEAs, and schools through their LEA may request waivers from ED of many of the statutory and regulatory requirements of programs authorized in ESEA. In addition, some States may have been granted authority to grant waivers of Federal requirements under the Education Flexibility Partnership Act of 1999. Auditors should ascertain from the audited State Education Agencies (SEAs) and LEAs whether the SEA or the LEA or its schools are operating under any waivers.

### **I. PROGRAM OBJECTIVES**

The ESEA of 1965, as amended by the NCLB, provides for a comprehensive overhaul of Federal support for education, and restructures how these programs provide services. ESEA programs in this Supplement to which this section applies are shown above. Generally these requirements are applicable for fiscal years beginning after June 30, 2002.

Under the NCLB, Federal education programs authorized in the ESEA are designed to work in concert with each other, rather than separately. By emphasizing program coordination, planning, and service delivery among Federal programs and enhancing integration with State and local instructional programs, the ESEA reinforces comprehensive State and local educational reform efforts geared toward ensuring that all children can meet challenging State standards regardless of their background or the school they attend.

Program objectives for non-ESEA programs covered by this cross-cutting section and additional information on program objectives for the ESEA programs are set forth in the individual program sections of this Supplement.

## II. PROGRAM PROCEDURES

### Plans for ESEA Programs

An SEA must either develop and submit separate, program-specific individual State plans to ED for approval as provided in individual program requirements outlined in the ESEA or submit, in accordance with section 9302 of the ESEA, a consolidated plan to ED for approval.

Consolidated plans will provide a general description of the activities to be carried out with ESEA funds. Subgrants to LEAs and other educational service agencies and amounts to be used for State activities are often set by law for ESEA programs. However, SEAs have discretion in using funds available for State activities.

LEAs also have the choice in many cases of submitting individual program plans or a consolidated plan to the SEA to receive program funds. SEAs with approved consolidated State plans may require LEAs to submit consolidated plans.

### Unique Features of ESEA Programs That May Affect the Conduct of the Audit

*Consolidation of administrative funds* (In addition to the compliance requirement in III.A.1, see IV, “Other Information.”)

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

Expenditures using consolidated administrative funds may be charged to the programs on a first in/first out method, in proportion to the funds provided by each program, or another reasonable manner.

*Schoolwide Programs* (In addition to the compliance requirement in III.A.2, see IV, “Other Information.”)

Eligible schools are able to use their Title I, Part A funds, in combination with other Federal, State, and local funds, in order to upgrade the entire educational program of the school and to raise academic achievement for all students. Except for some of the specific requirements of the Title I, Part A program, funds that are used in a schoolwide program are not subject to most of the statutory or regulatory requirements of the programs providing the funds as long as the schoolwide program meets the intent and purpose of those programs. The Title I, Part A requirements that apply to schoolwide programs are identified in the Title I, Part A program-specific section.

*Transferability* (In addition to the compliance requirement in III.A.3, see III.G.3.b, “Matching, Level of Effort, Earmarking – Earmarking,” and IV, “Other Information.”)

SEAs and LEAs (with some limitations) may transfer funds from one or more applicable programs to one or more other applicable programs, or to Title I, Part A. Transferred funds are subject to all of the requirements, set-asides, and limitations of the programs into which they are transferred.

*Small Rural Schools Achievement Alternative Use of Funds* (In addition to the compliance requirement in III.A.4, see IV, “Other Information.”)

Eligible LEAs may, after notifying the SEA, spend all or part of the funds they receive under four applicable programs for local activities authorized under one or more of seven applicable programs.

### **General and Program-Specific Cross-Cutting Requirements**

The requirements in this cross-cutting section can be classified as either general or program-specific. General cross-cutting requirements are those that are the same for all applicable programs but are implemented on an entity-level. These requirements need only be tested once to cover all applicable major programs. The general cross-cutting requirements that the auditor only need test once to cover all applicable major programs are: III.G.2.1, “Level of Effort-Maintenance of Effort (SEAs/LEAs);” III.L.3, “Special Reporting;” and, III.N, “Special Tests and Provisions” (III.N.2, “Schoolwide Programs;” and III.N.3, “Comparability”). Program-specific cross-cutting requirements are the same for all applicable programs, but are implemented at the individual program level. These types of requirements need to be tested separately for each applicable major program. The compliance requirement in III.N.1, “Participation of Private School Children,” may be tested on a general or program-specific basis.

Program procedures for non-ESEA programs covered by this cross-cutting section and additional information on program procedures for the ESEA programs are set forth in the individual program sections of this Supplement.

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

The ESEA, as reauthorized by the NCLB, is available with a hypertext index on the Internet at <http://www.ed.gov/policy/elsec/leg/esea02/index.html>. A number of documents contain guidance applicable to the cross-cutting requirements in this Supplement. They include:

- Guidance on the Transferability Authority (June 8, 2004)  
(<http://www.ed.gov/programs/transferability/finalsummary04.doc>);
- Guidance on the Rural Education Achievement Program (REAP) (June 2003)  
(<http://www.ed.gov/policy/elsec/guid/reap03guidance.doc>);
- State Educational Agency Procedures for Adjusting Basic, Concentration, Targeted, and Education Finance Incentive Grant Allocations Determined by the U.S. Department of Education (May 23, 2003)  
(<http://www.ed.gov/programs/titleiparta/seaguidanceforadjustingallocations.doc>);

- How Does a State or Local Educational Agency Allocate Funds to Charter Schools that Are Opening for the First Time or Significantly Expanding Their Enrollment? (Dec. 2000) (<http://www.ed.gov/policy/elsec/guid/cschools/cguidedec2000.doc>);
- Title I Services to Eligible Private School Children (Oct. 17, 2003) (<http://www.ed.gov/programs/titleiparta/psguidance.doc>);
- Title IX, Part E Uniform Provisions Subpart 1—Private Schools: Equitable Services to Eligible Private School Students, Teachers, and Other Educational Personnel (August 2005) (<http://www.ed.gov/policy/elsec/guid/equitableserguidance.doc>);
- Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; and Grantback Requirements (February 2008) (<http://www.ed.gov/programs/titleiparta/fiscalguid.doc>);
- Designing Schoolwide Programs (March 2006) (<http://www.ed.gov/policy/elsec/guid/designingswpguid.doc>).

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

**Further, if there has been a transfer of funds to a consolidated administrative cost pool from a major program, in developing audit procedures to test compliance with Activities Allowed or Unallowed and Allowable Costs/Cost Principles, the auditor should include the consolidated administrative cost pool in the universe to be tested.**

#### A. Activities Allowed or Unallowed

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

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (except the Governor's Program authorized under Section 4112(a)); CSP (84.282); 21st CCLC (84.287 Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366) (at the LEA level only); and Title II, Part A (84.367).*

An SEA may consolidate the amounts specifically made available to it for State administration under one or more ESEA programs (and such other programs as the ED Secretary may designate) if the SEA can demonstrate that the majority of its resources are derived from non-Federal sources. An SEA must use consolidated administrative funds for authorized administrative activities of one or more of the consolidated programs. It may also use such funds for administrative activities designed to enhance the effective and coordinated use of funds under one or more of the programs included in the consolidation, such as



coordination of ESEA programs with other Federal and non-Federal programs; the establishment and operation of peer review mechanisms; the dissemination of information regarding model programs and practices; and technical assistance (Section 9201 of ESEA (20 USC 7821)).

An LEA may, with the approval of its SEA, consolidate and use for the administration of one or more ESEA programs not more than the percentage, established in each program, of the total available under those programs. An LEA may use consolidated funds for the administration of the consolidated programs and for uses at the school district and school levels comparable to those authorized for the SEA. An LEA that consolidates administrative funds may not use any other funds under the programs included in the consolidation for administration (Section 9203 of ESEA (20 USC 7823)).

An SEA or LEA that consolidates administrative funds is not required to keep separate records of administrative costs for each individual program. Expenditures of consolidated administrative funds are allowable if they are for administrative costs that are allowable under any of the contributing programs (Sections 9201(c) and 9203(e) of ESEA (20 USC 7821(c) and 7823(e))).

See IV, “Other Information,” for guidance on the treatment of consolidated administrative funds for purposes of Type A program determination and presentation in the Schedule of Expenditures of Federal Awards

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

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor’s Program authorized under Section 4112(a)); 21st CCLC (84.287); Bilingual (84.288, 84.290 and 84.291); Title V, Part A (84.298); Ed Tech (84.318); Title III, Part A (84.365,); MSP (84.366); and Title II, Part A (84.367).*

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

An eligible school participating under Title I, Part A may, in consultation with its LEA, use its Title I, Part A funds, along with funds provided from the above-identified programs, to upgrade the school’s entire educational program in a schoolwide program. See III.N.2, “Special Tests and Provisions - Schoolwide Programs” in this cross-cutting section for testing related to schoolwide programs (Section 1114 of ESEA (20 USC 6314)).

See IV, “Other Information,” for guidance on the treatment of consolidated schoolwide funds for purposes of Type A program determination and presentation in the Schedule of Expenditures of Federal Awards.

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

*ESEA programs in this Supplement to which this section applies are: SDFSCA (84.186) (including the Governor's program authorized under Section 4112(a), with the agreement of the Governor); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); and Title II, Part A (84.367).*

SEAs may transfer up to 50 percent of the non-administrative funds allocated for State-level activities from one or more listed applicable programs to one or more of the other listed applicable programs, or to Title I, Part A (84.010). Except for 21st CCLC (84.287), LEAs not identified for improvement or corrective action under Section 1116(c) of ESEA may also transfer up to 50 percent of the funds allocated to them from one or more of the listed applicable programs to another listed applicable program or to Title I, Part A. LEAs identified for improvement under Section 1116(c) may transfer up to 30 percent of the funds allocated to them for (i) school improvement under Section 1003; or (ii) other LEA improvement activities consistent with Section 1116(c). LEAs identified for corrective action may not transfer funds (Sections 6123(a) and (b) of ESEA (20 USC 7305b(a) and (b))).

Transferred funds are subject to all of the requirements, set-asides, and limitations of the programs into which they are transferred (Section 6123(e) of ESEA (20 USC 7305b(e))).

See III.G.3.b, "Matching, Level of Effort, Earmarking - Earmarking," for additional testing related to transferability.

See IV, "Other Information," for guidance on the treatment of funds transferred under this provision for purposes of Type A program determination and presentation in the Schedule of Expenditures of Federal Awards.

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

*ESEA programs in this Supplement to which this section applies are: SDFSCA (84.186) (including the Governor's program authorized under Section 4112(a)); Title V, Part A (84.298); Ed Tech (84.318); and Title II, Part A (84.367).*

LEAs that (a) have a total average daily attendance of fewer than 600 students, or serve only schools that are located in counties with a population density of fewer than 10 persons per square mile, and (b) serve only schools that are coded by the National Center for Education Statistics (NCES) as rural (NCES code of 7 or 8), or (with the concurrence of the SEA) are located in an area defined as rural by a governmental agency of the State may, after notifying the SEA, spend all or part of the funds received under the above four programs for local activities authorized under one or more of the following seven programs:

CFDA 84.010 Title I Grants to Local Education Agencies (LEAs) (Part A, Title I)

CFDA 84.186 Safe and Drug-Free Schools and Communities—State Grants (Part A, Title IV)

CFDA 84.287 Twenty-First Century Community Learning Centers (Part B, Title IV)

CFDA 84.298 Innovative Education Program Strategies (Part A, Title V)

CFDA 84.318 Education Technology State Grants (Part D, Title II)

CFDA 84.365 English Language Acquisition Grants (Part A, Title III)

CFDA 84.367 Improving Teacher Quality State Grants (Subpart 2, Part A, Title II)

(Section 6211(a)-(c) of ESEA (20 USC 7345(a)-(c)))

See IV, “Other Information,” for guidance on the treatment of funds transferred under this provision for purposes of Type A program determination and presentation in the Schedule of Expenditures of Federal Awards.

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

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

*This section applies to all ESEA programs in this Supplement: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor’s program authorized under Section 4112(a)); CSP (84.282); 21st CCLC (84.287); Bilingual (84.288, 84.290, 84.291); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).*

A State may adopt its own written fiscal and administrative requirements, which are consistent with the provisions of OMB Circular A-87, for expending and accounting for all funds received by SEAs and LEAs under ESEA programs. The written fiscal and administrative requirements must: (a) be sufficiently specific to ensure that funds are used in compliance with all applicable statutory and regulatory provisions, including ensuring that costs are allocable to a particular cost objective; (b) ensure that funds received are spent only for reasonable and necessary costs of the program; and (c) ensure that funds are not used for general expenses required to carry out other responsibilities of State or local governments (34 CFR section 299.2(b)).

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

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (except the Governor’s Program authorized under Section 4112(a) with respect to consolidated administrative funds); CSP (84.282); 21st CCLC (84.287); Bilingual (schoolwide programs only)(84.288, 84.290 and 84.291); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357) (consolidated administrative funds only); Title III, Part A (84.365); MSP (84.366) (with respect to schoolwide programs and consolidation of administrative funds at the LEA level); and Title II, Part A (84.367).*

*This section also applies to SDFSCA (84.186) (including the Governor’s program authorized under Section 4112(a)) (for schoolwide programs only); IDEA (schoolwide programs only) (84.027 and 84.173) and CTE (schoolwide programs only) (84.048).*

- a. ***Consolidated Administrative Funds:*** An SEA or LEA that consolidates Federal administrative funds under Sections 9201 or 9203 of ESEA (20 USC 7821 or 7823) is not required to keep separate records by individual program. The SEA or LEA may treat the consolidated administrative cost objective as a “dedicated function.”

Time-and-effort requirements with respect to consolidated administrative funds vary under different circumstances.

- (1) An employee who works solely on a single cost objective (i.e., the consolidated administrative cost objective) must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the applicable source(s) in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).
- (2) An employee who works in part on a single cost objective (i.e., the consolidated administrative cost objective) and in part on a Federal program whose administrative funds have not been consolidated or on activities funded from other revenue sources must maintain time and effort distribution records in accordance with OMB Circular A-87, Attachment B, paragraphs 8.h.(4), (5), and (6) documenting the portion of time and effort dedicated to:
  - (a) The single cost objective, and
  - (b) Each program or other cost objective supported by non-consolidated Federal funds or other revenue sources.

- b. *Schoolwide Programs* - A schoolwide program school is permitted to consolidate Federal funds with State and local funds to upgrade the entire educational program of the school. (Note: Reading First funds may not be consolidated - see *Federal Register*, Notice of Authorization and Exemption of Schoolwide Programs, July 2, 2004, 69 FR 40361-40362) A school that consolidates Federal funds with State and local funds in a schoolwide program is not required to maintain separate records by program (Section 1114(a)(3)(C) of ESEA (20 USC 6314(a)(3)(C)); 34 CFR section 200.29(d)). (Guidance is contained in the publication entitled *Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; and Grantback Requirements* (February 2008). This guidance is available on the Internet at <http://www.ed.gov/programs/titleiparta/fiscalguid.doc>).

Time-and-effort requirements in schoolwide program schools vary under different circumstances.

- (1) If a school operating a schoolwide program consolidates Federal, State, and local funds in a consolidated schoolwide pool, an employee who is paid with funds from that pool is not required to file a semi-annual certification because there is no distinction between staff paid with Federal funds and staff paid with State or local funds. In effect, payment from the single consolidated schoolwide pool certifies that the employee works only on activities of the schoolwide program.
- (2) If a school operating a schoolwide program does not consolidate Federal funds with State and local funds in a consolidated schoolwide pool, an employee who works, in whole or in part, on a Federal program or cost objective must document time and effort as follows:
  - (a) An employee who works solely on a single cost objective (i.e., a single Federal program whose funds have not been consolidated or Federal programs whose funds have been consolidated but not with State and local funds) must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the applicable source in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).
  - (b) An employee who works on multiple activities or cost objectives (i.e., in part on a Federal program whose funds have not been consolidated in a consolidated schoolwide pool and in part on Federal programs supported with funds consolidated in a schoolwide pool or on activities funded from other revenue sources) must maintain time and effort

distribution records in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(4), (5), and (6). The employee must document the portion of time and effort dedicated to:

- (i) The Federal program; and
- (ii) Each program or other cost objective supported either by consolidated Federal funds or other revenue sources.

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

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor’s Program authorized under Section 4112(a)); CSP (84.282); 21st CCLC (84.287); Bilingual (84.288, 84.290, and 84.291); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).*

*This section also applies to Adult Education (84.002); IDEA (84.027 and 84.173); CTE (84.048); IDEA, Part C (84.181; and HERA (84.938A).*

A “restricted” indirect cost rate (RICR) must be used for programs administered by State and local governments and their governmental subrecipients that have a statutory requirement prohibiting the use of Federal funds to supplant non-federal funds. Non-governmental grantees or subgrantees administering such programs have the option of using the RICR, or an indirect cost rate of 8 percent, unless ED determines that the RICR would be lower.

The formula for a restricted indirect cost rate is:

$$\text{RICR} = (\text{General management costs} + \text{Fixed costs}) / (\text{Other expenditures})$$

General management costs are costs of activities that are for the direction and control of the grantee’s (or subgrantee’s) affairs that are organization wide, such as central accounting services, payroll preparation and personnel management. For State and local governments, the general management indirect costs consist of (1) allocated Statewide Central Service Costs approved by the Department of Health and Human Services in a formal Statewide Cost Allocation Plan (SWCAP) as “Section I” costs and (2) departmental indirect costs. The term “general management” as it applies to departmental indirect costs does not include expenditures limited to one component or operation of the grantee. Specifically excluded from general management costs are the following costs that are reclassified and included in the “other expenditures” denominator:

- (a) Divisional administration that is limited to one component of the grantee;
- (b) The governing body of the grantee;
- (c) Compensation of the chief executive officer of the grantee;
- (d) Compensation of the chief executive officer of any component of the grantee; and
- (e) Operation of the immediate offices of these officers.

Also excluded from the SWCAP Section I indirect costs are any occupancy and maintenance type costs as described in 34 CFR section 76.568. However, because these costs are allocated and not incurred at the departmental level, they do not require reclassification to the “other expenditure” denominator.

Fixed costs are contributions to fringe benefits and similar costs associated with salaries and wages that are charged as indirect costs, including retirement, social security, pension, unemployment compensation and insurance costs.

Other expenditures are the grantee’s total expenditures for its federally and non-federally funded activities, including directly charged occupancy and space maintenance costs (as defined in 34 CFR section 76.568), and the costs related to the chief executive officer of the grantee or any component of the grantee and its offices. Excluded are general management costs, fixed costs, subgrants, capital outlays, debt service, fines and penalties, contingencies, and election expenses (except for elections required by Federal statute).

Occupancy and space maintenance costs associated with functions that are not organization-wide must be included with other expenditures in the indirect cost formula. These costs may be charged directly to affected programs only to the extent that statutory supplanting prohibitions are not violated. This reimbursement must be approved in advance by ED. Specific occupancy and space maintenance costs may be charged directly only to programs affected by the restricted rate calculation if charging for such costs is approved in advance by ED (34 CFR section 76.568(c)).

Indirect costs charged to a grant are determined by applying the RICR to total direct costs of the grant minus capital outlays, subgrants, and other distorting or unallowable items as specified in the grantee’s indirect cost rate agreement.

The other ED programs (those not having a statutory non-supplant requirement) that allow indirect costs do not require a restricted rate and should follow the applicable OMB cost principles circular (34 CFR sections 76.560 and 76.563-76.569).

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

Officials from ED have noted that some entities have charged costs in the following areas which were determined to be unallowable as specified in the indicated references. Auditors should be alert that if any such costs are charged, charges must be consistent with provisions of OMB Circular A-87.

- a. Separation leave costs (OMB Circular A-87, Attachment B, paragraph 8.d.(3)).
- b. Severance costs (OMB Circular A-87, Attachment B, paragraph 8.g.(3)).
- c. Post retirement health benefit (PRHB) costs (OMB Circular A-87, Attachment B, paragraph 8.f).

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

Officials from ED have noted that in cases where grantees rent or lease buildings or equipment from an affiliate organization, the costs associated with the lease or rental agreement can be excessive. The auditor should be alert to the fact that the measure of allowability in such “less-than-arms-length-relationships” is not fair market value, but rather the “costs of ownership” standard as referenced in each OMB cost principles circular as follows:

- a. OMB Circular A-87, Attachment B, paragraph 37.c.
- b. OMB Circular A-21, Section J.43.
- c. OMB Circular A-122, Attachment B, Paragraph 43.c.

### C. **Cash Management**

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor’s Program authorized under Section 4112(a)); CSP (84.282); 21st CCLC (84.287); Bilingual (84.288, 84.290 and 84.291); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).*

*This section also applies to Adult Education (84.002); IDEA (84.027 and 84.173); TRIO Cluster (84.042, 84.044, 84.047, 84.066 and 84.217); CTE (84.048); Vocational Rehabilitation (84.126); IDEA, Part C (84.181); and HERA (84.938A, 84.938B, 84.938C, 84.938D, 84.938E, 84.938F).*

Effective December 17, 2007, grantees draw funds via the G5 System instead of the Grant Administration and Payment System (GAPS). Grantees request funds by: (1) creating a payment request using the G5 System through the Internet; (2) calling the Payee Hotline; or (3) if the grantee is placed on the reimbursement or cash monitoring payment method, submitting a PMS-270, *Request for Title IV Reimbursement*, to an ED



program or regional office. When creating a payment request in G5, the grantee enters the drawdown amounts, by award, directly into G5. Grantees can redistribute drawn amounts between grant awards by making adjustments in G5 to reflect actual disbursements for each award, as long as the net amount of the adjustments is zero. When requesting funds using the other two methods, grantees provide drawdown information to the hotline operator or on the PMS-270.

To assist grantees in reconciling their internal accounting records with the G5 System, using their DUNS (Data Universal Numbering System) number, grantees can obtain a G-5 External Award Activity Report (<https://www.g5.gov/>) showing cumulative and detail information for each award. The External Award Activity Report can be created with date parameters (Start and End Dates) and viewed on-line. To view each draw per award, the G5 user may click on the award number to view a display of individual draws for that award.

#### **D. Davis-Bacon Act**

Under the General Education Provisions Act, when authorized, all construction and minor remodeling projects under ED programs covered by the Cross-Cutting Section are subject to the requirements of the Davis-Bacon Act (20 USC 1232b). Additional ED programs are subject to the Davis-Bacon Act as indicated in the relevant program description.

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

##### **1. Matching**

See individual program compliance supplement for any matching requirements.

##### **2.1 Level of Effort - Maintenance of Effort (SEAs/LEAs)**

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); SDFSCA (84.186) (including the Governor's Program authorized under Section 4112(a) when the Governor awards subgrants to LEAs); 21<sup>st</sup> CCLC (84.287); Ed Tech (84.318); Title III, Part A (84.365); and Title II, Part A (84.367).*

As described in II, "Program Procedures - General and Program-Specific Cross-Cutting Requirements," this requirement is a general cross-cutting requirement that need only be tested once to cover all major programs to which it applies.

An LEA may receive funds under an applicable program only if the SEA finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from State and local funds for free public education for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding year, unless specifically waived by ED.

An LEA's expenditures from State and local funds for free public education include expenditures for administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities. They do not include the following expenditures: (a) any expenditures for community services, capital outlay, debt service and supplementary expenses as a result of a Presidentially declared disaster and (b) any expenditures made from funds provided by the Federal government.

If an LEA fails to maintain fiscal effort, the SEA must reduce the amount of the allocation of funds under an applicable program in any fiscal year in the exact proportion by which the LEA fails to maintain effort by falling below 90 percent of both the combined fiscal effort per student and aggregate expenditures (using the measure most favorable to the LEA) (Section 9521 of ESEA (20 USC 7901); 34 CFR section 299.5).

In some States, the SEA prepares the calculation from information provided by the LEA. In other States, the LEAs prepare their own calculation. The audit procedures contained in III.G.2.1, "Level of Effort - Maintenance of Effort," should be adapted to fit the circumstances. For example, if auditing the LEA and the LEA does the calculations, the auditor should perform steps a., b., and c. If auditing the LEA and the SEA does the calculation, the auditor should perform step c for the amounts reported to the SEA. If auditing the SEA and the SEA performs the calculation, the auditor should perform steps a. and b. and amend step c to trace amounts to the LEA reports. If auditing the SEA and the LEA performs the calculation, the auditor should perform step a. and, if the requirement was not met, determine if the funding was reduced appropriately.

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

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor's program authorized under Section 4112(a)); 21st CCLC (84.287); Bilingual (84.288, 84.290 and 84.291); Title V, Part A (84.298); Ed Tech (84.318); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).*

*General* – Including the Safe and Drug-Free Schools Governor's program, an SEA and LEA may use program funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for the education of participating students. In no case may an LEA use Federal program funds to supplant funds from non-Federal sources (Title I, Part A, Section 1120A(b) of ESEA (20 USC 6321(b)); MEP, Section 1304(c)(2) of ESEA (20 USC 6394(c)(2)); SDFSCA, Section 4113(a)(8) of ESEA (20 USC 7113(a)(8)); 21st CLCC, Section 4204(b)(2)(G) of ESEA (20 USC 7174(b)(2)(G)); Title V, Part A, Section 5144 of ESEA (20 USC 7217c); Ed Tech, Section 2413(b)(6) of ESEA (20 USC 6763(b)(6)); Title III, Part A, Section 3115(g) (20 USC 6825(g)); MSP,

Section 2202(a)(4) of ESEA (20 USC 6662(a)(4)); and Title II, Part A, Sections 2113(f) and 2123(b) of ESEA (20 USC 6613(f) and 6623(b)).

In the following instances, it is presumed that supplanting has occurred:

- a. The SEA or LEA used Federal funds (except Bilingual) to provide services that the SEA or LEA was required to make available under other Federal, State or local laws.
- b. The SEA or LEA used Federal funds to provide services that the SEA or LEA provided with non-Federal funds in the prior year.
- c. The SEA or LEA used Title I, Part A or MEP funds to provide services for participating children that the SEA or LEA provided with non-Federal funds for nonparticipating children.

These presumptions are rebuttable if the SEA or LEA can demonstrate that it would not have provided the services in question with non-Federal funds had the Federal funds not been available.

*Schoolwide Program* - In a Title I schoolwide program, a school is not required to provide supplemental services to identified children. A school operating a schoolwide program does not have to: (1) show that Federal funds used within the school are paying for additional services that would not otherwise be provided; or (2) demonstrate that Federal funds are used only for specific target populations. Such a school, however, is required to use funds available under Title I and any other Federal programs to supplement the total amount of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for that school, including funds needed to provide services that are required by law for children with disabilities and children with limited English proficiency (Title I, Part A, Section 1114(a)(2) of ESEA (20 USC 6314(a)(2)); MEP, Section 1306(b)(4) of ESEA (20 USC 6396(b)(4)); 34 CFR section 200.25(c) and (d)).

*Title I, Part A and MEP* - An SEA and LEA may exclude from determinations of compliance with the supplement not supplant requirement supplemental State or local funds spent in any school attendance area or school for programs that meet the intent and purposes of Title I, Part A or the MEP, respectively, as identified in Title I of ESEA (Sections 1120A(d) and 1304(c)(2) of ESEA (20 USC 6321(d) and 6394(c)(2)); 34 CFR sections 200.79 and 200.88).

*Title III, Part A* - An LEA may only use funds under Title III, Part A to supplement the level of Federal, State and local public funds that, in the absence of the Title III funds, would have been provided for programs for limited English proficient children and immigrant children and youth (Section 3115(g) of ESEA (20 USC 6825(g))).

*Bilingual* - This supplement not supplant requirement does not preclude an LEA from using Bilingual program funds for activities carried out under a Federal or State court order respecting services to be provided to limited English proficient (LEP) children, or to carry out a plan approved by the Secretary as adequate under Title VI of the Civil Rights Act of 1964 with respect to services to be provided to LEP children (Title VII, Section 7116(h)(4) of ESEA, prior to enactment of NCLB (20 USC 7426(h)(4))).

### 3. Earmarking

#### a. *Administration* (SEAs)

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010) and MEP (84.011).*

An SEA may reserve for the administration of Title I programs up to one percent from each of the amounts allocated to the State under Title I, Parts A, C (MEP), and D (Subpart 1) or \$400,000, whichever is greater. An SEA may reserve less than one percent from each of Parts A, C, and D. Moreover, an SEA does not need to reserve the same percentage from each part, although the SEA may not reserve more from Parts C and D than it would have reserved if it had reserved proportionate amounts from Parts A, C, and D. An SEA reserving \$400,000 must reserve proportionate amounts from each of the amounts allocated to the State under Part A, but is not required to reserve funds proportionately from each of Parts A, C, and D and may, for example, take the reservation entirely out of Part A funds. However, in reserving \$400,000, an SEA may not reserve more funds for State administration from Part C or Part D than it would have if it had reserved proportionate funds from Parts A, C, and D (Section 1004 of ESEA (20 USC 6304); see also 34 CFR section 200.100(b)). For more detail, see page 33 of the guidance entitled *State Educational Agency Procedures for Adjusting Basic, Concentration, Targeted, and Education Finance Incentive Grant Allocations Determined by the U.S. Department of Education* (May 23, 2003) (<http://www.ed.gov/programs/titleiparta/seaguidanceforadjustingallocations.doc>).

As explained in III.A.1, “Activities Allowed or Unallowed - Consolidation of administrative funds,” the amounts reserved above may be consolidated with State administrative funds available under other applicable programs (Section 9201(a) of ESEA (20 USC 7821(a))).

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

*ESEA programs in this Supplement to which this section applies are: SDFSCA (84.186) (including the Governor's program authorized under Section 4112(a), with the agreement of the Governor); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); and Title II, Part A (84.367).*

SEAs may transfer up to 50 percent of each fiscal year's base of non-administrative funds allocated for State-level activities from one or more of the listed applicable programs to one or more of the other listed applicable programs, or to Title I, Part A (84.010). Except for 21st CCLC (84.287), LEAs not identified for improvement or corrective action under Section 1116 of ESEA may also transfer up to 50 percent of each fiscal year's funds from one or more of the listed applicable programs to another listed applicable program, or to Title I, Part A. LEAs identified for improvement may transfer up to 30 percent of their allocation base. LEAs identified for corrective action may not transfer funds (Sections 6123(a) and (b) of ESEA (20 USC 7305b(a) and (b))).

The allocation base for a program for a fiscal year equals that fiscal year's original funding plus funds transferred into the program for that fiscal year. Funds may be transferred during a fiscal year's carryover period, as long as the total amount transferred from the fiscal year's allocation base does not exceed the maximum percentage. Funds must be transferred to the receiving program's allocation for the same fiscal year that the funds were allocated to the transferring program (Sections 6123(a) and (b) of ESEA (20 USC 7305b(a) and (b))).

**H. Period of Availability of Federal Funds** (All grantees)

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor's Program authorized under Section 4112(a)); CSP (84.282); Bilingual (84.288, 84.290 and 84.291); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).*

*This section also applies to Adult Education (84.002); IDEA (84.027 and 84.173); CTE (84.048); and IDEA, Part C (84.181).*

*All ESEA and other programs listed above except Bilingual, CSP, and subrecipients under CTE - LEAs and SEAs must obligate funds during the 27 months, extending from July 1 of the fiscal year for which the funds were appropriated through September 30 of the second following fiscal year. This maximum period includes a 15-month period of initial availability plus a 12-month period for carryover. For example, funds from the fiscal year (FY) 2007 appropriation initially became available on July 1, 2007 and may*

be obligated by the grantee and subgrantee through September 30, 2009 (Section 421(b) of GEPA (20 USC 1225(b)); 34 CFR sections 76.703 through 76.710).

*Title I, Part A* - An LEA that receives \$50,000 or more in Title I, Part A funds may not carry over beyond the initial 15 months of availability more than 15 percent of its Title I, Part A funds. An SEA may grant a waiver of the percentage limitation for an LEA once every three years if the LEA's request is reasonable and necessary or if supplemental appropriations for Title I, Part A become available for obligation (Section 1127 of ESEA (20 USC 6339)).

*SDFSCA program* - An LEA that receives SDFSCA funding may not carry over beyond the initial 15 months of availability more than 25 percent of its SDFSCA State Grant funds. An SEA may waive the percentage limitation for good cause (Section 4114(a)(3)(B) of ESEA (20 USC 7114(a)(3)(B))).

*Bilingual and CSP programs* - The recipient must obligate funds from a grant during the period for which the funds are available for obligation as set forth in the grant award document. Recipients must maintain documentation to demonstrate that the obligation occurred during the period of availability and was charged to an appropriate year's grant funds. If obligations occur outside of the period of availability, the funds are not timely obligated and must be returned. However, under the "expanded authorities" provisions grantees are permitted to:

- a. Extend grants automatically at the end of a project period for up to one year without prior approval (with some exceptions);
- b. Carry funds over from one budget period to the next;
- c. Obligate funds up to 90 days before the effective date of a budget period without prior approval; and
- d. Transfer funds among budget categories without prior approval, except for a limited number of specific cases.

*CTE program* - In any academic year that a subrecipient does not obligate all of the amounts it is allocated under the Secondary and Postsecondary CTE programs for that year, it must return the unobligated amounts to the State to be reallocated under the Secondary and Postsecondary CTE Programs, as applicable (Section 133(b) of the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV) (Pub. L. No. 109-270) (20 USC 2353(b))).

*Consolidated administrative funds* - Consolidated administrative funds must be obligated within the period of availability of the program that the funds came from. Because expenditures in a consolidated administrative fund are not accounted for by specific Federal programs, an SEA or LEA may use a first-in, first-out method for determining when funds were obligated, may attribute costs in proportion to the dollars provided, or may use another reasonable method.

*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 (34 CFR section 76.707):

<b>IF AN OBLIGATION IS FOR --</b>	<b>THE OBLIGATION IS MADE --</b>
(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.

The act of an SEA or other grantee awarding Federal funds to an LEA or other eligible entity within a State does not constitute an obligation for the purposes of this compliance requirement. An SEA or other grantee may not reallocate grant funds from one subrecipient to another after the period of availability.

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.

## **L. Reporting**

### **1. Financial Reporting**

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor's Program authorized under Section 4112(a)); CSP (84.282); 21st Century (84.287);*

*Bilingual (84.288, 84.290 and 84.291); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366); Title II, Part A (84.367); and HERA (84.938A, 84.938B, 84.938C).*

*This section also applies to IDEA (84.027 and 84.173); IDEA, Part C (84.181); and HERA (84.938D, 84.938E, 84.938F).*

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Only grantees placed on reimbursement are required to complete this form to request payment of grant award funds. The requirement to use this form is imposed on an individual recipient basis.
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. LEAs and other subrecipients are generally required to report financial information to the pass-through entity. These reports should be tested during audits of LEAs.

**2. Performance Reporting** - Not Applicable

**3. Special Reporting**

*State Per Pupil Expenditure (SPPE) Data (OMB No. 1850-0067) (SEAs/LEAs)*

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010) and MEP (84.011).*

As described in II, "Program Procedures - General and Program-Specific Cross-Cutting Requirements," this requirement is a general cross-cutting requirement that need only be tested once to cover all major programs to which it applies.

Each year, an SEA must submit its average State per pupil expenditure (SPPE) data to the National Center for Education Statistics. These SPPE data are used by ED to make allocations under several ESEA programs, including Title I, Part A and MEP. SPPE data are reported on the National Public Education Finance Survey. SPPE data comprise the State's annual current expenditures for free public education, less certain designated exclusions, divided by the State's average daily attendance.

LEAs must submit data to the SEA for the SEA's report. The SEA determines the format of the data submissions.



Current expenditures to be included are those for free public education, including administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities. Current expenditures to be excluded are those for community services, capital outlay, debt service, and expenditures from funds received under Title I and Title V, Part A of ESEA. To determine its expenditures under Titles I and V, Part A of ESEA in a schoolwide program, an LEA could calculate the percentage of funds that Title I and Title V, Part A contributed to the schoolwide program and then apply those percentages to the total expenditures in the schoolwide program. Other reasonable methods may also be used (Section 9101(14) of ESEA (20 USC 7801(14))).

Except when provided otherwise by State law, average daily attendance generally means the aggregate number of days of attendance of all students during a school year divided by the number of days school is in session during such school year. For purposes of ESEA, average daily membership (or similar data) can be used in place of average daily attendance in States that provide State aid to LEAs on the basis of average daily membership or such other data. When an LEA in which a child resides makes a tuition or other payment for the free public education of the child in a school of another LEA, the child is considered to be in attendance at the school of the LEA making the payment, and not at the school of the LEA receiving the payment. Similarly, when an LEA makes a tuition payment to a private school or to a public school of another LEA for a child with disabilities, the child is considered to be in attendance at the school of the LEA making the payment (Section 9101(1) of ESEA (20 USC 7801(1))).

## N. Special Tests and Provisions

### 1. Participation of Private School Children (SEAs/LEAs)

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor's Program authorized under Section 4112(a)); 21st CCLC (84.287); Bilingual (84.288, 84.290 and 84.291); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).*

Depending on how the SEA/LEA implements requirements for the provision of equitable participation of private school children, this requirement may be tested on a general or program-specific basis (as described in II, "Program Procedures - General and Program-Specific Cross-Cutting Requirements").

**Compliance Requirements** – For programs funded under Title I, Part A (CFDA 84.010), an LEA, after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school children, their teachers, and their families. Eligible private school children are those who reside in a participating public school attendance area and have educational needs under section 1115(b) of ESEA

(20 U.S.C. 6315(b)). Title I, Part A funds must be allocated to each participating public school attendance area on the basis of the total number of children from low-income families residing in that area. In calculating the total number of children from low-income families, an LEA must include children from low-income families who attend private schools. An LEA must use the portion of Title I, Part A funds attributable to private school children from low-income families included in the calculation to provide services to eligible private school children. For example, if \$100,000 of Title I, Part A funds are allocated based on 100 children from low-income families, 25 of whom are private school children, \$25,000 of the \$100,000 must be expended to provide equitable services to eligible private school children.

If an LEA reserves funds off the top of its Title I, Part A allocation to provide instructional and related activities for public school students at the district level, the LEA must also provide from those funds, as applicable, equitable services to eligible private school students. From applicable funds reserved for parent involvement and professional development, an LEA must ensure that teachers and families of participating private school children have an equitable opportunity to participate in professional development and parent involvement activities, respectively. The amount of funds available to provide these services must be proportionate to the number of private school children from low-income families residing in participating public school attendance areas (Sections 1113(c) and 1120 of ESEA (20 USC 6313(c) and 6320); 34 CFR sections 200.62 through 200.67 and 200.77 through 200.78).

For all other programs, an SEA, LEA, or any other educational service agency (or consortium of such agencies) receiving financial assistance under an applicable program must provide eligible private school children and their teachers or other educational personnel with equitable services or other benefits under the program. Before an agency or consortium makes any decision that affects the opportunity of eligible private school children, teachers, and other educational personnel to participate, the agency or consortium must engage in timely and meaningful consultation with private school officials. Expenditures for services and benefits to eligible private school children and their teachers and other educational personnel must be equal on a per-pupil basis to the expenditures for participating public school children and their teachers and other educational personnel, taking into account the number and educational needs of the children, teachers and other educational personnel to be served (Sections 5142 and 9501 of ESEA (20 USC 7217a and 7881); 34 CFR sections 299.6 through 299.9).

The control of funds used to provide equitable services to eligible private school students, teachers and other educational personnel, and families, and title to materials, equipment, and property purchased with those funds must be in a public agency and the public agency must administer the funds, materials, equipment, and property. The provision of equitable services must be by employees of a public agency or through a contract by the public agency with an individual, association, agency, or organization that is independent of any private school or religious organization. The contract must be under the control of the public agency (Sections 1120(d), 5142(c), and 9501(d) of ESEA (20 USC 6320(d), 7217a(c) and 7881(d); 34 CFR sections 200.67 and 299.9).

This compliance requirement also applies to Transferability (See III.A.3, “Activities Allowed or Unallowed - Transferability (SEAs and LEAs)”) for transfers made by *SDFSCA (84.186) (including the Governor’s program authorized under Section 4112(a), with the agreement of the Governor); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); and Title II, Part A (84.367) (Section 6123(e)(2) of ESEA (20 USC 7305b(e)(2))*).

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

**Suggested Audit Procedures (LEA/SEA)**

- a. Verify, by reviewing minutes of meetings and other appropriate documents, that the SEA or LEA conducted timely consultation with private school officials in making its determinations and set aside the required amount for private school children.
- b. Review program expenditure and other records to verify that educational services that were planned were provided.
- c. For Title I, Part A, verify that:
  - (1) The per pupil allocation (PPA) generated by private school children from low-income families living in participating public school attendance areas is equal to the PPA generated by public school children from low-income families living in the same attendance areas:
  - (2) Funds to provide equitable services to private school students were available, as applicable, from funds, if any, reserved off the top of the LEA’s Part A allocation for instructional and related activities at the district level; and
  - (3) Funds to provide equitable services to teachers and families of participating private school students were available from reservations of funds for professional development and parent involvement.
- d. If the LEA provides services to eligible private school students under an arrangement with a third-party provider, verify that the LEA retains proper administration and control by having a written contract that:
  - (1) Describes the services to be provided; and
  - (2) Provides that the LEA retains ownership of materials, equipment, and property purchased with Federal I funds.

- e. For programs other than Title I, Part A, verify that expenditures are equal on a per-pupil basis for public and private school students, teachers and other educational personnel, taking into consideration their numbers and needs as required by 34 CFR section 299.7.

## 2. Schoolwide Programs (SEAs/LEAs)

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor's Program authorized under Section 4112(a)); 21st CCLC (84.287); Bilingual (84.288, 84.290 and 84.291); Title V, Part A (84.298); Ed Tech (84.318); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).*

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

As described in II, "Program Procedures - General and Program-Specific Cross-Cutting Requirements," this requirement is a general cross-cutting requirement that only needs to be tested once to cover all major programs to which it applies.

**Compliance Requirements** - A school participating under Title I, Part A may, in consultation with its LEA, use its Title I, Part A funds, along with funds provided from the above-identified programs and other Federal (except Reading First), State, and local education funds, to upgrade the school's entire educational program in a schoolwide program. At least 40 percent of the children enrolled in the school or residing in the school attendance area for the initial year of the schoolwide program must be from low-income families. The LEA is required to maintain records to demonstrate compliance with this requirement.

- a. To operate a schoolwide program, a school must include the following three core elements:
  - (1) Comprehensive needs assessment of the entire school (34 CFR section 200.26(a)).
  - (2) Comprehensive plan based on data from the needs assessment (34 CFR section 200.26(b)).
  - (3) Annual evaluation of the results achieved by the schoolwide program and revision of the schoolwide plan based on that evaluation (34 CFR section 200.26(c)).
- b. A schoolwide plan also must include the following components:
  - (1) Schoolwide reform strategies (34 CFR section 200.28(a)).
  - (2) Instruction by highly qualified professional staff (34 CFR section 200.28(b)).

- (3) Strategies to increase parental involvement (34 CFR section 200.28(c)).
  - (4) Additional support to students experiencing difficulty (34 CFR section 200.28(d)).
  - (5) Transition plans for assisting preschool children in the successful transition to the schoolwide program (34 CFR section 200.28(e)).
- c. If a schoolwide program school consolidates funds, the school must ensure that its schoolwide program addresses the needs of children who are members of the target population of any Federal program whose funds are consolidated. Specific requirements apply to these programs as follows:
- (1) Before consolidating funds or services received under MEP, a schoolwide program must: (a) in consultation with parents of migratory children or organizations representing those parents, first meet the identified needs of migratory children that result from the effects of their migratory lifestyle or are needed to permit migratory children to participate effectively in schools; and (b) document that services addressing those needs have been met.
  - (2) A schoolwide program must have the approval of the Indian parent advisory committee established in section 7114(c)(4) of ESEA (20 USC 7424(c)(4)) before funds received under the Title VII, Part A, Subpart 1 Indian Education program can be consolidated.
  - (3) A schoolwide program may consolidate funds received under IDEA, Part B. However, the amount of funds consolidated may not exceed the amount received by the LEA under IDEA, Part B for that fiscal year, divided by the number of children with disabilities in the jurisdiction of the LEA and multiplied by the number of children with disabilities participating in the schoolwide program. A school that consolidates IDEA, Part B funds may use those funds for any activities under the schoolwide plan but must comply with all other requirements of IDEA, Part B to the same extent it would if it did not consolidate funds under IDEA, Part B in the schoolwide program.

In addition, a schoolwide program school may consolidate funds it receives from discretionary programs administered by the ED Secretary; however, it must carry out the activities included in its application for which those funds were awarded.

An SEA must modify State fiscal and accounting procedures, if necessary, to eliminate barriers so that schools can easily consolidate funds from other Federal, State, and local sources in schoolwide programs. The SEA must also notify its LEAs of the authority to operate schoolwide programs.

(Sections 1111(c)(6), (9) and (10), 1114, 1306(b)(4), and 7115(c) of ESEA (20 USC 6311(c)(6), (9) and (10), 6314, 6396(b)(4), and 7425(c)); Section

613(a)(2)(D) of IDEA (20 USC 1413(a)(2)(D)); 34 CFR sections 200.25 through 200.29).

**Audit Objectives (SEA)** – Determine whether the SEA has taken steps to (1) notify its LEAs of the authority to consolidate Federal, State, and local funds in schoolwide programs, and (2) remove fiscal and accounting barriers preventing such consolidation of funds.

**Suggested Audit Procedures (SEA)**

Review documentation to determine whether the SEA notified its LEAs of the authority to consolidate Federal, State, and local funds in schoolwide programs, and examined its fiscal and accounting procedures to remove any barriers preventing such consolidation of funds.

**Audit Objectives (LEA)** - Determine whether (1) the schools operating schoolwide programs were eligible to do so, and (2) the schoolwide programs included the core elements and components.

**Suggested Audit Procedures (LEA)**

- a. For schools operating a schoolwide program, review records and ascertain if the schools met the poverty eligibility requirements.
- b. Review the schoolwide plan and ascertain if it included the required core elements and components described above.
- c. Review documentation to support:
  - (1) Consultation with parents including, when MEP funds are consolidated, the parents of migratory children or organizations representing those parents; and, when Title VII, Part A, Subpart 1 (Indian Education) funds are consolidated, approval by the Indian parent advisory committee.
  - (2) If MEP funds are consolidated in the schoolwide program, the identified needs of migratory children were met before MEP funds were consolidated.

**3. Comparability (SEAs/LEAs)**

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010) and MEP (84.011).*

As described in II, “Program Procedures - General and Program-Specific Cross-Cutting Requirements,” this requirement is a general cross-cutting requirement that need only be tested once to cover all major programs to which it applies.

**Compliance Requirements** - An LEA may receive funds under Title I, Part A and the MEP (Title I, Part C) only if State and local funds will be used in participating schools to provide services that, taken as a whole, are at least comparable to services that the LEA is providing in schools not receiving Title I, Part A or MEP funds. An LEA is considered to have met the statutory comparability requirements if it filed with the SEA a written assurance that such LEA has implemented (1) an LEA-wide salary schedule; (2) a policy to ensure equivalence among schools in teachers, administrators, and other staff; and (3) a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies. An LEA may also use other measures to determine comparability, such as comparing the average number of students per instructional staff or the average staff salary per student in each school receiving Title I, Part A or MEP funds with those in schools that do not receive Title I, Part A or MEP funds. If all schools are served by Title I, Part A or MEP, an LEA must use State and local funds to provide services that, taken as a whole, are substantially comparable in each school. Determinations may be made on either a district-wide or grade-span basis.

An LEA may exclude schools with fewer than 100 students from its comparability determinations. The comparability requirement does not apply to an LEA that has only one school for each grade span. An LEA may exclude from determinations of compliance with this requirement State and local funds expended for (1) bilingual education for children with limited English proficiency (LEP); and (2) the excess costs of providing services to children with disabilities as determined by the LEA. The LEA may also exclude supplemental State or local funds for programs that meet the intent and purposes of Title I, Part A or MEP (Sections 1120A(c)-(d) and 1304(c)(2) of ESEA (20 USC 6321(c)-(d) and 6394(c)(2)); 34 CFR sections 200.79 and 200.88).

Each LEA must develop procedures for complying with the comparability requirements and implement the procedures annually. The LEA must maintain records that are updated biennially documenting compliance with the comparability requirements. The SEA, however, is ultimately responsible for ensuring that LEAs remain in compliance with the comparability requirement (Section 1120A(c) of ESEA (20 USC 6321(c))).

**Audit Objective** (SEAs) - Determine whether the SEA is determining if LEAs are complying with the comparability requirements.

#### **Suggested Audit Procedure** (SEAs)

For a sample of LEAs, review SEA records that document SEA review of LEA compliance with the comparability requirements.

**Audit Objective** (LEAs) - Determine whether the LEA has developed procedures for complying with the comparability requirements and maintained records that are updated at least biennially documenting compliance with the comparability requirements.

#### **Suggested Audit Procedures** (LEAs)

- a. Through inquiry and review, ascertain if the LEA has developed procedures and measures for complying with the comparability requirements.

- b. Review LEA comparability documentation to ascertain (1) if it has been updated at least biennially and (2) that it documents compliance with the comparability requirements.
  - c. Test comparability data to supporting records.
- 4. Access to Federal Funds for New or Significantly Expanded Charter Schools (SEAs/LEAs)**

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); SDFSCA (84.186) (except the Governor’s Program authorized under Section 4112(a)); 21<sup>st</sup> CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); and Title II, Part A (84.367).*

*This section also applies to Adult Education (84.002); IDEA (84.027, 84.173); and CTE (84.048).*

As described in II, “Program Procedures – General and Program-Specific Cross-Cutting Requirements,” this requirement is a program-specific cross-cutting eligibility requirement that needs to be tested separately for each covered program in the Supplement.

Note: This requirement only applies with respect to funds allocated to new, or significantly expanded, charter schools under a covered program in a State that has charter schools. A *covered program* means an elementary or secondary education program administered by ED under which the Secretary allocates funds to States on a formula basis, except that the term does not include a program or portion of a program under which an SEA awards subgrants on a discretionary, noncompetitive basis. *Charter school* has the same meaning as provided in Title V, Part B, Subpart 1 of the ESEA (Section 5210(1) of the ESEA (20 USC 7221i(1))). With respect to an existing charter school LEA that has not significantly expanded its enrollment, an SEA must determine the school’s eligibility and allocate Federal funds to the school in a manner consistent with applicable Federal statutes and regulations under each covered program.

If a State considers a charter school to be an LEA under a covered program, this requirement applies to the SEA or other State agency responsible for allocating funds under that program—either by formula or through a competition—to LEAs. If a State considers a charter school to be a public school within an LEA under a covered program, this requirement applies to the LEA. The requirements in this Supplement address an SEA’s responsibilities with respect to eligible charter school LEAs. An LEA that is responsible for providing funds under a covered program to eligible charter schools must comply with these requirements on the same basis as an SEA.

**Compliance Requirements** – An SEA must ensure that a charter school LEA that opens for the first time or significantly expands its enrollment receives the funds under each covered program for which it is eligible. *Significant expansion of*



*enrollment* means a substantial increase in the number of students attending a charter school due to a significant event that is unlikely to occur on a regular basis, such as the addition of one or more grades or educational programs in major curriculum areas. The term also includes any other expansion of enrollment that an SEA determines to be significant.

Except as noted below, if a charter school LEA opens or expands by November 1, the SEA must allocate to the school the funds for which it is eligible no later than 5 months after the school first opens or significantly expands its enrollment; if a charter school LEA opens or significantly expands after November 1 but before February 1, an SEA must allocate to the school a *pro rata* portion of the funds for which the school is eligible on or before the date the SEA makes allocations to other LEAs under that program for the succeeding academic year; if a charter school LEA opens or expands after February 1, the SEA may, but is not required to, allocate to the school a *pro rata* portion of the funds for which the school is eligible.

An SEA must determine a new or expanding charter school LEA's eligibility based on actual enrollment or other eligibility data available on or after the date the charter school LEA opens or significantly expands. An SEA may not deny funding to a new or expanding charter school LEA due to the lack of prior-year data, even if eligibility and allocation amounts for other LEAs are based on prior-year data. An SEA may allocate funds to, or reserve funds for, an eligible charter school LEA based on reasonable estimates of projected enrollment at the charter school LEA. If an SEA allocates more or fewer funds to a charter school LEA than the amount for which the charter school LEA is eligible, based on actual enrollment or eligibility data, the SEA must make appropriate adjustments to the amount of funds allocated to the charter school LEA as well as to other LEAs under a covered program on or before the date the SEA allocates funds to LEAs for the succeeding academic year.

At least 120 days before the date a charter school LEA is scheduled to open or significantly expand its enrollment, the charter school LEA or its authorized public chartering agency must provide the SEA with written notice of that date. Upon receiving such notice, an SEA must provide the charter school LEA with timely and meaningful information about each covered program in which the charter school LEA may be eligible to participate, including notice of any upcoming competitions under the program. An SEA is not required to make allocations within 5 months of the date a charter school LEA opens for the first time or significantly expands if the charter school LEA, or its charter authorizer, fails to provide to the SEA proper written notice of the school's opening or expansion.

For a covered program in which an SEA awards subgrants on a competitive basis, the SEA must provide an eligible charter school LEA that is scheduled to open on or before the closing date of any competition a full and fair opportunity to apply to participate in the program. However, the SEA is not required to delay the competitive process in order to allow a charter school LEA that has not yet opened

or expanded to compete. (Section 5206 of ESEA (20 USC 7221e); 34 CFR sections 76.785 through 76.799).

**Audit Objectives** (SEA/LEA, depending on which entity is responsible for funding charter schools) – Determine whether new or significantly expanding charter schools received the amount of Federal formula funds for which they were eligible in a timely manner.

**Suggested Audit Procedures** (SEA/LEA, depending on which entity is responsible for funding charter schools)

- a. Determine if the entity was responsible for providing Federal formula funds under the applicable covered program to any charter school LEAs/charter schools that opened for the first time or significantly expanded enrollment on or before November 1 of the academic year.
- b. Determine if the entity was responsible for providing Federal formula funds under the applicable covered program to any charter school LEAs/charter schools that opened for the first time or significantly expanded enrollment between November 1 and February 1 of the academic year.
- c. Review the entity's procedures for allocating Federal formula funds under the applicable covered program to determine whether eligibility to participate in the program was based on enrollment or eligibility data from a prior year. If prior-year data were used for allocations, determine whether the entity properly based the new or expanding charter school LEA's/charter school's eligibility and allocation amount on actual eligibility or enrollment data for the year in which the school opened or expanded.
- d. Review documentation to identify the opening or expansion date for each eligible charter school LEA/charter school that opened or significantly expanded its enrollment on or before November 1 of the academic year. Determine whether the charter school LEA/charter school was given access to all of the funds for which it was eligible, in the proper amount, within five months of the opening or expansion date (provided that SEA or LEA notification, data submission, and application requirements were met).
- e. Review documentation to identify the opening or expansion date for each eligible charter school LEA/charter school that opened or significantly expanded its enrollment between November 1 and February 1 of the academic year. Determine whether the charter school LEA/charter school was given access to the *pro rata* portion of the funds for which the school was eligible, in the proper amount, on or before the date the SEA or LEA made allocations to other LEAs/public schools under the program for the succeeding academic year (provided that SEA or LEA notification, data submission, and application requirements were met).

- f. Review documentation to determine whether the SEA or LEA made necessary adjustments to account for over- or under-allocations once actual eligibility and enrollment data became available.

#### **IV. OTHER INFORMATION**

##### ***Consolidation of Administrative Funds*** (SEAs and LEAs)

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (except the Governor's Program authorized under Section 4112(a)); CSP (84.282); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366) (at the LEA level only); and Title II, Part A (84.367).*

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

##### ***Schoolwide Programs*** (LEAs)

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor's Program authorized under Section 4112(a)); 21st CCLC (84.287); Bilingual (84.288, 84.290 and 84.291); Title V, Part A (84.298); Ed Tech (84.318); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).*

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

Since schoolwide programs are not separate Federal programs, as defined in OMB Circular A-133, amounts of Federal funds consolidated in schoolwide programs should be included in the total expenditures of the program contributing the funds when determining Type A Programs and in the Schedule of Expenditures of Federal Awards. A footnote showing, by program, amounts consolidated in schoolwide programs is encouraged.

##### ***Transferability*** (SEAs and LEAs)

*ESEA programs in this Supplement to which this section applies are: SDFSCA (84.186) (including the Governor's program authorized under Section 4112(a), with the agreement of the Governor); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); and Title II, Part A (84.367).*

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

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

*ESEA programs in this Supplement to which this section applies are: SDFSCA (84.186) (including the Governor’s program authorized under Section 4112(a)); Title V, Part A (84.298); Ed Tech (84.318); and Title II, Part A (84.367).*

Unlike “Transferability” above, where the funds are actually transferred from one program to another, under SRSA the funds are expended from the original program but for activities allowed under another program. Funds used under the SRSA Alternative Uses of Funds program should be included in the audit universe and total expenditures of the programs from which they originated for purposes of (1) determining Type A programs, and (2) completing the Schedule of Expenditures of Federal Awards.

***Prima Facie Case Requirement for Audit Findings***

Section 452(a)(2) of the General Education Provisions Act (20 USC 1234a(a)(2)) requires that ED officials establish a *prima facie* case when they seek recoveries of unallowable costs charged to ED programs. When the preliminary ED decision to seek recovery is based on an OMB Circular A-133 audit, upon request, auditors will need to provide ED program officials audit documentation. For this purpose, audit documentation (part of which is the auditor’s working papers) includes information the auditor is required to report and document that is not already included in the reporting package.

***Program Waivers and Special Provisions Due to Hurricanes Katrina and Rita***

See Appendix VI.

## DEPARTMENT OF EDUCATION

### CFDA 84.002 ADULT EDUCATION--STATE GRANT PROGRAM

#### I. PROGRAM OBJECTIVES

The Adult Education and Family Literacy State Grant program provides grants to eligible agencies to provide adult education and literacy services. These grants help adults become literate and obtain the knowledge and skills necessary for employment; obtain the educational skills necessary to become full partners in the educational development of their children; and complete a secondary school education.

#### II. PROGRAM PROCEDURES

Funds are provided to the State eligible agency each year in accordance with a statutory formula. Eligible agencies develop a 5-year State plan that is approved by the Secretary, which may be revised when substantial changes in conditions occur. Local activities include services or instruction in one or more of the following categories: adult education and literacy services, including workplace literacy services; family literacy services; and English literacy programs.

Eligible providers include a local educational agency; a community-based organization of demonstrated effectiveness; a volunteer literacy organization of demonstrated effectiveness; an institution of higher education; a public or private non-profit agency; a library; a public housing authority; any other non-profit institution that has the ability to provide literacy services to adults and families; and a consortium of the agencies, organizations, institutions, libraries, or authorities described above.

#### Source of Governing Requirements

The program is authorized by the Adult Education and Family Literacy Act (the Act), Title II of the Workforce Investment Act of 1998 (Pub. L. No. 105-220 (20 USC 9201 *et seq.*)).

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple Department of Education (ED) programs are discussed once in the ED Cross-Cutting Section of this supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references to the Cross-Cutting Section for these requirements.

## A. Activities Allowed or Unallowed

The eligible agency shall require that each eligible provider receiving a grant or contract establish or operate one or more programs that provide services or instruction in one or more of the following categories: (1) adult education and literacy services, including workplace literacy services; (2) family literacy services; and (3) English literacy programs. Adults include individuals who are at least 16 years of age, who are not enrolled or required to be enrolled in secondary school under State law; and who lack sufficient mastery of basic educational skills, do not have a secondary school diploma or its recognized equivalent, or are unable to speak, read, or write the English language (Pub. L. No. 105-220 (sections 231 and 203 of the Act) (20 USC 9241 and 9202(1))).

1. *State-Level Activities* - State eligible agencies may use funds for the following: (also see III.G.3, “Matching, Level of Effort, Earmarking - Earmarking”)
  - a. Subgrants to eligible providers.
  - b. State administrative costs including the development, and implementation of the State plan; consultation with other appropriate agencies in the development and implementation of activities assisted under the Act; and coordination and non-duplication with related Federal and State programs (section 221 of the Act (20 USC 9221)).
  - c. State leadership activities such as professional development programs, technical assistance, support of State literacy resource centers, and monitoring and evaluation of adult education and literacy activities (section 223(a) of the Act (20 USC 9223(a))).
2. *Subrecipient Activities*

Allowable activities are described in the eligible provider’s approved application. Generally, eligible providers must establish or operate one or more programs that provide services or instruction in one or more of the following categories: (1) adult education and literacy services, including workplace literacy services; (2) family literacy services; and (3) English literacy programs. Adults include individuals who are at least 16 years of age, who are not enrolled or required to be enrolled in secondary school under State law; and who lack sufficient mastery of basic educational skills, do not have a secondary school diploma or its recognized equivalent, or are unable to speak, read, or write the English language. Funds can also be used for administrative costs (see III.G.3.b, “Matching, Level of Effort, Earmarking - Earmarking” for limitation) (Pub. L. No. 105-220 (sections 231, 232, 234 and 203 of the Act) (20 USC 9241, 9242, 9243 and 9202(1))).

## B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section.

**C. Cash Management**

See ED Cross-Cutting Section.

**G. Matching, Level of Effort, Earmarking****1. Matching**

- a. Each State eligible agency providing adult education and literacy services shall provide a non-Federal contribution of at least 25 percent of the total amount of funds expended for adult education and literacy activities in the State (section 222(b) of the Act (20 USC 9222(b))).
- b. An eligible agency serving an outlying area shall provide a non-Federal contribution equal to 12 percent of the total amount of funds for adult education and literacy activities in the outlying area, unless the Secretary allows a smaller non-Federal contribution (section 222(b) of the Act (20 USC 9222(b))).
- c. An eligible agency's non-Federal contribution may be provided in cash or in-kind, fairly evaluated, and shall include only non-Federal funds that are used for adult education and literacy activities in a manner that is consistent with the purpose of the Act (section 222(b) of the Act (20 USC 9222(b))).

**2.1 Level of Effort - Maintenance of Effort**

An eligible agency may receive funds for any fiscal year if the Secretary finds that the fiscal effort per student or the aggregate expenditures of such eligible agency for adult education and literacy activities, in the second preceding fiscal year, was not less than 90 percent of the fiscal effort per student or the aggregate expenditures of the eligible agency for adult education and literacy activities, in the third preceding fiscal year (section 241(b) of the Act (20 USC 9251(b))).

**2.2 Level of Effort - Supplement Not Supplant - Not Applicable****3. Earmarking**

- a. *State Eligible Agency* - The following earmarking requirements are for each yearly grant award and must be met within the period of its availability (generally 27 months) (34 CFR sections 76.703 through 76.710):
  - (1) Grants and contracts for eligible providers shall not be less than 82.5 percent of the eligible agency's grant funds (section 222(a)(1) of the Act (20 USC 9222(a)(1))).

- (2) Correction education and education for other institutionalized individuals shall not be more than 10 percent of the 82.5 percent mentioned above (section 222(a)(1) of the Act (20 USC 9222(a)(1))).
  - (3) State leadership activities under section 223 of the Act shall not exceed 12.5 percent of the grant funds (section 222(a)(2) of the Act (20 USC 9222(a)(2))).
  - (4) Necessary and reasonable administrative expenses of the eligible agency shall not be more than five percent of the grant funds, or \$65,000, whichever is greater (section 222(a)(3) of the Act (20 USC 9222(a)(3))).
- b. *Subrecipients* - Generally, subrecipients may use up to five percent of their funds for non-instructional costs, such as administration of local programs. In cases where the five percent limit is too restrictive, the eligible provider shall negotiate with the eligible agency to determine the adequate level of funds for non-instructional purposes (section 233 of the Act) (20 USC 9243).

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

See ED Cross-Cutting Section.

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269 - *Financial Status Report* – Applicable (using ED-specific form - OMB No. 1830-0027) -
- b. SF-270 - *Request for Advance or Reimbursement* - Only grantees placed on reimbursement are required to complete this form to request payment of grant award funds. The requirement to use this form is imposed on an individual recipient basis.
- c. SF-271- *Outlay Report and Request for Reimbursement for Construction Programs*- Not Applicable
- d. SF-272 - *Federal Cash Transactions Report* - Not Applicable
- e. LEAs and other subrecipients are generally required to report financial information to the pass-through entity. These reports should be tested during audits of LEAs and other subrecipients.

### **2. Performance Reporting - Not Applicable**



**3. Special Reporting - Not Applicable**

**N. Special Tests and Provisions**

**Access to Federal Funds for New or Significantly Expanded Charter Schools**

See ED Cross-Cutting Section.

## DEPARTMENT OF EDUCATION

### **CFDA 84.010 TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES (Title I, Basic, Concentration, Targeted and Education Finance Incentive Grants)**

#### **I. PROGRAM OBJECTIVES**

The objective of this program is to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families.

#### **II. PROGRAM PROCEDURES**

The Department of Education (ED) provides Title I, Part A funds through each State Educational Agency (SEA) to local educational agencies (LEAs) through a statutory formula based primarily on the number of children ages 5 through 17 from low-income families. This number is augmented by annually collected counts of children ages 5 through 17 in foster homes, locally operated institutions for neglected or delinquent children, and families above poverty that receive assistance under Temporary Assistance for Needy Families (TANF), adjusted to account for the cost of education in each State. To receive funds, an SEA must submit to ED for approval either: (1) an individual State plan as provided in Section 1111 of the Elementary and Secondary Education Act (ESEA) (20 USC 6311) or (2) a consolidated plan that includes Part A, in accordance with Section 9302 of the ESEA (20 USC 7842). The individual or consolidated plan, after approval by ED, remains in effect for the duration of the State's participation in Title I, Part A. The plan must be updated to reflect substantive changes.

To receive Title I, Part A funds, LEAs must have on file with the SEA an approved plan that includes descriptions of the general nature of services to be provided, how program services will be coordinated with the LEA's regular program of instruction, additional LEA assessments, if any, used to gauge program outcomes, and strategies to be used to provide professional development. An LEA may also include Part A as part of a consolidated application submitted to the SEA under Section 9305 of the ESEA (20 USC 7845).

LEAs allocate Title I, Part A funds to eligible school attendance areas based on the number of children from low-income families residing within the attendance area. A school at or above 40 percent poverty may use its Part A funds, along with other Federal, State, and local funds, to operate a schoolwide program to upgrade the instructional program in the whole school (20 USC 6314(a)). Otherwise, a school operates a targeted assistance program in which the school identifies students who are failing, or most at risk of failing, to meet the State's challenging student academic achievement standards and who have the greatest need for assistance. The school then designs, in consultation with parents, staff, and the LEA, an instructional program to meet the needs of those students (20 USC 6315).

## Source of Governing Requirements

This program is authorized by Title I, Part A of the ESEA, as amended by the No Child Left Behind Act of 2001 (Pub. L. No. 107-110 (20 USC 6301 through 6339 and 6571 through 6578)). Program regulations are found at 34 CFR part 200. The Education Department General Administrative Regulations (EDGAR) at 34 CFR parts 76, 77, 81, 82, 98, and 99 also apply to this program, as do certain requirements of 34 CFR part 299 (General Provisions).

## Availability of Other Program Information

A number of documents posted on ED's website contain documents pertinent to the Title I, Part A requirements in this Compliance Supplement. They are:

- Local Educational Agency Identification and Selection of School Attendance Areas and Schools and Allocation of Title I Funds to Those Areas and Schools (August 2003) (<http://www.ed.gov/programs/titleiparta/wdag.doc>);
- Public School Choice (February 6, 2004) (<http://www.ed.gov/policy/elsec/guid/schoolchoiceguid.doc>);
- Report Cards, Title I, Part A (September 12, 2003) (<http://www.ed.gov/programs/titleiparta/reportcardsguidance.doc>);
- Supplemental Educational Services (June 13, 2005) (<http://www.ed.gov/policy/elsec/guid/suppsvcsguid.doc>);
- Title I Paraprofessionals (March 1, 2004) (<http://www.ed.gov/policy/elsec/guid/paraguidance.doc>);
- Title I Services to Eligible Private School Children (October 17, 2003) (<http://www.ed.gov/programs/titleiparta/psguidance.doc>); and
- LEA and School Improvement (July 21, 2006) (<http://www.ed.gov/policy/elsec/guid/schoolimprovementguid.pdf>)

Additional information is provided in the "Availability of Other Program Information" part of the ED Cross-Cutting Section.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple programs are discussed once in the ED Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

**A. Activities Allowed or Unallowed**

Also see ED Cross-Cutting Section.

1. *LEAs* (Targeted assistance programs only. See III.N, “Special Tests and Provisions” for schoolwide programs.)

In a targeted assistance school, funds available under Part A may be used only for programs that are designed to help participating children meet the State’s student academic achievement standards expected of all children. Allowable activities in these schools include, but are not limited to, instructional programs, counseling, mentoring, other pupil services, college and career awareness and preparation, services to prepare students for the transition from school to work, services to assist preschool children in the transition to elementary school programs, parental involvement activities, and professional staff development. If health, nutrition, and other social services are not otherwise available from other sources to participating children, Part A funds may be used as a last resort to provide such services. The LEA’s plan will provide a description of the general nature of the services to be provided with Part A funds. However, each Title I school determines the actual program it will provide (Title I, Section 1115 of ESEA (20 USC 6315)).

2. *SEAs*

SEAs can use funds to provide subgrants to LEAs, for State administration, and for school improvement activities in accordance with the State plan (Title I, Sections 1003, 1004, 1111, and 1117 of ESEA (20 USC 6303, 6304, 6311, and 6317)).

**B. Allowable Costs/Cost Principles**

See ED Cross-Cutting Section.

**C. Cash Management**

See ED Cross-Cutting Section.

**E. Eligibility****1. Eligibility for Individuals**

*Eligible Children* (LEA targeted assistance programs only)

Title I, Part A funds are to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas. Once funds are allocated to eligible school attendance areas (see E.2.a and E.2.b below), a school operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by the school as failing,

or most at risk of failing, to meet the State's challenging student academic achievement standards. In general, eligible children are identified on the basis of multiple, educationally related, objective criteria established by the LEA and supplemented by the school. Children who are economically disadvantaged, children with disabilities, migrant children, and limited English proficient (LEP) children are eligible for Part A services on the same basis as other children who are selected for services. In addition, certain categories of children are considered at risk of failing to meet the State's student academic achievement standards and are thus eligible for Part A services because of their status. Such children include: children who are homeless; children who participated in a Head Start, Even Start, Early Reading First, or Title I preschool program at any time in the two preceding years; children who received services under the Migrant Education Program under Title I, Part C at any time in the two preceding years; and children who are in a local institution for neglected or delinquent children or attending a community day program. From the pool of eligible children, a targeted assistance school selects those children who have the greatest need for special assistance to receive Part A services (Title I, Section 1115 of ESEA (20 USC 6315)).

## **2. Eligibility for Group of Individuals or Area of Service Delivery**

- a. *School Attendance Areas or Schools* (LEAs with either schoolwide programs or targeted assistance programs)

An LEA must determine which school attendance areas are eligible to participate in Part A. A school attendance area is generally eligible to participate if the percentage of children from low-income families is at least as high as the percentage of children from low-income families in the LEA as a whole or at least 35 percent. An LEA may also designate and serve a school in an ineligible attendance area if the percentage of children from low-income families enrolled in that school is equal to or greater than the percentage of such children in a participating school attendance area. When determining eligibility, an LEA must select a poverty measure from among the following data sources: (1) the number of children ages 5-17 in poverty counted in the most recent census; (2) the number of children eligible for free and reduced price lunches; (3) the number of children in families receiving TANF; (4) the number of children eligible to receive Medicaid assistance; or (5) a composite of these data sources. The LEA must use that measure consistently across the district to rank all its school attendance areas according to their percentage of poverty.

An LEA must serve eligible schools or attendance areas in rank order according to their percentage of poverty. An LEA must serve those areas or schools above 75 percent poverty, including any middle or high schools, before it serves any with a poverty percentage below 75 percent. After an LEA has served all areas and schools with a poverty rate above 75 percent, the LEA may serve lower-poverty areas and schools either by continuing with the district-wide ranking or by ranking its schools below

75 percent poverty according to grade-span grouping (e.g., K-6, 7-9, 10-12). If an LEA ranks by grade span, the LEA may use the district-wide poverty average or the poverty average for the respective grade-span grouping. An LEA may serve, for one additional year, an attendance area that is not currently eligible but that was eligible and served in the preceding year.

An LEA may elect not to serve an eligible area or school that has a higher percentage of children from low-income families if: (1) the school meets the Title I comparability requirements; (2) the school is receiving supplemental State or local funds that are spent according to the requirements in sections 1114 or 1115 of Title I; and (3) the supplemental State and local funds expended in the area or school equal or exceed the amount that would be provided under Part A. An LEA with an enrollment of less than 1000 students or with only one school per grade span is not required to rank its school attendance areas (Title I, Section 1113(a)-(b) of ESEA (20 USC 6313(a)-(b)); 34 CFR section 200.78(a)).

- b. *Allocating funds to eligible school attendance areas and schools* (LEAs with either schoolwide programs or targeted assistance programs)

An LEA must allocate Part A funds to each participating school attendance area or school, in rank order, on the basis of the **total** number of children from low-income families residing in the area or attending the school. In calculating the total number of children from low-income families, the LEA must include children from low-income families who reside in a participating area and attend private schools, using the same poverty data, if available, as the LEA uses to count public school children. If the same data are not available, the LEA may use comparable data. If an LEA uses a survey of families of private school children, the LEA may extrapolate, from actual data on a representative sample of private school children, the number of children from low-income families who attend private schools. An LEA may also correlate sources of data, or apply the low-income percentage of each participating public school attendance area to the number of private school children who reside in that area. If an LEA selects a public school to participate on the basis of enrollment, rather than because it serves an eligible school attendance area, the LEA must, in consultation with private school officials, determine an equitable way to count poor private school children in order to calculate the amount of Title I funds available to serve private school children. An LEA may count private school children from low-income families every year or every two years.

If an LEA serves any attendance area with less than a 35 percent poverty rate, the LEA must allocate to **all** its participating areas an amount per poor child that equals at least 125 percent of the LEA's Part A allocation per poor child. (An LEA's allocation per poor child is the total LEA

allocation under subpart 2 of Part A divided by the number of poor children in the LEA according to the poverty measure selected by the LEA to identify eligible school attendance areas. The LEA then multiplies this per-child amount by 125 percent.) If an LEA serves only areas with a poverty rate greater than 35 percent, the LEA must allocate funds, in rank order, on the basis of the total number of poor children in each area or school, but is not required to allocate a per-pupil amount of at least 125 percent. With the possible exception of a school in corrective action or restructuring, an LEA may not allocate a higher amount per poor child to areas or schools with lower percentages of poverty than to areas with higher percentages. Because an LEA may not reduce the allocation of a school identified for corrective action or restructuring by more than 15 percent in order to reserve Title I funds for choice-related transportation and supplemental educational services, the final allocation per poor child of such a school after application of this rule may be higher than a higher-poverty school. If an LEA serves areas or schools below 75 percent poverty by grade-span groupings, the LEA may allocate different amounts per poor child for different grade-span groupings as long as those amounts do not exceed the amount per poor child allocated to any area or school above 75 percent poverty. Amounts per poor child within grade spans may also vary as long as the LEA allocates higher amounts per poor child to higher poverty areas or schools within the grade span than it allocates to lower poverty areas or schools.

The LEA must reserve the amounts generated by poor private school children who reside in participating public school attendance areas to provide services to eligible private school children (Title I, Section 1113(c) of ESEA (20 USC 6313(c)) and Title I, Section 1116(b)(10)(D) of ESEA (20 USC 6316(b)(10)(D)); 34 CFR sections 200.77 and 200.78).

**3. Eligibility for Subrecipients - Not Applicable**

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

**1. Matching - Not Applicable**

**2.1 Level of Effort - *Maintenance of Effort***

See ED Cross-Cutting Section.

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

See ED Cross-Cutting Section.

### 3. Earmarking (SEAs)

See ED Cross-Cutting Section and the following:

a. *Targeting School Improvement Funds*

Each SEA must reserve 4 percent of the amount the State receives under subpart 2 of Part A for school improvement activities under sections 1116 and 1117 of Title I. Of the amount reserved, the SEA must allocate not less than 95 percent directly to LEAs for activities under section 1116 in schools identified for school improvement, corrective action, and restructuring. However, the SEA may, with the approval of its LEAs, provide directly for these activities or arrange for them to be provided by other entities such as school support teams or educational service agencies. In allocating these funds to LEAs, the SEA must give priority to LEAs that: (1) serve the lowest-achieving students; (2) demonstrate the greatest need for the funds; and (3) demonstrate the strongest commitment to ensuring that the funds will be used to enable the lowest-achieving schools to meet their progress goals.

In reserving these funds, an SEA may not reduce the sum of the allocations an LEA receives under subpart 2 of Part A below the sum of the allocations the LEA received for the preceding fiscal year. If funds are insufficient to reserve 4 percent and meet this provision, the SEA is not required to reserve the full amount.

If, after consulting with LEAs, the SEA determines that the amount of funds reserved is greater than needed, the SEA must allocate the excess amount to LEAs (1) in proportion to their allocations under subpart 2 of Part A, or (2) in accordance with the SEA's reallocation procedures under section 1126(c) of Title I (Title I, Section 1003(a)-(e) of ESEA (20 USC 6303(a)-(e)); 34 CFR section 200.100(a)).

For school year 2007-08 and any subsequent school year for which school improvement funds are appropriated under Section 1003(g), an SEA must allocate at least 95 percent of those funds directly to LEAs for schools identified for improvement, corrective action, and restructuring requirements under Section 1116 (20 USC 6316). However, the SEA may, with the approval of its LEAs, provide directly for these activities or arrange for them to be provided by other entities, such as school support teams or educational service agencies. Each LEA's grant must be of sufficient size and scope to support the activities required under Sections 1116 and 1117 and may not be less than \$50,000 or more than \$500,000 per participating school. The SEA may reserve no more than five percent of the Section 1003(g) funds it receives for administration, evaluation, and technical assistance (Title I, Section 1003(g) of ESEA (20 USC 6303(g))).



b. *Targeting Funds for Choice-Related Transportation and Supplemental Educational Services*

In the case of a school that is required to provide choice-related transportation under section 1116(b)(1)(E) of Title I and/or supplemental educational services under section 1116(e) of Title I, the LEA must spend an amount at least equal to 20 percent of its allocation under subpart 2 of Part A to provide such transportation and supplemental educational services, unless a lesser amount is needed to satisfy all requests. Of this amount, the LEA must spend a minimum of an amount equal to 5 percent of its subpart 2 allocation on choice-related transportation and a minimum of an amount equal to 5 percent of its subpart 2 allocation for supplemental educational services. It may spend the remaining 10 percent for either or both activities. The LEA may not include costs for administration or transportation related to supplemental educational services, if any, toward meeting these percentage requirements. In applying this provision, an LEA may not reduce by more than 15 percent the total amount it makes available under Part A to a school it has identified for corrective action or restructuring.

For each student receiving supplemental educational services, the LEA must make available the lesser of (1) the amount of its allocation under subpart 2 of Part A divided by the number of students in the LEA from families below the poverty level as determined by the U.S. Bureau of the Census; or (2) the actual cost of the services received by the student (Title I, Sections 1116(b)(10) and (e)(6) of ESEA (20 USC 6316(b)(10), (e)(6)); 34 CFR section 200.48).

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

See ED Cross-Cutting Section.

**L. Reporting**

**1. Financial Reporting**

See ED Cross-Cutting Section.

**2. Performance Reporting - Not Applicable**

**3. Special Reporting**

See ED Cross-Cutting Section.

**N. Special Tests and Provisions****1. Participation of Private School Children**

See ED Cross-Cutting Section.

**2. Schoolwide Programs (LEAs)**

See ED Cross-Cutting Section.

**3. Comparability**

See ED Cross-Cutting Section.

**4. Access to Federal Funds for New or Significantly Expanded Charter Schools**

See ED Cross-Cutting Section.

**5. Identifying Schools and LEAs Needing Improvement****Compliance Requirements***SEAs*

An SEA must annually review the progress of each LEA that receives funds under subpart 2 of Part A of Title I to determine whether the LEA made adequate yearly progress as defined by the State. The SEA must identify for improvement any LEA that fails to make adequate yearly progress, as defined by the State, for two consecutive years. The SEA must identify the LEA for corrective action if it continues to fail to make adequate yearly progress at the end of its second full year in improvement (subject to the delay provision discussed in the next paragraph) (Title I, Sections 1116(c)(1), (3), and (10) of ESEA (20 USE 6316(c)(1), (3), and (10)); 34 CFR sections 200.50-200.53).

The SEA may delay implementation of corrective action for a period not to exceed one year if the LEA makes adequate yearly progress for one year or its failure to make adequate yearly progress is due to exceptional or uncontrollable circumstances, such as a natural disaster or a precipitous and unforeseen decline in the financial resources of the LEA (Title I, Section 1116(c)(10)(F) of ESEA (20 USC 6316(c)(10)(F)); 34 CFR section 200.50(f)).

Each SEA must report annually to the Secretary (*OMB No. 1810-0581*), and make certain information widely available within the State, including the number and names of each school and LEA identified for improvement, corrective action, and restructuring under section 1116, the reason why each school and LEA was so identified, and the measures taken to address the achievement problems in general of such schools and LEAs. In addition, the SEA must prepare and disseminate an annual State report card that contains, among other things, information on the performance of LEAs regarding adequate yearly progress, including the number and names of each school and LEA identified for

improvement, corrective action, and restructuring under Section 1116. Moreover, the SEA must ensure that each LEA collects the data necessary to prepare its annual report card (Title I, Sections 1111(h)(1) and (4) of ESEA (20 USC 6311(h)(1) and (4))).

### *LEAs*

An LEA must annually review the progress of each school served under Title I, Part A to determine whether the school has made adequate yearly progress. The LEA must identify for school improvement any school that fails to make adequate yearly progress, as defined by the SEA, for two consecutive school years. After a school has been identified for improvement for two school years (subject to the delay provision discussed in the next paragraph), the LEA must identify that school for corrective action if it continues to fail to make adequate yearly progress. After a school has been in corrective action for a full school year (subject to the delay provision discussed in the next paragraph), the LEA must identify it for restructuring if it continues to fail to make adequate yearly progress (Title I, Sections 1116(a) and (b)(1), (7), and (8) of ESEA (20 USC 6316(a) and (b)(1), (7), and (8)); 34 CFR sections 200.30-200.34).

The LEA may delay, for a period not to exceed one year, implementation of requirements under the second year of school improvement, corrective action, or restructuring if the school makes adequate yearly progress for one year or the failure to make adequate yearly progress is due to exceptional or uncontrollable circumstances, such as a natural disaster or a precipitous and unforeseen decline in the financial resources of the school or LEA (Title I, Section 1116(b)(7)(D) of ESEA (20 USC 6316(b)(7)(D)); 34 CFR section 200.35).

Each LEA that receives Title I, Part A funds must prepare and disseminate to all schools in the LEA—and to all parents of students attending those schools—an annual LEA report card that, among other things, includes the number, names, and percentage of schools identified for school improvement and how long the schools have been so identified. The LEA must also publicize and disseminate the results of its annual progress review to parents, teachers, principals, schools, and the community. The LEA should use broad means of communication, such as the Internet and publicly available media, to disseminate and publicize this information (Title I, Sections 1111(h)(2) and 1116(a)(1)(C) of ESEA (20 USC 6311(h)(2) and 6316(a)(1)(C)); 34 CFR sections 200.36-200.38).

Note: In many states, the SEA conducts the review of progress of schools within LEAs and sends the results of that review to the LEAs.

**Audit Objectives** – Determine whether, in collecting, compiling, and reporting progress of LEAs and schools that receive funds under subpart 2 of Part A of Title I, the SEA and LEA complied with the above requirements.

## **Suggested Audit Procedures**

### *SEAs*

- a. Review how the SEA collects, compiles, and determines the accuracy of information obtained about the number and names of schools and LEAs in need of improvement and reports this data to ED and the public.
- b. Review data received about schools and LEAs to ascertain that those data were included and correctly reflected in the SEA's submission to ED and the information disseminated to the public.

### *LEAs*

- a. Review how the LEA determines the schools in need of improvement.
- b. Trace the data about the LEA to source records to determine its accuracy, reliability, and completeness.
- c. Determine whether the LEA disseminated information to all schools in the LEA and to all parents of students attending those schools and made the information widely available through public means, such as the Internet and the media.

## **6. Highly Qualified Teachers and Paraprofessionals**

### **Compliance Requirements**

#### *Highly qualified teachers.*

Beginning after the first day of the 2002-03 school year, an LEA had to ensure that any teacher whom it hired to teach a core academic subject and who worked in a program supported with Title I, Part A funds was highly qualified as defined in 34 CFR section 200.56. This requirement applied to teachers in Title I targeted assistance programs who taught a core academic subject and were paid with Title I, Part A funds and to all teachers who taught a core academic subject in a Title I schoolwide program school. By the end of the 2005-06 school year, the LEA had to ensure that all teachers of core academic subjects, whether or not they work in a program supported with Title I, Part A funds, are highly qualified. "Core academic subjects" means English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography (Title I, Section 1119(a) of ESEA (20 USC 6319(a)); 34 CFR sections 200.55 and 200.56).

Note: As provided in letters from the Secretary or the Assistant Secretary for Elementary and Secondary Education, dated October 21, 2005, March 21, 2006, and July 23, 2007 (see below), all States but one have negotiated a plan to come into compliance with the highly qualified teacher requirements. In accordance with the July 23, 2007 policy letter, schools should hire the most qualified teachers available.

*Qualifications of paraprofessionals.*

- a. An LEA must ensure that each paraprofessional who is hired by the LEA after January 8, 2002 and who works in a program supported with Title I, Part A funds meets specific qualification requirements. Paraprofessionals who work in a program supported with Title I, Part A funds and who were hired by an LEA prior to January 8, 2002, had to meet these requirements by the end of the 2005-2006 school year. The term “paraprofessional” means an individual who provides instructional support; it does not include individuals who have only non-instructional duties (such as providing technical support for computers, providing personal care services, or performing clerical duties). A paraprofessional works in a program supported with Title I, Part A funds if the paraprofessional is paid with Title I, Part A funds in a Title I targeted assistance school or any paraprofessional in a schoolwide program school.
- b. A paraprofessional must hold a high-school diploma or its recognized equivalent and meet one of the following requirements:
  - (1) Have completed at least two years of study at an institution of higher education.
  - (2) Have obtained an associate’s or higher degree.
  - (3) Have met a rigorous standard of quality, and can demonstrate through a formal State or local academic assessment knowledge of, and the ability to assist in instructing, reading/language arts, writing, and mathematics, or reading readiness, writing readiness, and mathematics readiness.
- c. A paraprofessional who is proficient in English and a language other than English and acts as a translator or who has duties that consist solely of conducting parental involvement activities need only have a high-school diploma or its recognized equivalent.

(Title I, Section 1119(c)-(f) of ESEA (20 USC 6319(c)-(f)); 34 CFR section 200.58)

A number of documents posted on ED’s website contain information pertinent to the Title I, Part A requirements regarding highly qualified teachers and paraprofessionals. They are:

- Key Policy Letters Signed by the Education Secretary or Deputy Secretary (March 31, 2004) (<http://www.ed.gov/policy/elsec/guid/secletter/040331.html>)
- Key Policy Letters Signed by the Education Secretary or Deputy Secretary (October 21, 2005) (<http://www.ed.gov/policy/elsec/guid/secletter/051021.html>)
- Statement Regarding No Child Left Behind Requirements for Paraprofessionals (June 17, 2005) (<http://www.ed.gov/news/pressreleases/2005/06/06172005a.html>)

- Key Policy Letter Signed by the Assistant Secretary for Elementary and Secondary Education (March 21, 2006) (<http://www.ed.gov/programs/teacherqual/cssoltr.doc>)
- Key Policy Letters Signed by the Education Secretary or Deputy Secretary (September 5, 2006) (<http://www.ed.gov/policy/elsec/guid/secletter/060905.html>)
- Key Policy Letters Signed by the Education Secretary or Deputy Secretary (July 23, 2007) (<http://www.ed.gov/policy/elsec/guid/secletter/070723.html>)
- Approved State plans for coming into compliance with highly qualified teacher requirements, and related materials (<http://www.ed.gov/programs/teacherqual/hqtplans/index.html>)

**Audit Objective** – Determine whether the LEA is hiring only highly qualified teachers to teach core academic subjects in general and is hiring only qualified paraprofessionals in programs supported with Title I, Part A funds. If the LEA is not hiring only highly qualified teachers, determine whether the LEA hiring of teachers of core academic subjects who are not highly qualified is consistent with the approved State plan.

#### **Suggested Audit Procedures**

- a. Review LEA procedures for hiring highly qualified teachers of core academic subjects in general and for hiring qualified paraprofessionals in programs supported with Title I, Part A funds.
- b. Trace the data to source records to determine if teachers of core academic subjects in general and paraprofessionals working in programs supported with Title I, Part A funds who were hired during the year covered by the audit met the criteria in 34 CFR sections 200.55, 200.56, and 200.58.
- c. Ascertain that the hiring of teachers of core academic subjects, during the year covered by the audit, who are not highly qualified, was consistent with the approved State plan.

## DEPARTMENT OF EDUCATION

### CFDA 84.011 MIGRANT EDUCATION - STATE GRANT PROGRAM (Title I, Part C of ESEA)

#### I. PROGRAM OBJECTIVES

The objectives of the Migrant Education - State Grant Program (Migrant Education Program or MEP) are to: (1) support high-quality and comprehensive educational programs for migratory children to help reduce the educational disruptions and other problems that result from repeated moves; (2) ensure that migratory children who move among the States are not penalized in any manner by disparities among the States in curriculum, graduation requirements, and State academic content and student academic achievement standards; (3) ensure that migratory children are provided with appropriate educational services (including support services) that address their special needs in a coordinated and efficient manner; (4) ensure that migratory children receive full and appropriate opportunities to meet the same challenging State student academic content standards and student academic achievement standards that all children are expected to meet; (5) design programs to help migratory children overcome educational disruption, cultural and language barriers, social isolation, various health-related problems, and other factors which inhibit the ability of migrant children to do well in school, and to prepare such children to make a successful transition to postsecondary education or employment; and (6) ensure that migratory children benefit from State and local systemic reforms.

#### II. PROGRAM PROCEDURES

MEP funds are allocated to a State educational agency (SEA), under either an approved consolidated application or an approved individual program application, in order for the SEA to provide MEP services and activities either directly, or through subgrants to local operating agencies. The amount of funding an SEA receives annually depends, in part, on the number of eligible migrant children that the SEA determined reside within the State. Local operating agencies can be either local educational agencies (LEAs) or other public or non-profit private agencies. Because an SEA may choose to provide MEP services directly or through a local operating agency, some of the suggested audit procedures will apply for an SEA or local operating agency, depending on which agency provides the services and where the records are maintained.

#### Source of Governing Requirements

This program is authorized by Title I, Part C of the Elementary and Secondary Education Act of 1965, as amended (ESEA)(20 USC 6391 through 6399). The Education Department (ED) General Administrative Regulations at 34 CFR parts 76, 77, 80, 82, and 85 apply to this program. Other requirements in 34 CFR part 200, subparts C (34 CFR sections 200.81 through 200.88) and E (34 CFR sections 200.100 through 200.103), and 34 CFR part 299 also apply.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple ESEA programs are discussed once in the ED Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references to the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

#### A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

1. *SEAs* - SEAs may use funds to operate the program (directly or through contracts), make subgrants to LEA or other local operating agencies, and pay for State administration. In general, funds available under the MEP may be used only to: (a) identify eligible migratory children and their needs; and (b) provide educational and support services (including, but not limited to, preschool services, professional development, advocacy and outreach, parental involvement activities and the acquisition of equipment) that address the identified needs of the eligible children.

An SEA may also use MEP funds to carry out administrative activities that are unique to the program. These activities include, but are not limited to, Statewide identification and recruitment of migratory children, interstate and intrastate program coordination, transfer of student records, collecting and using information to make subgrants, and direct supervision of instructional or support staff (Title I, Part C, Sections 1301, 1304(c) and 1306(b) of ESEA (20 USC 6392, 6394(c), and 6396(b)); 34 CFR section 200.41).

2. *LEAs or Other Local Operating Agencies* - LEAs or other local operating agencies use funds in accordance with the agreement with the SEA to (a) identify eligible migratory children and their needs; and (b) provide educational and support services that address the identified needs of the eligible children.

#### B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section.

#### C. Cash Management

See ED Cross-Cutting Section.



**E. Eligibility****1. Eligibility for Individuals (LEAs)**

Only eligible migratory children may receive MEP services. A “migratory child” means a child who is, or the child’s parent or child’s spouse is, a migratory agricultural worker, including a migratory dairy worker, or a migratory fisher, and who, in the preceding 36 months, in order to obtain, or accompany a parent or spouse, in order to obtain, temporary or seasonal employment in agriculture or fishing work (a) has moved from one school district to another, (b) in a State that is comprised of a single school district, has moved from one administrative area to another within such district, or (c) resides in a school district of more than 15,000 square miles, and migrates a distance of 20 miles or more to a temporary residence to engage in a fishing activity. (Title I, Part C, Section 1309(2) (20 USC 6399(2)). ED has issued implementing regulations in 34 CFR section 200.81 that further define a “migratory child” as well as the following key terms: “migratory agricultural worker,” “migratory fisher,” “agricultural activity,” “fishing activity,” and “principal means of livelihood” (Title I, Part C, Section 1302 and 1304(b)(1) of ESEA (20 USC 6392 and 6394(b)(1))).

**2. Eligibility of Group of Individuals or Area of Service Delivery - Not Applicable****3. Eligibility for Subrecipients – Not Applicable****G. Matching, Level of Effort, Earmarking****1. Matching - Not Applicable****2.1 Level of Effort - *Maintenance of Effort* - Not Applicable****2.2 Level of Effort - *Supplement Not Supplant***

See ED Cross-Cutting Section.

**3. Earmarking (SEAs)**

See ED Cross-Cutting Section.

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

See ED Cross-Cutting Section.

**L. Reporting****1. Financial Reporting**

See ED Cross-Cutting Section.

**2. Performance Reporting - Not Applicable****3. Special Reporting**

- a. *State Per Pupil Expenditure (SPPE) Data (OMB No 1850-0067)*  
(SEAs/LEAs)

See ED Cross-Cutting Section.

- b. *Consolidated State Performance Report, Part I, Migrant Child Counts*  
(OMB No. 1810-0614)

- (1) Migrant Child Counts of Children Eligible for Funding Purposes  
(SEAs)

The SEA is required—for allocation purposes—to assist ED in determining the number of eligible migratory children who reside in the State, using such procedures as ED requires. Each SEA annually provides unduplicated Statewide counts (and the procedures used to develop these counts) of eligible migratory children in each of two categories: (a) children ages 3 through 21 who resided in the State for one or more days during the preceding September 1-August 31; and (b) such children who were served one or more days in a migrant-funded project conducted either during the summer term or an intersession period (i.e., when a year-round school is not in session.) The SEA's report of State child counts is based on data submitted to it by the LEAs or other local operating agencies in the State, and is prepared based on data for the school year prior to the year that is subject to audit. For example, for the audit covering school year 2007-2008, the migrant child count data to be audited is in section 1.10 of the Consolidated State Performance Report, Part I on school year 2006-2007 submitted to ED in December 2007.

SEAs provide an assurance that they will assist ED in determining the number of migratory children in the State so that ED may determine the correct size of the State's annual MEP allocation. The statute and MEP regulations define who is a migrant (or migratory) child (Title I, Part C, Section 1309(2) (20 USC 6399(2)); 34 CFR section 200.81). ED offers further explanations of these definitions in non-binding guidance; i.e., guidance that represents an acceptable, but not necessarily the only, way to meet the legal requirements (Chapter II of *Title I, Part C, Education of Migratory Children: Draft Non-Regulatory Guidance*, available on the Internet at <http://www.ed.gov/programs/mep/mepguidance2003.doc>). ED's non-binding guidance to SEAs also addresses quality control

measures that represent an acceptable, but not necessarily the only, way to ensure that the numbers of migrant children they annually report to ED are accurate and unduplicated (Chapter III of *Title I, Part C, Education of Migratory Children: Draft Non-Regulatory Guidance*).

- (2) Reporting the number of eligible migrant children to the SEA (LEAs or other local operating agencies and SEAs providing direct services)

LEAs or other local operating agencies and SEAs providing direct services must implement procedures, based on the eligibility documentation they collect and maintain, to count and report eligible children in the two categories specified in III.L.3.b(1) Reporting - Special Reporting (Title I, Part C, Section 1304(c)(7) of ESEA (20 USC 6394(c)(7)); 34 CFR sections 76.730 and 76.731).

- c. *Consolidated State Performance Report, Part II, Education of Migrant Children (Title I, Part C) (OMB No. 1810-0614) (SEAs)*

An SEA must annually report population and program performance data that includes the unduplicated number of migrant children who were identified within the State as eligible to be served by the MEP, and who were identified within the State as having priority for services as defined in Title I, Part C, Section 1304(d) of ESEA (20 USC 6394(d)). ED offers further explanations of priority for services in non-binding guidance; i.e., guidance that represents an acceptable, but not necessarily the only, way to meet the legal requirements (Chapter V of *Title I, Part C, Education of Migratory Children: Draft Non-Regulatory Guidance*, available on the Internet at <http://www.ed.gov/programs/mep/mepguidance2003.doc>). The reported data are for the school year prior to the year that is subject to audit. For example, for the audit covering school year 2007-2008, the Consolidated State Performance Report, Part II to be audited would be the report on school year 2006-2007 submitted to ED in February 2008.

*Key Line Items* – The follow line item contains critical information:

Part II, Section 2.3 , Education of Migratory Children (Title I, Part C), Table 2.3.1.1, Eligible Migrant Children, the line titled “Total,” and Table 2.3.1.2, Priority for Service, the line titled “Total.” (Information by age/grade level does not need to be tested.)

**N. Special Tests and Provisions****1. Participation of Private School Children (SEAs/LEAs)**

See ED Cross-Cutting Section.

**2. Schoolwide Programs (LEAs)**

See ED Cross-Cutting Section.

**3. Comparability (SEAs/LEAs)**

See ED Cross-Cutting Section.

**4. Priority for Services**

**Compliance Requirement** - SEAs and LEAs or other local operating agencies must give priority for MEP services to migratory children who are failing, or most at risk of failing, to meet the State's challenging content and performance standards, and whose education has been interrupted in the regular school year (Title I, Part C, Section 1304(d) of ESEA (20 USC 6394(d))).

**Audit Objective** - (*SEAs providing services directly and LEA or other local operating agencies*) - Determine whether the SEA or LEA or other local operating agency is defining, and properly identifying and counting, "priority-for-services" migratory children so that priority in the provision of MEP services is given to those migratory children identified as failing, or most at risk of failing, to meet the State's challenging content and performance standards, and whose education has been interrupted in the regular school year (priority children).

**Suggested Audit Procedures** - (*SEAs providing services directly and LEA or other local operating agencies*)

- a. Review the SEA's or LEA's or other operating agency's definition of what constitutes failing, or most at risk of failing, to meet the State's challenging content and performance standards, and whose education has been interrupted in the regular school year.
- b. Review the SEA's or LEA's or other local operating agency's procedures to identify those individual migrant children who meet the applicable definition of failing, or most at risk of failing, to meet the State's challenging content and performance standards, and whose education has been interrupted in the regular school year (i.e., migrant children who meet the "priority-for-services" criteria).

- c. Review the SEA's or LEA's or other local operating agency's procedures to accurately count and report the unduplicated number of migrant children with "priority-for-services" who were identified and served. See the *Consolidated State Performance Report: Part II, Section 2.3, Education of Migratory Children* (Title I, Part C), Table 2.3.1.2.
- d. Review the SEA or LEA or other local operating agency's process for selecting children to receive MEP services.
- e. Select a sample of migratory children who were identified as priority children. Review program records to determine if these children were provided MEP services. (In rare instances, a local project may not have any "priority-for-services" children in its service area, in which case the suggested audit procedures would not apply.)

## 5. Subgrant Process (SEAs)

**Compliance Requirement** - SEAs may provide MEP services either directly, or through subgrants to LEA or other local operating agencies, including LEAs. Where the SEA awards subgrants, in order to target program funds appropriately, the SEA is required determine the amount of the subgrants by taking into account (a) the numbers of migratory children, (b) the needs of migratory children, (c) the "priority-for services" requirement in section 1304 (d) of ESEA (20 USC 6394(d)), and (4) the availability of funds from other Federal, State, and local programs. How the SEA takes into consideration the availability of funds is left to SEA discretion (Title I, Part C, Sections 1301 and 1304(b)(5) of the ESEA (20 USC 6391 and 6394(b)(5))).

**Audit Objective** - Determine whether the SEA's process to determine the amount of MEP subgrants takes into account current information on numbers of migratory children, needs of migratory children, need to serve priority children, and the availability of funds from other Federal, State, and local programs.

### Suggested Audit Procedures

Review the SEA's process to target MEP funds to ascertain if the process:

- a. Uses current information.
- b. Takes into account the (1) the numbers of migratory children, (2) the needs of migratory children, (3) the "priority-for services" requirement in Section 1304(d) of ESEA, and (4) the availability of funds from other Federal, State, and local programs.

## 6. Child Counts

**Compliance Requirement** - In section 1.10.3 of the Consolidated State Performance Report, Part I (See III.L.3.b.), SEAs are required to describe their quality control process for ensuring that the SEA properly determines and verifies the eligibility of each child in the reported count of eligible children. Counted children are educated at LEAs; therefore, in preparing section 1.10, SEAs may require LEAs to submit information to the SEA and comply with specified procedures concerning the child count. The quality control process is described in section 1.10.3.4 (20 USC 6394(c)(7)).

**Audit Objective** - Determine whether the SEA and participating LEAs carried out the quality control process described in the Consolidated State Performance Report, Part I.

### Suggested Audit Procedures

#### *SEAs*

- a. Determine that section 1.10.3.4 of the SEA's Consolidated State Performance Report, Part I contains a description of the quality control process over the count of eligible children, as required.
- b. Review the description of the SEA's quality control process over the count of eligible children in section 1.10.3.4 of the Consolidated State Performance Report, Part I.
- c. Ascertain whether the quality control process was actually conducted in the manner described.

#### *LEAs*

- a. Determine if the LEA was required to submit information to the SEA relating to section 1.10 of the Consolidated State Performance Report, Part I, and if so, what information was required, the processes for obtaining it, and how quality was ensured.
- b. Ascertain whether the LEA complied with the SEA's requirements relating to obtaining, processing, and submitting accurate data required for section 1.10 of the Consolidated State Performance Report, Part I.

## DEPARTMENT OF EDUCATION

**CFDA 84.027 SPECIAL EDUCATION—GRANTS TO STATES (IDEA, Part B)**  
**CFDA 84.173 SPECIAL EDUCATION—PRESCHOOL GRANTS (IDEA Preschool)**

### I. PROGRAM OBJECTIVES

The purposes of the Individuals with Disabilities Education Act (IDEA) are to: (1) ensure that all children with disabilities have available to them a free appropriate public education (FAPE) which emphasizes special education and related services designed to meet their unique needs; (2) ensure that the rights of children with disabilities and their parents or guardians are protected; (3) assist States, localities, educational service agencies and Federal agencies to provide for the education of all children with disabilities; and (4) assess and ensure the effectiveness of efforts to educate children with disabilities. The Assistance for Education of All Children with Disabilities Program (IDEA, Part B) provides grants to States to assist them in meeting these purposes (20 USC 1400 *et seq.*).

IDEA's Special Education—Preschool Grants Program, (Preschool Grants for Children with Disabilities Program), also known as the "619 Program," provides grants to States, and through them to LEAs, to assist them in providing special education and related services to children with disabilities ages three through five and, at a State's discretion, to two-year-old children with disabilities who will turn three during the school year (20 USC 1419).

### II. PROGRAM PROCEDURES

A State applying through its State Education Agency (SEA) for assistance under IDEA, Part B must, among other things, submit a plan to the Department of Education (ED) that provides assurances that the SEA has in effect policies and procedures that ensure that all children with disabilities have the right to a FAPE (20 USC 1412(a)).

States that receive assistance under IDEA, Part B, may receive additional assistance under the Preschool Grants Program. A State is eligible to receive a grant under the Preschool Grants Program if (1) the State is eligible under 20 USC 1412 and (2) the State demonstrates to the Secretary that it has in effect policies and procedures that ensure the provision of FAPE to all children with disabilities aged three through five years residing in the State. However, a State that provides early intervention services in accordance with Part C of the IDEA to a child who is eligible for services under Section 1419 is not required to provide that child with FAPE (20 USC 1412(a)(1)(C) and 20 USC 1419(b) and (c)).

#### Source of Governing Requirements

This program is authorized under the Individuals with Disabilities Education Act, Part B (IDEA-B) as amended on December 3, 2004 (Pub. L. No. 108-446; 20 USC 1400 *et seq.*). Implementing regulations for these programs are 34 CFR part 300.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple ED programs are discussed once in the ED Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements.

#### A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

1. *SEAs* - Allowable activities for SEAs are subgranting funds to LEAs and State administration, and other State-level activities (See “III.G.3, Earmarking” for a further description of these activities).
2. *LEAs*
  - a. *IDEA, Part B* - An LEA may use Federal funds under IDEA, Part B for the excess costs of providing special education and related services to children with disabilities. Special education includes specially designed instruction, at no cost to the parent, to meet the unique needs of a child with a disability, including instruction conducted in the classroom, in the home, in hospitals and institutions and in other settings, and instruction in physical education. Related services include transportation and such developmental, corrective and other supportive services as may be required to assist a child with a disability to benefit from special education. Related services do not include a medical device that is surgically implanted or the replacement of such device. A portion of these funds, under conditions specified in the law, may also be used by the LEA: for services and aids that also benefit non-disabled children; for early intervening services; to establish and implement high-cost or risk-sharing funds; and for administrative case management (20 USC 1401(26) and (29); 20 USC 1413(a)(2) and (4)).
  - b. *IDEA Preschool* - A LEA may use Federal funds under the Preschool Grants Program only for the costs of providing special education and related services (as described above) to children with disabilities ages three through five and, at a State’s discretion, providing a free appropriate public education to two-year-old children with disabilities who will turn three during the school year (20 USC 1419(a)).



**B. Allowable Costs/Cost Principles**

See ED Cross-Cutting Section.

**C. Cash Management**

See ED Cross-Cutting Section.

**G. Matching, Level of Effort, Earmarking****1. Matching - Not Applicable****2.1 Level of Effort - *Maintenance of Effort* (SEAs/LEAs)****a. SEAs**

- (1) A State may not reduce the amount of State financial support for special education and related services for children with disabilities (or State financial support otherwise made available because of the excess costs of educating those children) below the amount of State financial support provided for the preceding fiscal year. The Secretary reduces the allocation of funds under 20 USC 1411 for any fiscal year following the fiscal year in which the State fails to comply with this requirement by the amount by which the State failed to meet the requirement.

If, for any fiscal year, a State fails to meet the State-level maintenance of effort requirement (or is granted a waiver from this requirement), the financial support required of the State in future years for maintenance of effort must be the amount that would have been required in the absence of that failure (or waiver) and not the reduced level of the State's support (20 USC 1412(a)(18); 34 CFR section 300.163).

- (2) For any fiscal year for which the Federal allocation received by a State exceeds the amount received for the previous fiscal year and if the State pays or reimburses all LEAs within the State from State revenue 100 percent of the non-federal share of the costs of special education and related services, the SEA may reduce its level of expenditure from State sources by not more than 50 percent of the amount of such excess (20 USC 1413(j)(1)).

b. LEAs

- (1) IDEA, Part B funds received by an LEA cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year. To meet this requirement, an LEA must expend, in any particular fiscal year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal, on either an aggregate or per capita basis, to the amount of local funds, or a combination of State and local funds, expended for this purpose by the LEA in the prior fiscal year. Allowances may be made for: (a) the voluntary departure, by retirement or otherwise, or departure for just cause, of special education personnel; (b) a decrease in the enrollment of children with disabilities; (c) the termination of the obligation of the agency, consistent with this part, to provide a program of special education to a particular child with a disability that is an exceptionally costly program, as determined by the SEA, because the child has left the jurisdiction of the agency, has reached the age at which the obligation of the agency to provide a FAPE has terminated or no longer needs such program of special education; (d) the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities; or (e) the assumption of costs by the high cost fund operated by the SEA under 34 CFR section 300.704 (20 USC 1413(a)(2); 34 CFR sections 300.203 and 300.204).
- (2) For any fiscal year for which the federal allocation received by a LEA exceeds the amount received for the previous fiscal year, the LEA may reduce the level of local or State and local expenditures by not more than 50 percent of the excess (20 USC 1413(a)(2)(C)(i)). If an LEA exercises this authority, it must use an amount of local funds equal to the reduction in expenditures under Section 1413(a)(2)(C)(i) to carry out activities authorized under the Elementary and Secondary Education Act (ESEA) of 1965. The amount of funds expended by the LEA for early intervening services counts toward the maximum amount of State and local expenditures that the LEA may reduce. However, if an SEA determines that an LEA is unable to establish and maintain programs of FAPE that meet the requirements of Section 1413(a) or the SEA has taken action against the LEA under Section 1416, the SEA shall prohibit the LEA from reducing its local or State and local expenditures for that fiscal year (20 USC 1413(a)(2)(C)).

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

### 3. Earmarking

Individual State grant award documents identify the amount of funds a State must distribute to its LEAs on a formula basis and the amount it can set aside for administration and other State-level activities.

a. **IDEA, Part B (SEAs)**

- (1) *Administration:* Each State may reserve, for each fiscal year, not more than the maximum amount the State was eligible to reserve for State administration under 20 USC 1411 for FY 2004, or \$800,000 (adjusted for inflation in accordance with 20 USC 1411(e)(1)(B)), whichever is greater. Administration includes the coordination of activities under this part with, and providing technical assistance to, other programs that provide services to children with disabilities. These funds may also be used for the administration of Part C of the IDEA if the SEA is the lead agency (20 USC 1411(e)(1)A) and 1411(f)(2)).
- (2) *State-level activities:* Each State, for fiscal years 2005 and 2006, may reserve not more than 10 percent from the amount of the State's allocation under Section 1411(d) for State-level activities. States, for which the maximum amount reserved for State administration is not greater than \$850,000, may reserve, in fiscal years 2005 and 2006, 10.5 percent from the amount of the State's allocation under Section 1411(d) for the purpose of carrying out State-level activities. However, any State that, in FYs 2005 or 2006, does not reserve funds for the LEA Risk Pool shall have the maximum amount it can reserve for State-level activities reduced by 1 percent of the amount of its allocation under Section 1411(d) (20 USC 1411(e)(2)). SEAs must use State-level activity funds for monitoring, enforcement, and complaint investigation, and to establish and implement the mediation process, including providing for the costs of mediators and support personnel.

These funds may also be used:

- (a) for support and direct services, including technical assistance and personnel preparation and professional development and training;
- (b) to support paperwork reduction activities, including expanding the use of technology in the individualized education plan (IEP) process;
- (c) to assist LEAs in providing positive behavioral interventions and supports and appropriate mental health services for children with disabilities;

- (d) to improve the use of technology in the classroom to enhance learning by children with disabilities ;
  - (e) to support the use of technology, including technology with universal design principals and assistive technology devices, to maximize accessibility to the general education curriculum for children with disabilities;
  - (f) for development and implementation of transition programs;
  - (g) for assistance to LEAs in meeting personnel shortages;
  - (h) to support capacity-building activities and improve the delivery of services by LEAs to improve results for children with disabilities;
  - (i) for alternative programming for children with disabilities who have been expelled from school, and services for children with disabilities in correctional facilities, children enrolled in State-operated or State-supported schools, and children with disabilities in charter schools;
  - (j) to support the development of and provision of appropriate accommodations for children with disabilities, or the development and provision of alternative assessments that are valid and reliable for assessing the performance of children with disabilities; and
  - (k) to provide technical assistance to schools and LEAs and direct services, including supplemental educational services as defined in section 1116(e)(12)(C) of the ESEA (20 USC 6316(e)(12)(C)), in schools or LEAs identified for improvement solely on the basis of the assessment results of the disaggregated group of children with disabilities (20 USC 1411(e)(2)).
- (3) *LEA Risk Pool:* Each State has the option to reserve for each fiscal year 10 percent of the amount of funds the State reserves for State-level activities: (a) to establish and make disbursements from the high-cost fund to LEAs; and (b) to support innovative and effective ways of cost-sharing by the State, by an LEA, or among a consortium of LEAs, as determined by the State in coordination with representatives from LEAs. For purposes of this provision, the term “LEA” includes a charter school that is an LEA, or a consortium of LEAs (20 USC 1411(e)(3)).

(4) *Formula Subgrants to LEAs:* Any funds under this program that the SEA does not retain for administration and other State-level activities shall be distributed to eligible LEAs in the State. An SEA must distribute to each eligible LEA the amount that LEA would have received, from the fiscal year 1999 appropriation, if the State had distributed 75 percent of its grant for that year to LEAs. (This amount is based on the IDEA-B child count conducted on December 1, 1998.) The SEA must then distribute 85 percent of any remaining funds to those LEAs on the basis of the relative numbers of children enrolled in public and private elementary and secondary schools within the LEA's jurisdiction; and then distribute 15 percent of any remaining funds to those LEAs in accordance with their relative numbers of children living in poverty, as determined by the State educational agency (20 USC 1411(f)(2)).

b. ***IDEA, Preschool Grants Program*** (SEAs)

(1) *Reservation for State Activities:* For each fiscal year, the Secretary shall determine and report to the SEA an amount that is 25 percent of the amount the State received under this program for fiscal year 1998, cumulatively adjusted by the Secretary for each succeeding fiscal year. These funds may be retained by the State for administration and other State level activities (20 USC 1419(d)).

(a) *State Activities (Administration):* An SEA may use up to 20 percent of the funds it is allowed to retain for State activities under 20 USC 1419(d) for the purposes of administering this program, including the coordination of activities under the IDEA with, and providing technical assistance to, other programs that provide services to children with disabilities. These funds may also be used for the administration of Part C of the IDEA if the SEA is the lead agency for the State under this part (20 USC 1419(e)).

(b) *State Activities (Other State level activities):* SEAs shall use funds reserved for State level activities that are not used for administration for: (a) support services (including establishing and implementing the mediation process required by section 20 USC 1415(e)), which may benefit children with disabilities younger than 3 or older than 5 as long as those services also benefit children with disabilities aged 3 through 5; (b) direct services for children eligible for services under this program; (c) development of a State improvement plan; (d) activities at the State and local levels to meet the performance goals established by the State and to support implementation of the State improvement plan; or

(e) supplementing other funds used to develop and implement a Statewide coordinated services system designed to improve results for children and families, including children with disabilities and their families, but not to exceed one percent of the amount received by the State under this program for a fiscal year (20 USC 1419(f)).

(2) *Formula Subgrants to LEAs:* Any funds under this program that the SEA does not retain for administration and other State-level activities shall be distributed to eligible LEAs in the State. An SEA must distribute to each eligible LEA the amount the LEA would have received from the fiscal year 1997 appropriation if the State had distributed 75 percent of its grant for that year to LEAs. (This amount is based on the IDEA-B child count conducted on December 1, 1996.) The SEA must then distribute 85 percent of any remaining funds to those agencies on the basis of the relative numbers of children enrolled in public and private elementary and secondary schools within the agency's jurisdiction; and then distribute 15 percent of any remaining funds to those agencies in accordance with their relative numbers of children living in poverty, as determined by the SEA. (If an SEA determines that an LEA is adequately providing a FAPE to all children with disabilities aged 3 through 5 residing in the area served by that agency with State and local funds, the SEA may reallocate any portion of the funds under this program that are not needed by that LEA to provide a FAPE to other LEAs in the State that are not adequately providing special education and related services to all children with disabilities aged 3 through 5 residing in the areas they serve) (20 USC 1419(g)).

c. ***Schoolwide Programs*** (LEAs)

The amount of IDEA- B funds used in a schoolwide program, may not exceed the amount received by the LEA under IDEA-B for that fiscal year divided by the number of children in the jurisdiction of the LEA multiplied by the number of children participating in the schoolwide program (34 CFR section 300.206).

d. ***Redistribution of Formula Funds to LEAs***

If a new LEA is created within a State, the State shall divide the base allocation for the LEAs that would have been responsible for serving children with disabilities now being served by the new LEA among the new LEA and affected LEAs based on the relative numbers of children with disabilities currently provided special education by each of the LEAs. If one or more LEAs are combined into a single LEA, the State shall combine the base allocation of the merged LEAs. If, for two or more

LEAs, geographic boundaries or administrative responsibilities for providing services to children with disabilities ages 3 through 21 change, the base allocation of affected LEAs shall be redistributed among affected LEAs based on the relative numbers of children with disabilities currently provided special education by each affected LEA (34 CFR section 300.705(b)(2)).

e. ***Early Intervention Services***

An LEA can use not more than 15 percent of the amount of Federal funds (less any amount by which it reduces State and local expenditures under 20 USC 1413(a)(2)(C)) (See G.2.1.b. in this section), in combination with other funds for early intervening services for children in kindergarten through grade 12 who have not been identified under IDEA but need additional academic and behavioral support to succeed in the general education environment (20 USC 1413(f)).

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

See ED Cross-Cutting Section.

**L. Reporting**

**1. Financial Reporting**

See ED Cross-Cutting Section.

**2. Performance Reporting - Not Applicable**

**3. Special Reporting**

*Report of Children and Youth with Disabilities Receiving Special Education Under Part B of the Individuals With Disabilities Education Act, as amended (OMB Nos. 1820-0030, 1820-0043, 1820-0517, 1820-0521, and 1820-0621) -*

Each SEA is required to report to the Secretary an unduplicated count of children with disabilities receiving special education and related services.

The SEA may include in this count children with disabilities who are enrolled in a school or program that is operated or supported by a public agency, and that either (1) provides them with both special education and related services or (2) provides them only with special education if they do not need related services to assist them in benefiting from that special education. The SEA may not, however, include in this count children with disabilities who: (1) are not enrolled in a school or program operated or supported by a public agency; (2) are not provided special education that meets State standards; or (3) are not provided with a related service that they need to assist them in benefiting from special education (34 CFR sections 300.640, 300.643, and 300.644).

Each SEA must: (1) establish procedures to be used by LEAs and other educational institutions in counting the number of children with disabilities receiving special education and related services; (2) obtain certification from each agency and institution that an unduplicated and accurate count has been made; and (3) ensure that documentation is maintained that enables the State and the Secretary to audit the accuracy of the count (34 CFR sections 300.645(a), (c), and (e)).

LEAs must report to the SEA in accordance with the SEA-established procedure.

**N. Special Tests and Provisions**

**1. Schoolwide Programs**

See ED Cross-Cutting Section.

**2. Access to Federal Funds for New or Significantly Expanded Charter Schools**

See ED Cross-Cutting Section.



## DEPARTMENT OF EDUCATION

### CFDA 84.032 FEDERAL FAMILY EDUCATION LOANS (Guaranty Agencies)

#### I. PROGRAM OBJECTIVES

Non-profit and State guaranty agencies are established to guarantee student loans made by lenders and perform certain administrative and oversight functions under the Federal Family Education Loans (FFEL) program, which includes Federal Stafford Loans (both subsidized and unsubsidized), Federal PLUS loans, and Federal Consolidation loans. The Department of Education (ED) provides reinsurance to the guaranty agency.

#### II. PROGRAM PROCEDURES

To participate in the FFEL programs and to receive various payments and benefits incident to that participation, a guaranty agency enters into agreements with ED under which the guaranty agency agrees to comply with the applicable law and regulations. In general, guaranty agencies (1) establish and maintain a Federal Student Loan Reserve Fund (Federal Fund) and the Agency Operating Fund; (2) collect on defaulted loans on which they have paid claims; (3) make timely claim payments to lenders on defaulted loans; (4) make timely reinsurance filings with ED; (5) provide accurate and reliable reports to ED; (6) apply proper charges to defaulted borrowers; and (7) take proper enforcement measures with respect to lenders, lender servicers, and defaulted borrowers.

Section 428A of the Higher Education Act, as amended (HEA), allows ED to enter into Voluntary Flexible Agreements (VFA) with guaranty agencies to pilot alternatives to the current guaranty agency financing model or structure. Any guaranty agency or consortium of agencies may apply to enter into a VFA with ED (Section 428A(a)(3) of the HEA (20 USC 1078-1(a)(3))). VFA pilots are uniquely designed by each guaranty agency and may waive some of the compliance requirements. If a VFA exists, the auditor should review the VFA and determine: (1) which of the III. Compliance Requirements below are applicable, and (2) what, if any, additional or alternative audit procedures should be performed to test compliance with the terms of the VFA.

#### Source of Governing Requirements

The FFEL program is authorized by the Higher Education Act (HEA) of 1965, as amended (20 USC 1071 to 1087-2). Program regulations are located at 34 CFR part 682.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

The compliance requirements and suggested audit procedures for allowed and unallowed services are presented separately in III. N.9, “Special Tests and Provisions - Federal Fund and Agency Operating Fund.”

#### L. Reporting

1. **Financial Reporting** - Not Applicable
2. **Performance Reporting** - Not Applicable
3. **Special Reporting**

ED Form 2000, *Guaranty Agency Financial Report (OMB No. 1845-0026)* - Guaranty agencies submit this form monthly, monthly/quarterly, or annually. Instructions for this report are available on the Internet at <http://www.fp.ed.gov/PORTALSWebApp/fp/proj1.jsp>

In determining which amounts to test on ED Form 2000, particular attention should be given to the September 30 amounts for current year defaults, current year collections, loans receivable and the sources and uses of funds in the Federal Fund (or equivalent line items pertaining to the Federal/Operating Funds for the September 30 report). Also, guaranty agencies are required to submit loan level detail information to the National Student Loan Data System (NSLDS) (*OMB No. 1845-0035*). When reviewing support for the above reports, the auditor should consider whether the relevant amounts in these reports reconcile with the NSLDS Extract submitted by the guaranty agency. (Note: There may be some differences between the ED Form 2000 and the NSLDS Extracts due to timing factors (e.g., pulling of NSLDS Extract in third week vs. month end). Finally, ED may send edits back to the guaranty agency to be entered.)

The guaranty agency is required to submit loan-level detail data to the NSLDS. The following are identified as key data elements:

- a. Social security number;
- b. First name;
- c. Date of birth;

- d. Original school code;
- e. Academic level;
- f. Current school code;
- g. Enrollment status code;
- h. Enrollment status date;
- i. Originating lender code;
- j. Loan guarantee date;
- k. Amount of guarantee;
- l. Current holder lender code;
- m. Date repayment entered;
- n. Loan status code;
- o. Loan status date;
- p. Outstanding principal;
- q. Amount of claim paid to lenders (principal and interest); and
- r. Interest and fee amounts for loans in defaulted status.

ED sends edits back to the guaranty agency for disposition. Samples should be selected from the guaranty agency's NSLDS Extracts (Note: Guaranty Agencies may have changed to automated exchanges of data with schools and lenders; thus, hard copy documents may not exist. In this instance, auditors may only be able to trace to system information and not to supporting records.) (34 CFR section 682.414(b)).

In addition to providing ED with information it needs to maintain its accounting and loan database records, data in the ED Form 2000 report are used for various purposes by ED. The use of this data is the subject of several other compliance requirements cited in III.N, "Special Tests and Provisions," which identify the need to test specific items in these reports. For audit efficiency, the auditor may want to test those requirements at the same time as this compliance requirement. The other compliance requirements are III.N.2, "Federal Reinsurance Rate," III.N.3, "Conditions of Reinsurance Coverage," III.N.4, "Death, Disability, Closed Schools, False Certifications, Unpaid Refunds, and Bankruptcy Claims," and III.N.9, "Federal Fund and Agency Operating Fund."

## N. Special Tests and Provisions

### 1. Current Records

**Compliance Requirement** - The guaranty agency shall maintain current, complete records for each loan that it holds. The records must be maintained in a system that allows ready identification of each loan's current status, updated at least once every 10 business days (34 CFR section 682.414(a)).

**Audit Objective** - Determine whether the guaranty agency's records are updated for information received from lenders, schools, borrowers, others, and NSLDS on a timely basis.

#### Suggested Audit Procedures

- a. For a sample of loans, compare dates transactions or information was posted to the guaranty agency's system to the dates the source information was received.
- b. Identify whether any backlog exists that is over 10 days old.

### 2. Federal Reinsurance Rate

**Compliance Requirement** - The applicable Federal reinsurance rate for a loan depends on the amount of reinsurance claims paid to the guaranty agency during the year and the date the loan was made (34 CFR sections 682.404(a) and (b)).

For loans made prior to October 1, 1993 or transferred under a plan to transfer guarantees from an insolvent guaranty agency approved by ED, when the total amount of reinsurance claims paid to the guaranty agency during a fiscal year is less than five percent of the amount of loans in repayment at the end of the preceding fiscal year, reinsurance is paid for 100 percent of the guaranty agency's losses. When the total amount of reinsurance claims paid to the guaranty agency during a fiscal year reaches five percent of the amount of loans in repayment at the end of the preceding fiscal year, the reinsurance subsequently paid to the guaranty agency during that fiscal year, drops to 90 percent. When the amount of claims reaches nine percent, the reinsurance drops to 80 percent.

For loans made from October 1, 1993 to September 30, 1998, the above rates drop to 98/88/78 percent, respectively. For loans made on or after October 1, 1998 the respective rates are 95/85/75 percent (Section 428(c)(1) of HEA (20 USC 1078(c)(1))).

The Secretary uses the ED Form 2000 report for the previous September 30 to calculate the amount of loans in repayment at the end of the preceding fiscal year (34 CFR sections 682.404(a), (b), and (c)).

Past problem areas have been:

Guaranty agencies have:

- Not established systems to verify a student's loan status with lender and school data through a reliable audit trail.
- Established systems to determine loan status that rely on loan characteristic analysis or assumptions that are not adequately tested or verified.
- Not established adequate procedures to ensure that lenders report and agencies properly record loans paid in full.
- Not established adequate procedures to ensure that there is a system to reconcile the guaranty agency's repayment conversion dates to the lender's repayment conversion dates.

**Audit Objective** - Determine whether the data submitted to ED in the September 30 Form 2000 used to calculate loans in repayment is materially correct and supported by the books and records.

### **Suggested Audit Procedures**

- a. Compare the amounts of loans in repayment in the guaranty agency system at September 30 to the amount of loans in repayment derived from the September 30 ED Form 2000. Determine the propriety of any difference.
- b. Select a sample of loans in in-school, deferment, forbearance, and repayment status from the guaranty agency's system. Verify the loan amount and loan status by contacting the current holder of the loan or schools to confirm the authenticity and status of the loans.

### **3. Conditions of Reinsurance Coverage**

**Compliance Requirement** - A guaranty agency may make a payment from the Federal Fund and receive a reinsurance payment on a loan only if the requirements cited in 34 CFR sections 682.406 and 682.414 are met. (Exception: see below for provisions pertaining to claims submitted by a lender or lender servicer designated by the Secretary for exceptional performance (EP) under 34 CFR section 682.415(b)). The lender must provide the guaranty agency with documentation, as described in 34 CFR sections 682.406 and 682.414. Key items in that documentation include:

- a. Evidence that the lender exercised due diligence in making, disbursing, and servicing the loan as prescribed by the rules of the guaranty agency, including documentation of:
  - (1) Timely conversion to repayment;

- (2) Collection and payment histories;
  - (3) Beginning and ending dates of borrower deferments/forbearances;
  - (4) Required skip-tracing activities; and
  - (5) No 45-day gaps in collection activities (34 CFR section 682.406(a)(1)).
- b. Evidence that the loan was actually in default before the guaranty agency paid a default claim (34 CFR sections 682.406(a)(4) and 682.411(b)(2)).
  - c. Evidence that the lender filed a default claim with the guaranty agency within 90 days of default (34 CFR section 682.406(a)(5)).
  - d. Evidence that the loan was legally enforceable by the lender when the guaranty agency paid the claim on the loan to the lender (34 CFR section 682.406(a)(10)).
  - e. Evidence that the lender provided an accurate collection history and an accurate payment history with the default claim showing that the lender exercised due diligence in collecting the loan (34 CFR section 682.406(a)(3)).
  - f. Evidence that the lender satisfied all conditions of guarantee coverage set by the guaranty agency (34 CFR section 682.406(a)(7)).

The Secretary requires a guaranty agency to repay reinsurance payments received on a loan if the lender or the guaranty agency failed to meet these requirements (34 CFR sections 682.406 and 682.414). However, in the case of claims submitted by a lender or lender servicer designated by the Secretary for exceptional performance (EP) under 34 CFR section 682.415(b). (The designation of exceptional performance was eliminated effective October 1, 2007 (Section 302, Pub. L. No. 110-84).):

- A guaranty agency may not refuse to pay a claim or may not require repurchase of a loan, solely on the basis of a violation of repayment conversion, due diligence requirements specified in 34 CFR section 682.415(d)(1), or timely filing requirements (34 CFR section 682.415(b)(5)).
- A guaranty agency is not required to perform additional review of claims packages submitted by EP lenders or lender servicers for due diligence specified in 34 CFR section 682.415(d)(1), repayment conversion, or timely filing before paying the claim (34 CFR sections 682.415(a)(1) and (b)(7)(i)). However, the EP lender or lender servicer is still required to submit a complete claim package, and the guaranty agency is responsible for rejecting the claim if it determines that the claim is incomplete or ineligible for reasons other than violations of the specified due diligence requirements, repayment conversion, or timely filing. For example, if an EP lender or lender servicer submits a claim on a loan that is not in default status, the guaranty agency must reject the claim. If a claim package contained no evidence at all of due diligence performed, it would be incomplete, and must be rejected (34 CFR section 682.414).

Past problem areas have been:

The lender:

- Did not exercise due diligence in collecting the loan in accordance with 34 CFR section 682.411 (34 CFR section 682.406(a)(3)).
- Did not include adequate documentation evidencing: timely conversion to repayment, a detailed collection and detailed payment history, beginning or ending dates of borrowers' deferments/forbearances supported by the borrowers' signed written requests for deferment/forbearance, performance of required skip-tracing activities, and no 45-day gaps in collection activities to support claim eligibility and the claim amount (34 CFR section 682.406(a)(3)).
- Did not file a default claim with the guaranty agency within 90 days of default. (Note: The guaranty agency shall reject the claim based on due diligence or timely filing violations, unless it was cured by the lender in accordance with Cure Bulletin 88-G-138. See 34 CFR part 682, Appendix D) (34 CFR section 682.406(a)(5)).
- Was paid interest beyond 30 days after a claim was returned for inadequate documentation for claims returned on or after July 1, 1996 (34 CFR section 682.406(a)(6)).

The guaranty agency:

- Filed a request for payment of reinsurance later than 30 days following payment of a default claim to the lender (34 CFR section 682.406(a)(9)).
- Did not pay the lender within 90 days of the date the lender filed the claim (34 CFR section 682.406(a)(8)).

**Audit Objective** - Determine whether loans for which reinsurance was paid met the requirements for reinsurance.

### **Suggested Audit Procedures**

- a. Select a sample of defaulted loans from the guaranty agency's ED Form 2000 reports.
- b. Ascertain if, prior to paying claims, the guaranty agency determined that:
  - (1) The lender exercised due diligence in making, disbursing, and servicing the loan;
  - (2) The loan was legally enforceable;

- (3) The loan was in default;
  - (4) The claim was timely filed;
  - (5) The lender provided an accurate collection and payment history showing that the lender exercised due diligence in collecting the loan; and
  - (6) The lender satisfied conditions of guaranty coverage set by the guaranty agency.
- c. Ascertain that the guaranty agency:
- (1) Filed a request for payment of reinsurance no later than 30 days following payment of a default claim to the lender; and
  - (2) Paid the lender or returned the claim to the lender for additional documentation within 90 days of the date the lender submitted the claim.

As noted above, a guaranty agency need not review, and may not deny, a claim submitted by a lender or servicer designated as an exceptional performer prior to October 1, 2007, for violation of repayment conversion, specified due diligence requirements, or timely filing requirements.

#### **4. Death, Disability, Closed Schools, False Certification, Unpaid Refunds, and Bankruptcy Claims**

**Compliance Requirements** - If an individual borrower dies, the obligation of the borrower and any endorser to make any further payments on the loan is canceled, in accordance with 34 CFR sections 682.402(b)(2)-(5). A borrower may file an application for discharge due to total and permanent disability. Total and permanent disability discharges are approved in accordance with 34 CFR section 682.402(c). If a borrower files an application for discharge due to a school closing, the Secretary reimburses the holder of the loan in accordance with 34 CFR section 682.402(d). If a borrower's eligibility to receive a loan was falsely certified by an eligible school, the Secretary reimburses the holder of the loan and discharges the loan in accordance with 34 CFR section 682.402(e). The Secretary reimburses the holder of a loan for the amount of unpaid refunds under certain circumstances in accordance with 34 CFR sections 682.402(l) through (p). If a borrower files a petition for relief under the Bankruptcy Code, the Secretary reimburses the holder of the loan for unpaid principal and interest on the loan, in accordance with 34 CFR sections 682.402(f), (g), and (h). Exceptions to these regulations are identified in 34 CFR sections 682.402(a)(2) and (3).

A lender must file a death, disability, closed school, false certification, or bankruptcy claim within the period prescribed in 34 CFR section 682.402(g)(2). The guaranty agency shall review a death, disability, closed school, false certification, or bankruptcy claim promptly and shall pay the lender in accordance with 34 CFR section 682.402(h). Guaranty agencies are required to take specific actions in bankruptcy proceedings in accordance with 34 CFR section 682.402(i). In accordance with 34 CFR section



682.402, the guaranty agency shall not request payment from ED until the lender's claim has been paid. A borrower or lender must file an unpaid refund application within the period prescribed in 34 CFR section 682.402(l). The guaranty agency shall review an unpaid refund claim promptly in accordance with 34 CFR section 682.402(l) and shall pay the lender in accordance with 34 CFR section 682.402(n).

**Audit Objectives** - Determine whether death, disability, closed school, false certification, unpaid refund, and bankruptcy claims met the requirements for the payment of such claims.

### **Suggested Audit Procedures**

- a. Select a sample of death, disability, closed school, false certification, unpaid refund, and bankruptcy claims from the guaranty agency's ED Form 2000 reports.
- b. Review claim documentation that supports the eligibility of the claims for payment.

## **5. Default Aversion Assistance**

**Compliance Requirements** - Upon receipt of a complete request from a lender, received not earlier than day 60 and no later than day 120 of delinquency, a guaranty agency shall engage in default aversion activities designed to prevent the default by a borrower. Default aversion activities are activities of a guaranty agency that are directly related to providing collection assistance to the lender on a delinquent loan prior to the loan being legally in a default status. In consideration of such efforts, the guaranty agency receives a default aversion fee (34 CFR section 682.404(k)).

*Calculating the Fee* - In general, a guaranty agency may transfer a default aversion fee from its Federal Fund to its Operating Fund based on 1 percent of the total unpaid principal and accrued interest owed on loans on which the lender requests default aversion assistance. However, if a loan on which the guaranty agency has received the default aversion fee is subsequently paid as a default claim, the guaranty agency must rebate funds to the Federal Fund by deducting the rebate funds from the default aversion fee calculation. The fees may be transferred from the Federal Fund to the Operating Fund no more frequently than monthly and may not be paid more than once on any loan (34 CFR section 682.404(k)).

**Audit Objectives** - Determine whether the guaranty agency performed default aversion activities in accordance with the requirements, whether loans on which the default aversion fee was received were qualified, and whether the fees were calculated accurately.

### **Suggested Audit Procedures**

- a. For a sample of loans, review documentation supporting that the loans qualified for and the guaranty agency performed the default aversion activities.

- b. For a sample of default aversion fee transfers:
  - (1) Verify that the default aversion fee was calculated accurately.
  - (2) Verify that default aversion fees were not paid more than once on the same loan.
- c. For a sample of defaulted loans, verify that the appropriate default aversion fees are returned to the Federal Fund.

## 6. Collection Efforts

**Compliance Requirements** - The guaranty agency must engage in certain collection activities within certain time frames as prescribed by 34 CFR section 682.410(b)(6) on a loan for which it pays a default claim filed by a lender. These collection activities include written notices, contacts with borrowers, wage garnishments, etc. If a guaranty agency contracts with another party to perform default aversion assistance activities and collect defaulted loans, the party that provides default aversion assistance on a loan may not perform collection activity on that loan within three years of the date the default claim is paid (34 CFR sections 682.404(k) and 682.410(b)(6)).

**Audit Objectives** - Determine whether the guaranty agency performed required collection procedures on defaulted loans and that the collection contractor did not perform collection activities within three years of the default claim payment on loans for which it performed default aversion assistance.

### Suggested Audit Procedures

- a. If the guaranty agency uses a collection contractor, review the contract to ascertain if the contract specified the required collection procedures to be followed for defaulted loans.
- b. For a sample of defaulted loan accounts, review documentation that supports that prescribed collection activities were followed.
- c. Verify that the collection contractor did not perform collection activity within the three-year period on loans for which it performed default aversion assistance.

## 7. Federal Share of Borrower Payments

**Compliance Requirement** - If the borrower makes payments on a loan after the guaranty agency has paid a claim on that loan, the guaranty agency must pay the Secretary an equitable share of those payments.

The Secretary's equitable share is the portion of payments that remains after deducting:

- a. The complement of the reinsurance percentage in effect when reinsurance was paid on the loan (See III.N.2, "Federal Reinsurance Rate," above for the applicable reinsurance rate. The complement of the reinsurance percentage equals 100 minus the Federal reinsurance rate), and
- b.
  - (1) 23 percent of borrower payments received prior to October 1, 2007, or
  - (2) 16 percent of borrower payments received on or after October 1, 2007.

(Section 428(c)(6) of HEA (20 USC 1078(c)(6)).

Loans that have been rehabilitated or paid by FFEL or Direct Loan program consolidation loans are not covered by this requirement because the payoff amounts are not considered payments made by the borrower. For these loans, under separate authority, agencies are allowed to retain an amount based on the amount of collection costs charged to the borrower and paid off by the consolidation loan; however, the amount retained may not exceed --

- (1) For payoffs received prior to October 1, 2006, 18.5 percent of the payoff;
- (2) For payoffs received on or after October 1, 2006, the lesser of actual collection costs charged or 8.5 percent of principal and interest outstanding on the loans paid off, except that no portion of the collection costs paid by a consolidation loan, received in a Federal fiscal year beginning on or after October 1, 2009, that exceed 45 percent of the agency's total collections on defaulted loans that year, may be retained.(34 CFR sections 682.405(b)(1)(vi), 682.401(b)(27), and 685.220(f)).

A guaranty agency is required to deposit into its Federal Fund all funds received on loans on which a claim has been paid, including default collections, within 48 hours of receipt of those funds, minus any portion that the agency is authorized to deposit into the Operating Fund. Forty-eight hours means two (2) business days. "Receipt of Funds" means actual receipt of funds by the guaranty agency or its agent, whichever is earlier (34 CFR section 682.419(b)(6)).

**Audit Objective** - Determine whether the Secretary's equitable share of borrower payments on defaulted loans is properly computed and deposited into the Federal Fund in a timely manner.

### **Suggested Audit Procedures**

Test a sample of borrower payments on defaulted loans at the loan level to ascertain if the equitable share due ED was deposited into the Federal Fund in a timely manner.

## 8. Assignment of Defaulted Loans to ED

**Compliance Requirement** - Unless the Secretary notifies a guaranty agency in writing that other loans must be assigned to the Secretary, a guaranty agency must assign any loan that meets all of the following criteria as of April 15 of each year: (a) the unpaid principal balance is at least \$100; (b) the loan, and any other loans held by the guaranty agency for that borrower, have been held by the agency for at least five years; (c) a payment has not been received on the loan in the last year; and (d) a judgment has not been entered on the loan against the borrower. The Secretary may also direct a guaranty agency to assign to ED certain categories of defaulted loans held by the guaranty agency as described in 34 CFR section 682.409. In determining whether mandatory assignment from a guaranty agency is required, the Secretary will review the adequacy of collection efforts. ED considers the guaranty agency's record of success in collecting its defaulted loans, the age of the loans, and the amount of any recent payments on the loans (Section 428(c)(8) of the HEA (20 USC 1078(c)(8)); 34 CFR section 682.409).

**Audit Objective** - Determine whether the guaranty agency assigned to ED all loans that meet the criteria.

### Suggested Audit Procedures

Review the guaranty agency's aging of loans to ascertain if the guaranty agency is holding loans that should be assigned to ED.

## 9. Federal Fund and Agency Operating Fund

### Compliance Requirements

#### *Federal Fund*

A guaranty agency shall deposit in the Federal Fund the following:

- a. All amounts received from ED as payment of reinsurance on loans.
- b. From any amounts recovered by the agency on a defaulted loan, a percentage amount equal to the complement of reinsurance and the Secretary's equitable share of the collections (must be deposited within 48 hours of receipt).
- c. Insurance premiums or federal default fees.
- d. Amounts received for Supplemental Preclaim Assistance (SPA) activity performed prior to October 1, 1998.
- e. 70 percent of amounts received on or after October 1, 1998, for Administrative Cost Allowances (ACA) for loans upon which insurance was issued prior to October 1, 1998.
- f. Earnings from investments of the Federal Fund.

- g. Other receipts as specified in regulations (34 CFR section 682.419).

The Federal Fund may only be used for the following purposes:

- a. To pay lender claims pursuant to sections 428(b)(1)(G), 428(j), 437, and 439(q) of HEA (20 USC 1078(b)(1)(G), 1078(j), 1087, and 1087-2(q)).
- b. To transfer default aversion fees into the Agency Operating Fund (34 CFR section 682.419(c)).
- c. For other purposes listed in the regulations (34 CFR section 682.419(c)).

#### *Agency Operating Fund*

The guaranty agency shall deposit into the Operating Fund:

- a. Loan processing and issuance fees.
- b. 30 percent of ACA payments received on or after October 1, 1998, for loans upon which insurance was issued prior to October 1, 1998.
- c. Account maintenance fees.
- d. Default aversion fees.
- e. The portion of the amounts collected on defaulted loans that remains after the Secretary's share of collections has been paid and the complement of the reinsurance percentage has been deposited into the Federal Fund (34 CFR section 682.423).
- f. Other receipts as specified in regulations (34 CFR section 682.423).

Funds in the Operating Fund shall be used for application processing, loan disbursement, enrollment and repayment status management, default aversion activities, default collection activities, school and lender training, financial aid awareness and related outreach activities, compliance monitoring, and other SFA-related activities for the benefit of students. *During any period in which the Operating Fund contains money transferred in from the Federal Fund, the entire Operating Fund is subject to the restrictions in 34 CFR sections 682.410 and 682.418 (Sections 422B(a)-(e) of the HEA (20 USC 1072b(a)-(e))).* The authority to transfer money from the Federal Fund to the Operating Fund expired in 1998 and all funds should have been repaid to the Federal Fund by 2003 (34 CFR sections 682.421 and 682.422).

Past problem areas concerning fund revenue and expense have included:

- Failure to credit funds received into the Federal Fund, including lock-box operations, within the specified period.
- Unsupported expenses paid from reserve fund assets.

- Failure to report all credits to the reserve fund on ED Form 2000.
- Use of funds for other programs (e.g., Leveraging Educational Assistance Partnerships (LEAP) and other State programs).
- Commingling of funds.
- Unreasonable allocation of indirect costs to the FFEL program or failure to prepare the cost allocation plan as required by 34 CFR section 682.418(c).

**Audit Objectives** - Determine whether the guaranty agency credited the required amounts to the Federal and Operating Funds, and used the resources of each fund solely for authorized purposes.

#### **Suggested Audit Procedures**

- a. Review revenue records to assure that amounts required to be credited to the Federal and Operating Funds were so credited. Review revenues and receipts that were not credited to the Federal or Operating Funds to assure that they were not inappropriately omitted.
- b. Test expenditures to ascertain if they were made for allowable purposes.
- c. Examine the general journal for unusual entries that impact the Federal or Operating funds.

#### **10. Investments - Federal Fund**

**Compliance Requirement** - Funds transferred to the Federal Fund shall be invested in obligations issued or guaranteed by the United States or a State, or in other similarly low-risk securities selected by the guaranty agency, with the approval of the Secretary. Earnings from the Federal Fund shall be the sole property of the Federal government. (Section 422A(b) of the HEA (20 USC 1072a(b))).

**Audit Objective** - Determine whether the agency invested Federal funds only in approved securities or other instruments and properly accounted for investment earnings.

#### **Suggested Audit Procedures**

- a. Review investment activity during the period to ascertain that Federal Fund assets were invested in approved securities or other instruments.
- b. Ascertain that earnings were deposited in the Federal Fund.

## 11. Collection Charges

**Compliance Requirement** - The guaranty agency must charge each defaulted borrower reasonable costs incurred by the agency for its default collection activities. The agency must charge these costs on defaulted loans whether acquired by a default or bankruptcy claim (34 CFR section 682.410(b)(2)). Costs of collection on defaulted loans include those direct costs of collection activities conducted after default on loans held by the agency, and indirect costs that are properly allocated to those same activities. Direct costs include the expenses listed in 34 CFR section 30.60(a), such as collection agency charges, court costs, and attorney fees.

Because HEA section 484A(b) makes the defaulter liable only for reasonable collection costs, and costs are reasonable only if they are based on actual collection expenses being incurred by the guaranty agency, the agency must ensure that the estimate is based on reliable data. A charge based on expense and recovery data incurred in the most recently completed and audited fiscal year of the guaranty agency can be reasonably expected to predict actual costs being incurred in the year for which the charge is assessed. However, when changes that will affect that rate are reasonably expected in expenses or recoveries during the year for which the charge is computed, adjustments may be warranted.

The rate or amount to be charged the borrower to satisfy collection costs is the least of the following three rates:

- a. The amount or rate, if any, specified in the borrower's note;
- b. The rate determined by dividing the agency's expected expenses by its expected recoveries for the period at issue; or
- c. The rate that would be charged if the loan were held by ED (through March 1, 2007 – 25 percent of the amount of principal and interest satisfied from a payment; thereafter, 24 percent of the amount. See: <http://www.fsacollections.ed.gov/contractors/ga/>).

An agency that is limited to the amount charged by ED must conform its charges to the limits in c. above no later than the date on which it ordinarily implements any adjustment based on its annual assessment of costs and recoveries.

There are instances when collection charges may not be assessed to the borrower at the rate determined as specified above:

- a. Borrowers who pay their defaulted loans by a Consolidation Loan may not be charged, for the payment received as proceeds of the Consolidation Loan, more than 18.5 percent of the outstanding principal and interest on the defaulted loans. For defaulted loans consolidated on or after October 1, 2006, the guaranty agency must remit to the Secretary a portion of the collection charge equal to the lesser of the amount charged the borrower or 8.5 percent of the outstanding principal and interest of the loan. On or after October 1, 2009 a guaranty agency must remit directly to the Secretary the entire amount of the collection charge with respect to

each defaulted loan that is paid off with excess consolidation proceeds as defined in 34 CFR section 682.401(b)(27)(v)(34 CFR section 682.401(b)(27)). (See III.N.7 above.)

- b. Borrowers who complete the required 9 voluntary payments and whose loans are then rehabilitated by sale to an eligible lender may not be charged, for the payment derived from the sale proceeds, more than 18.5 percent of the outstanding principal and interest on the loans being rehabilitated (34 CFR section 682.405(b)(1)(vi)).
- c. Borrowers who enter into a voluntary repayment agreement with the guaranty agency during the 60-day period after notice from the guaranty agency that the guaranty agency has paid a default claim and will report default status on the loan to national credit bureaus, may not be charged collection costs on payments made under that agreement (34 CFR sections 682.410(b)(5)(ii) and 682.410(b)(5)(iv)).
- d. The guaranty agency may waive or reduce collection cost charges as part of a compromise agreement (34 CFR section 682.401(d)(1)).

**Audit Objective** - To determine whether the guaranty agency charged appropriate costs for its default collection activities to borrowers on defaulted loans acquired by the guaranty agency either by payment of a default or bankruptcy claim.

### **Suggested Audit Procedures**

- a. Test a sample of defaulted loan accounts to determine whether the guaranty agency charged only for reasonable costs of collection.
- b. Ascertain if the method used to calculate the amount charged: (1) included only appropriate expenses of default collection activities, and (2) was limited to the amount prescribed by regulation.

## **12. Enforcement Action**

**Compliance Requirement** - The guaranty agency shall take measures to ensure enforcement of all Federal, State and guaranty requirements and at a minimum, conduct biennial on-site program reviews of lenders and schools that meet criteria specified in 34 CFR section 682.410(c)(1) or are selected using an alternative methodology approved by the Secretary. The guaranty agency is required to use statistically valid techniques to calculate liabilities owed the Secretary that the review indicates may exist; demand prompt payment from the responsible party; and refer to the Secretary any case in which the payment of funds is not made within 60 days. A guaranty agency also is required to adopt procedures for identifying fraudulent loan applications, and to undertake or arrange for the prompt and thorough investigation of criminal or other programmatic misconduct by its program participants. It is responsible also for promptly reporting all of the allegations and indications of fraud or misconduct having a substantial basis in fact, and the scope, progress, and results of the agency's investigations (34 CFR section 682.410(c)).



**Audit Objective** - Determine whether the guaranty agency is carrying out program reviews and related enforcement activity in accordance with the above requirements.

**Suggested Audit Procedures**

- a. Review the guaranty agency's procedures for selecting lenders and schools to review to ascertain if they meet the regulatory criteria or an alternative methodology approved by the Secretary.
- b. Review guaranty agency's program review guidance to ascertain if it is up-to-date and includes, when problems are found, a statistically valid method for determining liabilities due the Secretary.
- c. Review program review reports to ascertain if amounts due the Secretary were identified and, if so, whether appropriate demand for payment and follow-up was conducted.
- d. Through inquiry and review, determine whether the guaranty agency adopted procedures for identifying fraudulent loan applications and for reporting all allegations of misconduct having a substantial basis to ED. Review guaranty agency records on the follow-up of misconduct to determine whether ED was notified when appropriate.

**IV. OTHER INFORMATION**

Some "statewide" entities are defined to include a guaranty agency under the FFEL Program (CFDA 84.032). For such entities, this Part 4 section should be used to identify pertinent compliance requirements. Auditors for "statewide" entities that incorporate a guaranty agency must consider the provisions of OMB Circular A-133, paragraph .520(b)(3) in determining major programs. When those provisions apply, coverage of the FFEL Program for a guaranty agency as a major program must be identified and reported on separately as a major program in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs, referring to the program as "CFDA 84.032 (FFEL - Guaranty Agencies)."

See Appendix VI for waivers and special provisions related to Hurricanes Katrina and Rita.

## DEPARTMENT OF EDUCATION

### CFDA 84.032 FEDERAL FAMILY EDUCATION LOANS (Lenders)

#### I. PROGRAM OBJECTIVES

Institutions that are banks, schools, other financial institutions, governmental entities, or nonprofit organizations that meet the definition of an eligible lender in Section 435(d) of the HEA (20 USC 1085(d)) may function as lenders under the Federal Family Education Loans (FFEL) program. All of these types of lenders must comply with the requirements generally applicable to lenders. However, there are additional compliance requirements that apply to schools as lenders.

#### II. PROGRAM PROCEDURES

Eligible banks, savings and loan associations, credit unions, pension funds, insurance companies, and schools may make loans under the FFEL program (34 CFR section 682.101(a)). Under Section 435(d)(1) of the Higher Education Act of 1965, as amended (HEA) (20 USC 1085(d)(1)), State agencies and nonprofit organizations may also qualify as eligible lenders under certain conditions and for certain purposes. Schools that meet the requirements of 34 CFR section 682.601(a) may also make loans under the FFEL program. An eligible lender that makes or holds loans as an eligible lender trustee for a school, or an organization affiliated with a school, and the school involved in such an arrangement are subject to certain restrictions on lending under Section 435(d)(7) of HEA (20 USC 1085(d)(7)), as amended by the Third Higher Education Extension Act of 2006 (Pub. L. No. 109-292).

A lender (other than a school lender) originating or holding more than \$5 million in FFEL loans during its fiscal year, and a school lender under 34 CFR section 682.601 that originates or holds any FFEL loans during its fiscal year, must submit an independent annual compliance audit for that year conducted by a qualified independent organization or person (34 CFR section 682.305(c)(1)). Governmental entities or nonprofit organizations that function as lenders under the FFEL program must meet this requirement by auditing the school lender activity as a major program (or, if applicable, as part of the Student Financial Aid (SFA) Cluster) as part of the entity's single audit under OMB Circular A-133. (For Schools that are Lenders, see guidance in IV, Other Information, at the end of this section.)

Schools that make or originate FFEL program loans must, for any fiscal year beginning on or after July 1, 2006, in which a school engages in activities as an eligible lender, submit a compliance audit that satisfies the requirements of 34 CFR section 682.601. However, the compliance audit requirement that applies to all school lenders does not include an exception based on the amount of the lender's loan volume each fiscal year as defined in 34 CFR section 682.305(c) for other eligible FFEL lenders.

## Source of Governing Requirements

The FFEL program is authorized by Part B, Title II of the HEA, as amended (20 USC 1071 through 1087-4). The HEA was amended by Pub. L. No. 110-84, College Cost Reduction Act, on September 27, 2007, and Pub. L. No. 110-109, Third Higher Education Extension Act of 2007, on October 31, 2007. Program regulations are located at 34 CFR part 682. Those regulations were amended to address the new statutory provisions and for other reasons (72 FR 61960, November 1, 2007). The changes to the FFEL program regulations made by the November 1, 2007, final regulations are generally effective on July 1, 2008, but, at the regulated entity's option, some may be implemented at any time on or after November 1, 2007. In addition, some of the recent revisions to the HEA have been incorporated in these November 1, 2007, final regulations, to be codified at 34 CFR part 682. While the regulatory provisions that implement the change to HEA are not themselves effective until July 1, 2008, some of the statutory changes take effect by their own terms as early as October 1, 2007. These new provisions of the statute that apply prior to July 1, 2008, have been noted. References to the regulatory provision that implements these provisions of the statute have been included for future reference.

## Availability of Other Program Information

A number of documents contain guidance applicable to FFEL program lenders. They include:

- Dear Partner (Colleague) Letters  
(<http://ifap.ed.gov/IFAPWebApp/currentDPCLettersPag.jsp>);
- FFEL Special Allowance Rates  
(<http://www.ifap.ed.gov/IFAPWebApp/currentFFELSpecRatesPag.jsp>)
- FFEL Variable Interest Rates  
(<http://www.ifap.ed.gov/IFAPWebApp/currentFFELVarRatesPag.jsp>)
- Dear Colleague Letter FP-07-01 <http://ifap.ed.gov/dpcletters/FP0701.html>
- Dear Colleague Letter FP-07-06 <http://ifap.ed.gov/dpcletters/FP0706.html>
- Prohibited Inducements  
(<http://ifap.ed.gov/eannouncements/0914FFELProhibitedInducementGuidance.html>)

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

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

1. **Matching** – Not Applicable
- 2.1 **Level of Effort** – *Maintenance of Effort* - Not Applicable
- 2.2 **Level of Effort** – *Supplement not Supplant*

For schools that are lenders (See III.N.12 below), proceeds from special allowance payments and interest payments from borrowers, interest subsidies received from the U.S. Department of Education (ED), and any other proceeds from the sale of or other disposition of loans, for need-based grant programs shall be used to supplement, not to supplant, non-Federal funds that would otherwise be used for need-based grant programs (Section 435(d)(2)(C) of HEA (20 USC 1085(d)(2)(C)); 34 CFR section 682.601(c)).

3. **Earmarking** – Not Applicable

**I. Procurement and Suspension and Debarment**

**For schools that are lenders (See III.N.13, Special Tests and Provisions - Making or Holding Loans as a Trustee for an Institution of Higher Education or an Affiliated Organization), any contract awarded for financing, servicing, or administration of FFEL loans must be awarded on a competitive basis (Section 435(d)(2)(A)(iv) of HEA (20 USC 1085(d)(2)(A)(iv)); 34 CFR section 682.601(a)(4)).**

**L. Reporting****1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. *Lender's Interest and Special Allowance Request and Report (LaRS) (OMB No. 1845-0013)* - The LaRS is used by ED to calculate interest subsidies and special allowance payments due to lenders. It is also used to calculate origination fees and lender loan fees owed to ED as well as to obtain information about the lender's FFEL program portfolio. For lenders to receive payments of interest benefits and special allowance payments, quarterly reports must be submitted to ED on the LaRS. The lender must submit fully completed quarterly LaRS to ED even if the lender is not owed, or does not wish to receive interest benefits or special

allowance payments from ED. The LaRS must be submitted within 90 days after the end of the quarter to be considered timely. Where testing of LaRS information is requested later in this program supplement, that testing can be done concurrently with this testing. See 34 CFR section 682.414(a)(4)(ii) for more information.

The LaRS is a five-part form with a cover page.

**Page 1** - The first page of the form identifies the lender by name and identification number and, if the lender uses a servicer to prepare the form, the servicer's name and identification number. It also requires that an official representative of the lender certify that the data reported is correct and that it conforms to the laws, regulations, and policies applicable to the FFEL Program.

**Part I – Lender Origination and Lender Loan Fees** - This part contains information on the amount of funds disbursed during the quarter and the amount of loan origination and lender loan fees due to ED.

**Part II – Interest Benefits** – This part contains information on the amount of interest benefits due to the lender on eligible loans.

**Part III – Special Allowance** – This part contains information for the lender to request special allowance payments from ED. The loan information must be separated according to loan type, applicable interest rate, and special allowance categories. ED calculates the amount of special allowance payments due to the lender based on this data.

**Part IV – Loan Activity** – This part contains information regarding any changes in principal amounts for each type of FFEL program loan in the lender's portfolio during the quarter.

**Part V – Loan Portfolio Status** – This part contains information regarding the status of the outstanding loan principal for each type of FFEL program loan in the lender's portfolio at the end of the quarter.

The information reported on the LaRS is subject to levels of edit checks for data reasonability during ED's processing of the payment request. In some cases, the form will be rejected and returned to the lender for correction. In other cases, ED notifies the lender that its submission failed to pass the edits and instructs it to determine if the errors resulted in an incorrect payment of interest benefits or special allowance. The lender is further instructed by ED to make applicable adjustments to the affected loan balances on the next quarterly report. The lender is required to keep records necessary to support the amounts reported on the LaRS (34 CFR section 682.305(a)).

## 2. Performance Reporting - Not Applicable

### 3. **Special Reporting - Not Applicable**

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

### 1. **Individual Record Review**

**Compliance Requirements** - A lender is required to maintain current, complete, and accurate records of each loan that it holds. These loan records (files) form the basis for the information contained in the LaRS. The records must be maintained in a system that allows ready identification of each loan's status. Except for the loan application and the promissory note, these records may be stored in microform, computer file, optical disk, CD-ROM, or other media formats provided that the means of storage meets the requirements in 34 CFR sections 668.24(d)(3)(i) through (iv) (34 CFR section 682.414(a)).

**The required records are identified in 34 CFR section 682.414(a)(4)(ii) and are listed below.**

- A copy of the loan application, if a separate application was provided to the lender
- A copy of the signed promissory note
- The repayment schedule
- A record of each disbursement of loan proceeds
- Notices of changes in a borrower's address and status as at least a half-time student
- Evidence of the borrower's eligibility for a deferment
- The documents required for the exercise of forbearance
- Documentation of the assignment of the loan
- A payment history showing the date and amount of each payment received from or on behalf of the borrower, and the amount of each payment that was attributed to principal, interest, late charges, and other costs
- A collection history showing the date and subject of each communication between the lender and the borrower or endorser relating to collection of a delinquent loan; each communication (other than regular reports by the lender showing that an account is current) between the lender and a credit bureau regarding the loan; each effort to locate a borrower whose address is unknown at any time; and each request by the lender for default aversion assistance on the loan
- Documentation of any Master Promissory Note confirmation process or processes

- Any additional records that are necessary to document the validity of a claim against the guarantee or the accuracy of reports submitted.

**Note: Original Loan Applications and Promissory Notes.** If the audit sample includes loans that the lender no longer owns, such as loans that the lender sold to another party, paid by consolidation, or assigned to a guaranty agency, or to which the lender transferred title to a lender trustee to hold on behalf of the lender, the auditor may perform alternative procedures to obtain access to and review the original documents. The alternative procedures could include, but are not necessarily limited to, the review of: (1) a copy or image maintained by the lender or servicer of the original document, or (2) a certified true copy, obtained from the entity that currently holds the original loan document, that may be compared to the lender's document.

**Audit Objective -** Determine whether the lender maintained current, complete and accurate loan records.

### Suggested Audit Procedures

- Trace loan information from the lender's summary records/ledgers to detailed loan records.
- Test a sample of individual loan files and determine if the lender maintained the required documents and the information recorded in the detailed loan record agrees with the information in these documents and the summary records.

## 2. Loan Origination and Lender Loan Fees

### Compliance Requirement

#### *Origination Fees on Stafford and PLUS Loans*

**A lender may charge a borrower an origination fee on the principal amount of the loan for a Stafford loan if the loan principal was disbursed prior to July 1, 2010. If a lender charges an origination fee, the maximum origination fee a lender may charge a borrower is noted in the table below:**

First Disbursement of Principal	Maximum Origination Fee
Prior to July 1, 2006	3.0% of principal amount of loan
On or after July 1, 2006, and before July 1, 2007	2.0% of principal amount of loan
On or after July 1, 2007, and before July 1, 2008	1.5% of principal amount of loan
On or after July 1, 2008, and before July 1,	1.0% of principal amount of loan

<b>2009</b>	
<b>On or after July 1, 2009, and before July 1, 2010</b>	<b>0.5% of principal amount of loan</b>
<b>On or after July 1, 2010</b>	<b>None</b>

**After July 1, 2010, lenders may no longer charge origination fees on Stafford loans (34 CFR section 682.202(c)(1)). Whether or not the lender charges the borrower an origination fee, the lender must pay ED the applicable origination fee (34 CFR section 682.305(a)(3)(iii)). A lender is still required to charge a mandatory 3 percent origination fee on PLUS loans (34 CFR section 682.202(c)(5)). If the origination fee is deducted from the loan proceeds, a pro rata share of the fee must be deducted from each loan disbursement (34 CFR section 682.202(c)(6)).**

### *Federal Default Fee*

Effective for loans guaranteed on or after July 1, 2006, a Federal default fee equal to 1 percent of the principal amount of the loan must be paid to the guaranty agency (34 CFR section 682.401(b)(10)). If the fee is charged to the borrower, it must be deducted proportionally from each disbursement of the loan proceeds if the loan is disbursed in more than one installment (34 CFR section 682.202(d)(3)).

### *Lender Loan Fees*

For any FFEL loans made on or after October 1, 2007, a lender shall pay the Secretary of Education (Secretary) a loan fee equal to one percent of the principal amount of the loan (Section 438(d)(2) of HEA (20 USC 1087-1(d)(2)). (This requirement is contained in the final regulations issued on November 1, 2007, to be codified at 34 CFR section 682.305(a)(3)(ii)(B), effective July 1, 2008.)

### *Reporting of Loan Origination and Lender Loan Fees*

The amount of origination and lender fees is reported in Part I of the LaRS. The LaRS requires that separate entries be made for origination and lender fees. ED reduces the amount of interest benefits and special allowance payments payable to the lender by the amount of origination fees that the lender was authorized to collect during the quarter, whether or not the lender actually collected that amount. The amount payable to the lender is increased by the amount of origination fees refunded to borrowers during the quarter (34 CFR section 682.305(a)).

**Audit Objective** - Determine whether loan origination and Federal default fees were properly charged and reported.

### **Suggested Audit Procedures**



- a. Test if the lender charged an origination fee and if the fee was assessed in accordance with the requirements.
- b. From the loan disbursement records, select a sample of loans originating in each quarter during the audit period and trace the loan origination fees and Federal Default fees to the quarterly LaRS.
- c. Test that Federal default fees are computed correctly.

### **3. Interest Benefits**

#### **Compliance Requirements**

##### ***Payment of Interest Benefits***

ED pays the lender interest benefits (see 34 CFR section 682.202(a) for applicable FFEL interest rates) on eligible FFEL program loans (subsidized Stafford and certain consolidated loans) on behalf of a qualified borrower during certain loan statuses including:

- All periods prior to the beginning of the repayment period; and
- Any period when the borrower has an authorized deferment (34 CFR section 682.300).

##### ***Payment of Interest Benefits on Consolidated Loans***

Consolidation loan borrowers qualify for interest benefits during authorized periods of deferment on the portion of the loan that does not represent Health Education Assistance Loans (HEAL) if the loan application was received by the lender on or after:

- January 1, 1993, but prior to August 10, 1993;
- August 10, 1993, but prior to November 13, 1997, if the loan consolidates only subsidized Stafford loans; or
- November 13, 1997, for the portion of the loan that repaid subsidized FFEL loans and Direct Subsidized Loans (34 CFR section 682.301(a)(3)).

##### ***Termination of Interest Benefits***

Generally, ED's obligation to pay interest benefits to a lender ceases when the eligible borrower enters repayment status and does not qualify for a deferment. Interest benefits to the lender also begin or terminate with certain other date-specific events enumerated in 34 CFR sections 682.300(b)(2) and (c).

### ***Reporting of Interest Benefits***

The information needed for ED to calculate interest benefits is reported in Part II of the LaRS. See 34 CFR section 682.202(a) for applicable interest rates for FFEL program loans. Interest benefits due the lender may be calculated by using either the average daily balance or actual accrual methods in 34 CFR sections 682.304(b) and (c).

**Audit Objective** - Determine whether interest benefits were accurately calculated and billed to ED.

### **Suggested Audit Procedures**

- a. Test that the loans are assigned the correct interest rate in accordance with 34 CFR section 682.202(a) and are reported in the correct interest rate category in the LaRS.
- b. Test that the lender begins and ends billings to ED for interest benefits on the appropriate day for loans in an in-school, grace, or authorized deferment period.
- c. Review loan records, disbursement records, or other documentation to verify that interest is billed only for periods specified in 34 CFR section 682.300(b)(2) and is not billed for interest covered under 34 CFR section 682.300(c).
- d. For consolidated loans that are billed for interest benefits, review the history files and verify that the loans qualified for interest payments.
- e. Test the accuracy of the average daily balance or actual accrual calculations by recalculating amounts or by reasonableness tests.

## **4. Special Allowance Payments**

### **Compliance Requirement**

#### **Special Allowance Payments**

In addition to interest benefits, ED pays a special allowance to the lender on the average daily outstanding balance of eligible FFEL loans. ED will compute the special allowance payable to the lender based upon the average daily balance computed by the lender. The amount of each quarterly special allowance payment will vary according to the type of FFEL program loan, the date the loan was disbursed, the loan period, and the loan status. The lender reports in Part III of the LaRS the average daily principal balance of those loans in each category qualifying for the payment. ED computes the special allowance payment due to the lender during processing of the LaRS (34 CFR sections 682.304 through 682.305).

## Loans Eligible for Special Allowance Payments

See 34 CFR section 682.302(b) for details on loans eligible for special allowance payments. Limitations on the payment of a special allowance for PLUS loans were eliminated by the Higher Education Reconciliation Act (HERA), (Pub. L. No. 109-171). Therefore, lenders may receive special allowance payments on PLUS loans that were first disbursed on or after January 1, 2000 and before July 1, 2006, for periods beginning April 1, 2006 (Section 438(b)(2)(I) of HEA (20 USC 1087-1(b)(2)(I)) and Section 8006 of HERA). The average loan principal, including capitalized interest, is to be calculated using the average daily balance method defined in 34 CFR section 682.304(d).

### *Special Allowance Rates for Loans Made On or After October 1, 2007*

Except for certain loans made from funds derived from tax-exempt sources, the special allowance rate for any eligible loan, for which the first disbursement of principal was made on or after October 1, 2007, is to be calculated according to the formulas described in:

- a. Section 438(b)(2)(I)(vi)(I) of HEA (20 USC 1087-1(b)(2)(I)(vi)(I)) (This requirement is included in the November 1, 2007, final regulations to be codified at 34 CFR section 682.302(f)(1).) for a loan that is held by an entity that does not qualify as an “eligible not-for-profit holder,” or
- b. Section 438(b)(2)(I)(vi)(II) of HEA (20 USC 1087-1(b)(2)(I)(vi)(II)) (This requirement is included in the November 1, 2007, final regulations to be codified at 34 CFR section 682.302(f)(2).) for a loan that is held by an entity that qualifies as an “eligible not-for-profit holder.”

An “eligible not-for-profit holder” is an eligible lender under Section 435(d) of the HEA (20 USC 1085(d)), other than a school lender, that is—

- A State, or a political subdivision, agency, authority or instrumentality of a State, including an entity eligible to issue bonds described in section 144(b) of the Internal Revenue Code (Code), or in 26 CFR section 1.103-1,
- A not-for-profit entity described in section 150(d)(2) of the Code that has not made the election described in section 150(d)(3) of the Code to relinquish that status,
- A not-for-profit entity described in section 501(c)(3) of the Code;
- A trustee acting on behalf of a governmental or non-profit entity listed above, without regard to whether that entity qualifies as an eligible lender under Section 435(d) in its own right (Section 435(p) of the HEA (20 USC 1085(p))).

Loans that are held by a governmental or non-profit entity that is an eligible lender under HEA section 435(d) may qualify for the higher special allowance rate, as may loans held

by an eligible lender trustee on behalf of such an entity. Loans held by the entity or eligible lender trustee qualify for the higher rate only if the governmental or non-profit entity -

- On September 27, 2007, either acted as an eligible lender under HEA section 435(d) (other than as a school lender), or was the sole beneficial owner of a FFEL program loan that was eligible for special allowance payments;
- Is neither owned nor controlled, even in part, by a for-profit entity; and
- Remains the sole beneficial owner of such loans and the income from such loans (Section 435(p)(2) of HEA (20 USC 1085(p)(2))).

The grant of a security interest in a loan or its income, or the pledge of the loan or income as collateral, in order to secure a debt obligation issued by a governmental or non-profit entity, does not affect the not-for-profit eligibility status as of that entity or of an eligible lender trustee to the extent acting on its behalf (Section 435(p)(2)(E) of HEA (20 USC 1085(p)(2)(E))).

An eligible lender trustee may not receive compensation in excess of reasonable and customary rates for serving as a trustee for a governmental or non-profit entity (Section 435(p)(2)(D) of HEA (20 USC 1085(p)(2)(D))).

Note that a State is permitted, in accordance with regulations, to designate a not-for-profit entity that was not acting as an eligible lender under Section 435(d) of HEA on September 27, 2007, as a new “eligible not-for-profit holder.” ED has not yet adopted regulations for such designations (Section 435(p)(2)(A)(ii) of HEA (20 USC 1085(p)(2)(A)(ii))).

### ***Loans Made or Purchased with Funds from the Issuance of Tax-Exempt Obligations***

The special allowance rate payable on loans made or purchased from funds derived from tax-exempt obligations depends on the specific source of funds used to acquire the loan, whether specified events occurred after its acquisition, the date the loan was acquired, the rate payable on the loan when it was acquired, and the characteristics of the lender that acquired the loan (Section 438 of HEA (20 USC 1087-1)).

With limited exceptions, for HERA small lenders (see below), the special allowance rates for loans made on or after October 1, 2007, are the same for all loans, regardless of the source of funding, and differ only with respect to the status of the holder of the loan. Loans made before October 1, 2007, that were acquired with funds from tax-exempt obligations originally issued prior to October 1, 1993 receive a special allowance at one-half the rate otherwise payable, but not less than needed to provide, including the interest on the loan, an annualized return of 9.5 percent. (Sections 438(b)(2)(B)(i), (ii), and (iv) of HEA (20 USC 1087-1(b)(2)(B)(i), (ii), and (iv))). This separate rate is referred to as the “9.5 percent floor.”

Loans acquired with funds from tax-exempt obligations originally issued on or after October 1, 1993 receive the same special allowance rate as loans acquired with funds from sources other than tax-exempt obligations. An obligation that was issued to obtain funds to make loans, or to acquire an interest in a loan (including an interest by pledge of the loan as collateral), is considered to have been originally issued on the date it was issued. A tax-exempt obligation that refunds, or is one of a series of tax-exempt refunding obligations, is considered to have been originally issued when the initial obligation was issued (Section 438(b)(2)(B)(iv) of HEA (20 USC 1087-1(b)(2)(B)(iv))).

Only loans made or purchased from an eligible funding source specified in 34 CFR section 682.302(c)(3)(i) may qualify for the 9.5 percent floor. Those sources are funds obtained from:

- The proceeds of a tax-exempt obligation originally issued prior to October 1, 1993;
- Collections or default payments by a guarantor on a loan acquired with the proceeds of such an obligation;
- Interest or special allowance payments received on a loan acquired with the proceeds of such an obligation;
- The sale of a loan acquired with the proceeds of such an obligation; or
- The investment of the proceeds of such an obligation.

Special allowance at the 9.5 percent floor may be received on claims submitted for the quarter ending December 31, 2006 and thereafter only if the lender has submitted, and ED has accepted, a report of an audit conducted under a methodology prescribed for this purpose that identifies those loans that have been acquired from the eligible sources in the previous paragraph, and the lender has submitted, for each such claim, a management certification that SAP is claimed at that rate only on loans determined through that process to be eligible. (See Dear Colleague Letters FP-07-01 and FP-07-06.)

However, loans made from or purchased using these eligible sources do not qualify for the 9.5 percent floor if the loans were made or purchased after February 7, 2006 or, for loans made before that date and purchased after that date, did not qualify on that date for special allowance at the 9.5 percent floor. (Section 438(b)(2)(B)(vi) of HEA (20 USC 1087-1(b)(2)(B)(vi)); 34 CFR section 682.302(e)(4)).

These deadlines are deferred until December 31, 2010 with respect to a “HERA small lender,” a loan holder that on February 8, 2006, and during the quarter for which the special allowance is paid:

- Was a unit of state or local government or a private nonprofit entity;

- Was not owned or controlled by, or under common ownership with, a for-profit entity; and
- Held directly or through any subsidiary, affiliate, or trustee, a total unpaid balance of principal equal to or less than \$100 million on loans for which special allowances were paid under section 438(b)(2)(B) in the most recent quarterly payment prior to September 30, 2005 (Section 438(b)(2)(B)(vii) of HEA (20 USC 1087-1(b)(2)(B)(vii)); 34 CFR section 682.302(e)(5)).

Loans that are eligible for 9.5 percent floor may lose eligibility for that rate and revert to the usual rates for any loan that is:

- Pledged or otherwise transferred prior to October 1, 2004 from the tax-exempt obligation used to acquire the loan, unless either of the following applies –
  - The loan is pledged or transferred in consideration of funds listed in 34 CFR section 682.302(c)(3)(i) or from a tax-exempt refunding obligation, or
  - The prior tax-exempt obligation used to acquire the loan is neither retired nor defeased with yield-restricted obligations;
- Financed by a tax-exempt obligation that, after September 30, 2004, has matured, been refunded, or is retired or defeased;
- Refinanced after September 30, 2004 with funds obtained from a source other than the funds listed in 34 CFR section 682.302(c)(3)(i);
- Sold or transferred to any other holder after September 30, 2004.

Section 438(b)(2)(B) of HEA (20 USC 1087-1(b)(2)(B)); 34 CFR sections 682.302(e)(2) and (3)).

### ***Termination of Special Allowance Payments on a Loan***

The lender is required to terminate the special allowance payments on loan balances when a date-specific event occurs and the loan is no longer eligible for the payment. These date-specific events are described in detail in 34 CFR section 682.302(d) and include the following:

- The date a borrower's loan is repaid;
- The date a borrower's loan check is returned uncashed to the lender;
- The date the lender receives payment on a claim for loss on the loan;
- The date the loan ceases to be guaranteed or ceases to be eligible for reinsurance, regardless of whether the lender has filed a claim for loss on the loan with the guarantor;

- The 60<sup>th</sup> day after the borrower’s default on the loan, unless the lender files a claim for loss on the loan with the guarantor together with all the required documentation on or before the 60<sup>th</sup> day;
- The 120<sup>th</sup> day after disbursement if the loan check has not been cashed on or before that date or if the loan proceeds disbursed by EFT have not been released from the restricted account maintained by the school on or before that date; and
- The 30<sup>th</sup> day after the date the lender received a returned claim from the guaranty agency due solely to inadequate documentation on a loan submitted by the regulatory deadline for loss on the loan (unless the lender files a claim for loss on the loan with the guarantor, together with the required documentation prior to the 30<sup>th</sup> day).
- The date on which the lender determines the loan is legally unenforceable based on receipt of an identity theft report under 34 CFR section 682.208(b)(3). (This provision of the November 1, 2007, final regulations will be codified at 34 CFR section 682.302(d) on July 1, 2008, and will be effective on that date.)

### ***Loss of Interest and Special Allowance Payment Benefits***

A lender can lose reinsurance coverage and interest and special allowance payment benefits due to violations of due diligence requirements on a loan (See N.8 below). To reinstate reinsurance and other Federal payments on the loan, the violation has to be “cured” (See N.10 below). See Appendix D of 34 CFR part 682 for more information.

**Audit Objective** - Determine whether special allowance payments were earned and reported properly.

### **Suggested Audit Procedures**

- a. Test that the lender is reporting loans in Part III of the LaRS by the proper year, quarter, interest rate, and special allowance category.
- b. Using the results of any audit conducted by or for the lender under Dear Colleague Letter FP-07-06 and accepted by ED, test that the lender is accurately reporting for the 9.5 percent floor only those loans that—
  - (1) were identified as a result of the audit as made or purchased with eligible sources of funds, or
  - (2) if made or acquired by the lender after December 31, 2006, were made or purchased with funds obtained from repayments, sales, or interest or special allowance payments on loans that were established by such audit to be first-generation loans, as that term is used in Dear Colleague Letter FP 07-01, and

- (3) unless held by a lender that qualifies for deferral until December 30, 2010:
  - (a) were made or purchased prior to February 8, 2006, and
  - (b) were eligible for 9.5 percent floor on February 8, 2006.
- c. Test that the lender is terminating special allowance requests on loan balances when a date-specific event specified in 34 CFR section 682.302(d) occurs, as documented in the borrower's file.
- d. Test that the lender is terminating billing under the 9.5 percent floor when disqualifying events specified in HEA and 34 CFR sections 682.302(e)(2) and (3) occur.
- e. Test the accuracy of the average daily balance calculations as defined in 34 CFR section 682.304(d) by recalculating amounts or by reasonableness tests.
- f. Test a sample of loans included in the average daily balances to determine that the average daily balances do not include loans that are not eligible for special allowance payments.
- g. For loans made on or after October 1, 2007, for which the lender claimed special allowance as an "eligible not-for-profit holder," examine if the lender claimed special allowance on loans held as a trustee on behalf of another entity —
  - (1) the claim was limited to loans to which a governmental or non-profit entity listed above held full beneficial ownership; and
  - (2) the lender was compensated at a rate in excess of that paid other eligible lender trustees holding FFEL program loans, and if so, by what amount.

## 5. Loan Sales, Purchases, and Transfers

**Compliance Requirements** - Loan sales, purchases, and transfers between eligible lenders entail special portfolio management risks and, therefore, require special controls. The lender must exercise due care in ensuring that gaps in servicing do not occur, possibly affecting the reinsurance of the loan. The lender must notify the borrower, either jointly or separately, of the transfer of the loan and the purchasing lender must notify the guaranty agency of the loan transfer (34 CFR section 682.208(e)). In addition, within 90 days of its acquisition of the loan, the purchasing lender shall report to at least one national credit bureau the information required in 34 CFR section 682.208(b)(2).

If an originating lender sells or otherwise transfers a loan to a new holder, ED will hold the originating lender liable for the payment of the origination and lender fees and will not pay interest benefits or a special allowance to the new holder or pay reinsurance to the guaranty agency until the origination fees are paid to ED (34 CFR section 682.305(a)(4)).



**Audit Objective** - Determine whether loan sales, purchases, and transfers were made in accordance with ED requirements and that accurate records of such transactions were maintained.

### **Suggested Audit Procedures**

- a. For a sample of loans, trace the principal amount of loans sold as reported on the LaRS to the bills of sale.
- b. Review a sample of the loan purchase/sales agreements and ascertain the terms of the agreements as to the day of sale, transfer of funds, and responsibility for loan origination and lender fees. Test that the sale/purchase was conducted in accordance with these terms and the date-specific event was properly noted in the lender's records as to the start/end date of eligibility for interest benefits and special allowance.
- c. Select a sample of loans that were transferred to the lender during the audit period and verify that all applicable LaRS loan data, including beginning balances, was entered completely and accurately into the lender's system. Verify that all required supporting loan documentation was obtained and maintained.

## **6. Enrollment Reports**

**Compliance Requirements** - Schools are required to confirm and report to the National Student Loan Data System (NSLDS) the enrollment status of students who receive Federal student loans. This process is called Enrollment Reporting. Enrollment information is used to determine the borrower's eligibility for in-school status, deferment, interest subsidy, and grace period. Enrollment changes, such as a change from full-time to half-time status, graduation, withdrawal, or an approved leave of absence, are changes that need to be reported. The enrollment information is merged into the NSLDS database and reported to guarantors, lenders, and servicers of student loans.

Lenders must use the NSLDS data to make adjustments to each loan. The billing for interest benefits and special allowance payments relies on the timely and proper processing of student enrollment information, including timely conversion to repayment status. The conversion of a loan to repayment status is subject to a number of conditions as defined in 34 CFR section 682.209. Typically, Stafford loan borrowers begin repayment six months following the date on which the borrower is no longer enrolled on at least a half-time basis at a school. PLUS, SLS and consolidation loans go into repayment on the day the loan is disbursed, or if disbursed in multiple installments, on the date the loan is fully disbursed. The first payment is due within 60 days of the date the loan is fully disbursed (34 CFR section 682.209).

**Audit Objective** – Determine whether, upon receipt of Enrollment Reports or other notification of change information, the lender accurately and timely updated loan records for changes to student status, including conversion to repayment status.

### **Suggested Audit Procedures**

- a. Trace a sample of loans from the Enrollment Reports received during the period to loan records to determine if changes to student enrollment status were made accurately.
- b. Determine whether conversions to repayment status were made within required time limits.
- c. Obtain and review the error reports (manifests, in-school discrepancy reports, or out-of-school status reports), if any, generated by the lender that identify discrepancies between the Enrollment Reports and the lender's records.
- d. For a sample of loans, trace student enrollment data to any interim status reports or other notification of change information that may have been received directly from the school.

### **7. Payment Processing**

**Compliance Requirements** – The lender may credit the entire payment amount first to any late charges accrued or collection costs, then to any outstanding interest, and then to any outstanding principal. A borrower may prepay all or part of a loan at any time without a penalty. Unless the borrower requests otherwise, if a prepayment equals or exceeds the established monthly payment amount, the lender shall apply the prepayment to future installments and advance the next payment due date. The lender must (1) inform the borrower in advance that any additional full payment amounts submitted without instructions as to their handling will be applied to future scheduled payments with the borrower's next scheduled payment due date advanced, or (2) provide a notification after the payment is received stating that the payment has been so applied and the due date of the borrower's next scheduled payment. Information related to the next scheduled payment due date need not be provided to a borrower making prepayments while in an in-school, grace, deferment, or forbearance period when payments are not due (34 CFR section 682.209(b)). Interest must be charged in accordance with 34 CFR sections 682.202(a) and (b).

**Audit Objective** – Determine whether the lender (1) calculated interest and principal in accordance with 34 CFR sections 682.202 (a) and (b), and (2) applied loan payments and prepayments in accordance with 34 CFR section 682.209(b) or the documented specific request of the borrower.

### **Suggested Audit Procedures**

- a. Test whether the lender applied the borrower payments and prepayments to loan records in accordance with payment application requirements.
- b. Test that application of principal and interest were appropriately calculated and that the correct amount was applied to the individual borrower's loan balance.

- c. Test if prepayments were allocated in accordance with ED regulatory requirements or, if applicable, borrower instructions.

## 8. Due Diligence by Lenders in the Collection of Delinquent Loans

**Compliance Requirement** - Lenders are required to engage in specific collection activities and meet specific claim-filing deadlines on delinquent loans, except that in the case of a loan made to a borrower who is incarcerated, residing outside the United States or its territories, Mexico, or Canada, or whose telephone number is unknown, the lender may send a forceful collection letter instead of each telephone effort described below. There are also specific collection activities that must be performed before a lender can file a default claim on a loan with an endorser. The due diligence provisions preempt any State law, including State statutes, regulations, or rules that would conflict with or hinder satisfaction of the requirements or frustrate the purposes of that section (34 CFR section 682.411).

**Definition of Delinquency** - **Delinquency on a loan begins on the first day after the due date of the first missed payment. The due date of the first payment is established by the lender but must follow the deadlines specified in 34 CFR section 682.209(a). If a payment is made late, the first day of delinquency is the day after the due date of the next missed payment. A payment that is within \$5.00 of the amount normally required to advance the due date may advance the due date if the lender's procedures allow for that advancement (34 CFR section 411(b)).**

**Definition of Collection Activity** - Collection activity with respect to a loan is defined as:

- Mailing or otherwise transmitting to the borrower at an address that the lender reasonably believes to be the borrower's current address, a collection letter or final demand letter that satisfies the timing and content requirements of 34 CFR sections 682.411(c), (d), (e), or (f);
- Attempting telephone contact with the borrower;
- Conducting skip-tracing efforts, in accordance with 34 CFR sections 682.411(h)(1) or (m)(1)(iii) to locate a borrower whose correct address or telephone number is unknown to the lender;
- Mailing or otherwise transmitting to the guaranty agency a request for default aversion assistance available from the agency on the loan at the time the request is transmitted; or
- Any telephone discussion or personal contact with the borrower so long as the borrower is apprised of the account's past-due status (34 CFR section 682.411(l)).

### *Gaps in Collection Activity*

A lender/servicer may not permit the occurrence of a gap of more than 45 days (or 60 days in the case of a transfer) in collection activity on a loan (34 CFR section 682.411(j)).

### ***Due Diligence Documentation***

A lender is required to maintain complete and accurate records of each loan that it holds. In determining whether the lender met the due diligence compliance requirements pertaining to collection of delinquent loans, the documentation maintained must include a collection history showing the date and subject of each communication between the lender and the borrower or endorser relating to collection of a delinquent loan; each communication (other than regular reports by the lender showing that an account is current) between the lender and a credit bureau regarding the loan; each effort to locate a borrower whose address is unknown at any time; and each request by the lender for default aversion assistance on the loan (34 CFR section 682.414(a)(4)).

### ***Failure to Comply with Due-Diligence Regulations***

Failure to comply with the Federal due-diligence regulations will result in the loss of reinsurance for the guaranty agency, the loss of a lender's right to receive an insurance payment from the guaranty agency's Federal Fund, and the lender's right to receive interest and special allowance (34 CFR part 628, Appendix D, paragraph I.C.3).

### ***Due-Diligence Requirements for Loans with Monthly and Less-than-Monthly Repayment Obligations***

The required collection activities are described below. As part of one of the collection activities, the lender must provide the borrower with information on the availability of the Student Loan Ombudsman's office (34 CFR section 682.411).

1 to 15 Days Delinquent: One written notice or collection letter should be sent to the borrower informing the borrower of the delinquency and urging the borrower to make payments sufficient to eliminate the delinquency (except in the case where a loan is brought into this period by a payment on the loan, expiration of an authorized deferment or forbearance period, or the lender's receipt from the drawee of a dishonored check submitted as a payment on the loan.) The notice or collection letter sent during this period must include, at a minimum, a lender contact, a telephone number, and a prominent statement informing the borrower that assistance may be available if he or she is experiencing difficulty in making a scheduled repayment.

16 to 180 Days Delinquent (16-240 days delinquent for a loan repayable in installments less frequently than monthly): Unless exempted as set forth in 34 CFR section 682.411(d)(4), during this period the lender shall engage in the following:

- At least four diligent telephone contacts (See definition of a "diligent telephone contact" below) urging the borrower to make the required payments on the loan. At least one of the telephone contacts must occur on or before the 90th day of delinquency and another one must occur after the 90th day of delinquency.

- At least four collection letters - at least two of which must warn the borrower that if the loan is not paid, the lender will assign the loan to the guaranty agency that, in turn, will report the default to all national credit bureaus, and that the agency may institute proceedings to offset the borrower's State and Federal income tax refunds and other payments made by the Federal Government to the borrower, or to garnish the borrower's wages, or assign the loan to the Federal Government for litigation against the borrower.

### *Diligent Efforts for Telephone Contact*

Diligent efforts for telephone contact are defined in 34 CFR section 682.411(m) as:

- A successful effort to contact the borrower by telephone;
- At least two unsuccessful attempts to contact the borrower by telephone at a number that the lender reasonably believes to be the borrower's correct telephone number; or
- An unsuccessful effort to ascertain the borrower's correct telephone number, including but not limited to, a directory assistance inquiry as to the borrower's telephone number and sending a letter to or making a diligent effort to contact each reference, relative, and individual identified in the most recent loan application or most recent school certification for that borrower that the lender holds. The lender may contact a school official other than the financial aid administrator who reasonably may be expected to know the borrower's address.

### *Subsequent Payment or Information Obtained*

**Following the lender's receipt of a payment on the loan or a correct address for the borrower, the lender's receipt from the drawee of a dishonored check received as a payment on the loan, the lender's receipt of a correct telephone number for the borrower, or the expiration of an authorized deferment or forbearance period, the lender is required to engage only in the following activities (34 CFR section 682.411):**

- *For loans less than 91 days delinquent (121 days for a loan repayable in installments less frequently than monthly) - Two diligent efforts to contact the borrower by telephone.*
- *For loans 91-120 days delinquent (121-180 days for a loan repayable in installments less frequently than monthly) - One diligent effort to contact the borrower by telephone.*
- *For loans more than 120 days delinquent (180 days for a loan repayable in installments less frequently than monthly) - No additional diligent efforts to contact the borrower by telephone are required.*

- *181-270 Days Delinquent (241-330 days for loans payable in installments less frequent than monthly)* - During this period the lender must engage in efforts to urge the borrower to make the required payments on the loan. These efforts must, at a minimum, provide information to the borrower regarding options to avoid default and the consequences of defaulting on the loan.
- *Final Demand on or after the 241st day of delinquency (the 301st day for loans payable in installments less frequent than monthly)* - The lender must send a final demand letter to the borrower requiring repayment of the loan in full and notifying the borrower that a default will be reported to a national credit bureau. The lender must allow the borrower at least 30 days after the date the letter is mailed to respond and bring the loan out of default before filing a default claim on the loan.

### ***Default Aversion Assistance***

Default aversion assistance is collection assistance that a guarantor provides to supplement a lender's efforts to prevent default on a borrower's loan; however, it does not replace the lender's responsibility to perform due diligence. Not earlier than the 60<sup>th</sup> day and no later than the 120<sup>th</sup> day of delinquency, a lender must request default aversion assistance from the guaranty agency that guarantees the loan (34 CFR sections 682.404(k) and 411(i)).

### ***Skip-Tracing Requirements***

Skip tracing is the process by which lenders attempt to obtain corrected address or telephone information for borrowers for whom the lender does not have accurate information. Skip-tracing processes must meet regulatory time frames and minimum standards as outlined in 34 CFR section 682.411(h).

Unless the final demand letter (as specified in the Subsequent Payment or Information Obtained section above) has already been sent, the lender shall begin to diligently attempt to locate the borrower through the use of effective commercial skip-tracing techniques within 10 days of its receipt of information indicating that it does not know the borrower's current address. These efforts must include, but are not limited to, sending a letter to or making a diligent effort to contact each endorser, relative, reference, individual, and entity identified in the borrower's loan file, including the schools the student attended. For this purpose, a lender's contact with a school official that might reasonably be expected to know the borrower's address may be with someone other than the financial aid administrator, and may be in writing or by telephone.

These efforts must be completed by the date of default with no gap of more than 45 days between attempts to contact those individuals or entities. Upon receipt of information indicating that it does not know the borrower's current address, the lender shall discontinue the collection efforts described in the Subsequent Payment or Information Obtained section.

If the lender is unable to ascertain the borrower's current address despite its performance of the activities described in the Subsequent Payment or Information Obtained section, the lender is excused thereafter from performance of the collection activities (with the exception of a request for default aversion assistance) unless it receives a communication indicating the borrower's address prior to the 241st day of delinquency (the 301st day for loans payable in less frequent installments than monthly).

### ***Requirements for Loan Endorsers***

Before filing a default claim on a loan with an endorser, the lender must:

- Make a diligent effort to contact the endorser by telephone and send the endorser two letters advising the endorser of the delinquent status of the loan and urging the endorser to make the required payments on the loan.
- At least one letter must warn the endorser that if the loan is not paid, the lender will assign the loan to the guaranty agency that, in turn, will report the default to all national credit bureaus.
- On or after the 241st day of delinquency (the 301st day for loans payable in installments less frequent than monthly) send a final demand letter to the endorser requiring repayment of the loan in full and notifying the endorser that a default will be reported to a national credit bureau. The lender shall allow the endorser at least 30 days after the date the letter is mailed to respond to the final demand letter and to bring the loan out of default before filing a default claim on the loan (34 CFR section 682.411(n)).

### ***Skip Tracing for Loan Endorsers***

Unless the final demand letter specified in the paragraph above has already been sent, upon receiving information indicating that it does not know the endorser's current address or telephone number, the lender must diligently attempt to locate the endorser through the use of normal commercial skip-tracing techniques. This effort must include an inquiry to directory assistance (34 CFR section 682.411(n)(3)).

**Audit Objective** – Determine if the lender complied with the due-diligence requirements for collection of delinquent loans, including the requirements for skip tracing or default aversion assistance.

### **Suggested Audit Procedures**

- a. Test a sample of loans that were delinquent from 1 to 15 days, verify that the lender's records document that the required written notice or collection letter was sent to the borrower. Verify that the letter contained the required information.

- b. Test a sample of loans that were delinquent between 16 to 180 days (16 to 240 days for loans repayable in installments less frequently than monthly) verify that the lender's records document that the required telephone efforts were made and that the required collection letters were sent to the borrower. Verify that at least two of the letters warned the borrower of possible assignment of the loan to the guaranty agency, reporting the default to all national credit bureaus, offset of income tax refunds to garnish wages, and litigation against the borrower.
- c. Test a sample of loans that were delinquent from 181 to 270 days (241 to 331 days for loans payable in installments less frequently than monthly) verify that the lender's records document the lender's efforts to urge the borrower to make the required payments on the loan and that the efforts, at a minimum, provided information to the borrower regarding options to avoid default and the consequences of defaulting on the loan.
- d. Test a sample of loans that are 241 days delinquent (the 301<sup>st</sup> day for loans payable in installments less than monthly), verify that the lender sent the required final demand letter to the borrower.
- e. *Loan Endorser Procedures:* Test a sample of the lender's records to verify that they document that the lender made a diligent effort to contact the endorser by phone, sent the required letters and final demand letter, if applicable, in accordance with requirements.
- f. *Skip-Tracing Procedures:* From the sample of delinquent loans where a final demand letter was not sent to the borrower, verify that the lender's records document that the lender attempted to contact each endorser, relative, reference, individual and entity identified in the borrower's loan file within 10 days of receipt of information indicating that the lender did not know the borrower's current address. Verify that these efforts were completed by the date of default with no gap of more than 45 days between attempts. Verify that the lender's efforts for loan endorsers included an inquiry to directory assistance.
- g. *Default Aversion Assistance:* Obtain and review the agreement the guaranty agency has with the lender that establishes the time period for default aversion assistance. From the population of delinquent or defaulted loans determine the loans where required default aversion assistance from the loan guaranty agency should have been requested by the lender. For a sample of the loans, verify that the lender's records document that default aversion assistance was requested within the required timeframes.



## 9. Timely Claim Filings by Lenders or Servicers

**Compliance Requirement** - Lenders are required to timely file claims with the guaranty agency for payment of death, disability, closed schools, false certification, bankruptcy and default claims. Each type of claim has a separate timely filing requirement (34 CFR sections 682.402(g)(2) and 682.406(a)(5)). A lender has up to 3 years after the default claim filing deadline to successfully cure due-diligence violations that have rendered a loan un-reinsured (34 CFR part 682, Appendix D). The lender is also required to maintain records to document the validity of a claim against a loan guaranty (34 CFR section 682.402(g)(1)).

TYPE OF CLAIM	TIMELY FILING REQUIREMENTS
<b>Default</b>	A lender must submit default claims to the guaranty agency within 90 days of the default.
<b>Death or Disability</b>	The lender shall file a claim within 60 days of the date that the lender determines that a borrower (or the student on whose behalf a parent obtained a PLUS loan) has died, or when the lender determines that the borrower is totally and permanently disabled.
<b>Closed School</b>	The lender shall file a claim within 60 days after the borrower submits to the lender the written request and sworn statement described in 34 CFR section 682.402(d)(3) or after the lender is notified by the Secretary or the Secretary's designee or by the guaranty agency to do so.
<b>False Certification</b>	The lender shall file a claim with the guaranty agency within 60 days after the borrower submits to the lender the written and sworn statement described in 34 CFR section 683.402(e)(3) or after the lender is notified by the Secretary or the Secretary's designee or by the guaranty agency to do so.
<b>Bankruptcy</b>	A lender shall file a bankruptcy claim by the earlier of: (1) 30 days after the date on which the lender receives notice of the first meeting of creditors or other information described in 34 CFR section 682.402(f)(3); or (2) 15 days after the lender is served with a complaint or motion to have the loan determined to be dischargeable on grounds of undue hardship, or if the lender secures an extension of time within which an answer may be filed, 25 days before the expiration of that period, whichever is later.

### *Records to Support a Claim*

The lender is required to maintain records necessary to document the validity of a claim against a loan guaranty (34 CFR section 682.414(a)(4)(ii)). Items to be filed by the lender when making a claim to the guaranty agency include (34 CFR section 682.511(b)):

- The original or a true and exact copy of the promissory note.
- The loan application, if a separate loan application was provided to the lender.

- In the case of a death claim, an original or certified copy of the death certificate or other documentation supporting the discharge request that formed the basis for the determination of death.
- In the case of a disability claim, a copy of the certification of disability described in 34 CFR section 682.402(c)(2).
- In the case of a closed school claim, the documentation described in 34 CFR section 682.402(d)(3) or any other documentation as the Secretary may require.
- In the case of a false certification claim, the documentation described in 34 CFR section 682.402(e)(3).
- In the case of a bankruptcy claim:
  - Evidence that a bankruptcy petition has been filed and all pertinent documents sent to or received from the bankruptcy court by the lender;
  - An assignment to the guaranty agency of any proof of claim filed by the lender regarding the loan; and
  - A statement of any facts of which the lender is aware that may form the basis for an objection or exception to the discharge of the borrower's loan obligation in bankruptcy and all documents supporting those facts (34 CFR section 682.402(g)(1)(v)).

**Audit Objective** – Determine whether the lender complied with the documentation requirements and deadlines for timely filing of claims with the guaranty agency concerning death, disability, false certification, closed schools, bankruptcy, or default claims.

### **Suggested Audit Procedures**

- a. Select a sample from all loans on which a claim was filed and verify that the lender's records document that a claim was filed with accurate claim payment information and in a timely manner with the guaranty agency.
- b. Using the same sample of claims, verify that the lender maintained the required documentation to support the particular type of claim.

## **10. Curing Due-Diligence and Timely Filing Violations**

**Compliance Requirement** - A due-diligence violation occurs when a lender does not perform a requirement (See III.N.9, "Special Tests and Provisions - Timely Claim Filings by Lenders or Servicers") within the time frame specified. The time interval between collection activities is called a "gap". If the gap between collection activities exceeds that permitted this creates a violation for which the lender may incur penalties, including loss of insurance and reinsurance on the loan (34 CFR part 682, Appendix D).

Some examples of due-diligence violations include the lender's failure to perform the following functions in a timely manner:

- Sending the required collection letter(s), including the required final demand letter;
- Making the required telephone contact or diligent effort to contact the borrower;
- Requesting default aversion assistance from the guarantor;
- Conducting skip tracing activity.

A timely filing violation occurs when lenders fail to submit default, death, disability, ineligible borrower, closed school, or false certification claims within the prescribed time frames prescribed. See III.N.9 above for timely filing requirements.

#### ***Cures for Due-Diligence Violations***

*Violations of 6 days or less (21 days or less for a transfer)* - There will be no reduction or recovery by the Secretary of payments to the lender or guaranty agency if there is no violation of Federal requirements of 6 days or more (21 days or more for a transfer).

*Two or fewer violations of 6 days or more (21 days or more for a transfer) and no gap of 46 days or more (61 days for a transfer)* - Principal will be reinsured, but accrued interest, interest benefits, and special allowance payable by the Secretary for the delinquency period will be limited to amounts accruing through the date of default. However, the lender must complete all required activities before the claim filing deadline, except that a default aversion assistance request must be made before the 330<sup>th</sup> day of delinquency. If the lender fails to make the default aversion assistance request by the 330<sup>th</sup> day, the Secretary will not pay any accrued interest, interest benefits and special allowance for the most recent 270 days prior to the default. If the lender fails to complete any other required activity before the claim filing deadline, accrued interest, interest benefits, and special allowance otherwise payable by the Secretary for the delinquency period will be limited to amounts accruing through the 90<sup>th</sup> day before default.

*Three violations of 6 days or more (21 days or more for a transfer) and no gap of 46 days or more (61 days for a transfer)* - The lender must satisfy the requirements in 34 CFR part 682, Appendix D, I.E.1. or receive a full payment or a new, signed repayment agreement in order for reinsurance on the loan to be reinstated. The Secretary will not pay any interest benefits or special allowance for the period beginning with the lender's earliest unexcused violation occurring after the last payment received before the cure is accomplished, and ending with the date, if any, that reinsurance on the loan is reinstated.

*More than three violations of 6 days or more (21 days or more for a transfer) of any type, or a gap of 46 days (61 days for a transfer) or more and at least one violation* - The lender must satisfy the requirement outlined in 34 CFR part 682, Appendix D, I.D.1, for the reinsurance on the loan to be reinstated. The Secretary will not pay any interest benefits or special allowance for the period beginning with the lender's earliest unexcused violation occurring after the last payment received before the cure is accomplished, and ending with the date, if any, that reinsurance on the loan is reinstated (34 CFR part 682, Appendix D, I.C.3).

***Cures for Timely Filing Violations*** - When a lender has a timely filing violation on a default claim, the guarantee on the loan may be reinstated through one of the following (34 CFR part 682, Appendix D, I.E.1):

- The receipt of one full payment as defined in 34 CFR part 682, Appendix D, I.A,
- The receipt of a new repayment agreement signed by the borrower, or
- Successful completion of the requirements in 34 CFR part 682, Appendix D, I.E.1.

**Audit Objective** - Determine whether the lender complied with the cure procedures in 34 CFR part 682, Appendix D for loans with due-diligence or timely filing violations. Determine whether the information for cures was accurately reported on the LaRS.

#### **Suggested Audit Procedures**

- a. Select a sample of cured loans identified on the LaRS and verify that the lender's records document that it performed the required cure procedures.
- b. For cured loans for which the lender obtained a new repayment agreement, verify that the agreement meets the repayment period limitations of 34 CFR sections 682.209(a)(8) and 682.209(h)(2).
- c. For cured loans for which the lender obtained one full payment, obtain documentation of the payment and verify that the payment complied with the

terms of the most current repayment schedule and was valid in accordance with 34 CFR part 682, Appendix D, I.A.

## **11. Consolidation Loans**

### **Compliance Requirements**

#### ***Loans Eligible For Consolidation***

In order for a loan to be eligible for consolidation, it must be in grace or repayment status. Defaulted loans may be included only if the borrower has made satisfactory repayment arrangements with the holder of the defaulted loan or if the borrower agrees to repay the consolidation loan under the income-sensitive repayment plan. An existing consolidation loan may be included in a new consolidation loan only if the borrower includes at least one other eligible loan in the consolidation.

In addition, in order to be eligible for consolidation, the loan may not be subject to a judgment secured through litigation, unless the judgment has been vacated. The loan may not be subject to an order for wage garnishment under section 488A of the HEA, unless the order has been lifted. The loan may not be in default status resulting from a claim filed under 34 CFR section 682.412 (34 CFR section 682.201(d)).

#### ***Loan Verification Certificate***

In order to disburse a Federal Consolidation Loan, the consolidating lender must obtain a *Loan Verification Certificate (LVC)* from the holder of each loan to be consolidated (34 CFR section 682.206(f)). The loan holder is required to complete and return a LVC (or provide the consolidating lender with a written explanation of why the holder cannot complete the LVC) within 10 business days of receipt of the LVC (34 CFR section 682.209(j)).

#### ***Overpayments Resulting From Consolidations***

If a lender receives a Title IV of HEA funds refunded or returned under 34 CFR section 668.22 when a student withdraws from a school, and if the loan has been discharged by a consolidation loan, the lender must transmit the amount of the payment, within 30 days of its receipt, to the lender to whom it assigned the loan with an explanation of the source of the payment. In addition, upon receipt of a refund or return of Title IV of HEA funds, the holder of the loan must provide prompt written notice to the borrower that the holder has received the returned funds (34 CFR section 682.209(i)(2)).

**Audit Objective** - Determine if the lender complied with the requirements for loan consolidations, including loan eligibility, loan verification certificates, and return and notice of overpayments.

#### **Suggested Audit Procedures**

- a. Test a sample of consolidation loans to determine if the loans included in the consolidation were eligible to be consolidated.
- b. Test a sample of consolidation loans to determine if LVCs were obtained by the lender prior to disbursing a consolidation loan.
- c. Test a sample of LVCs processed by the lender to determine if the lender completed the LVC accurately and returned it timely.
- d. Test a sample of consolidation loans to determine if overpayments were returned timely to the consolidating lender and that prompt written notice was given to the borrower.

## 12. Prohibited Inducements

**Compliance Requirement** – An eligible lender in the FFEL program is prohibited from offering or paying inducements to secure applicants for loans. This requirement is reflected in regulations at 34 CFR section 682.200, in paragraph (5)(i) of the definition of “Lender,” which states that a lender may not offer, directly or indirectly, points, premiums, payments, or other inducements, to any school or other party to secure applicants for FFEL loans, except that a lender is not prohibited from providing assistance to schools comparable to the kinds of assistance provided by the Secretary to schools under, or in furtherance of, the Federal Direct Loan Program. Other parties might include school-affiliated organization, or officials of schools or school-affiliated organizations (Section 435(d)(5) of HEA (20 USC 1085(d)(5)); 34 CFR section 682.200).

**Audit Objective** – Determine whether a lender paid directly or indirectly, any points, premiums, payments, or other inducements to any school or other parties in order to secure applicants for loans.

### Suggested Audit Procedures

- a. Obtain written representation from management that it has not paid directly or indirectly, any points, premiums, payments, or other inducements to any school or other parties in order to secure applicants for loans.
- b. Interview key loan management officials to determine any agreements that were in effect during the audit period between the lender and schools or other parties, and marketing agreements with any parties and agreements to locate loan applicants with any parties that are related, either directly or indirectly, to the lender’s providing FFEL program loans and obtain access to the agreements.
- c. Select a sample of agreements, representative of all types of agreements, and review for evidence of prohibited inducements.
- d. Review a sample of disbursements made by the lender for evidence of prohibited inducements paid by the lender to schools, or other parties to secure applicants for FFEL program loans.

13. Making or Holding Loans as a Trustee for an Institution of Higher Education or an Affiliated Organization

**Compliance Requirement** – Section 435(d) of HEA (20 USC 1087(d)) was revised by the Third Higher Education Extension Act of 2006 (Pub. L. No. 109-292) so that, effective September 30, 2006, except as noted below, an eligible lender in the FFEL program may not make or hold a FFEL program loan as a trustee for an institution of higher education or for an organization affiliated with an institution of higher education. An “institution of higher education” is any institution that meets the definition of that term in Sections 101 or 102 of HEA (20 USC 1001 or 1002). The term “affiliated organization” will be defined in section 34 CFR section 682.200, as any organization that is directly or indirectly related to a school, including alumni organizations, foundations, athletic organizations, and social, academic and professional organizations. This provision of the November 1, 2007, final regulations will be codified at 34 CFR section 682.200 on July 1, 2008, and will be effective on that date. The regulation establishing the definition is effective July 1, 2008, but the statutory prohibition is effective, as noted, September 30, 2006.

The prohibition on holding or making loans described above does not apply to an eligible lender that was serving as an Eligible Lender Trustee (ELT) for an institution or affiliated organization on September 30, 2006. For the purposes of implementing this restriction, serving as an ELT means that:

- a. A formal contract between the lender and institution or organization had been entered into by the ELT and the institution or affiliated organization for this purpose before September 30, 2006, and continues in effect or has been or is renewed after that date; and
- b. At least one loan was held in trust by the lender on behalf of the institution or the affiliated organization on September 30, 2006 (Section 435(d)(7) of HEA (20 USC 1085(d)(7))).

For loans disbursed on or after January 1, 2007, any eligible lender acting as trustee must comply with the following requirements:

- May lend only to students attending the school for which it is a trustee;
- May make only Federal Stafford Loans to graduate or professional students;
- Must make loans with an origination fee or interest rate, or both, that is lower than that provided under the HEA; and
- Must ensure that the loans made or held by the ELT for the institution are included in the required FFEL program lender compliance audit (Section 435(d)(7) of HEA (20 USC 1085(d))).

**Audit Objective – Determine whether the lender complied with the ELT provisions.**

### Suggested Audit Procedures

- a. **Obtain written representation from management as to whether it has made or held loans, as a trustee, for an institution of higher education or for an organization affiliated with an institution of higher education, except as permitted by law.**
  - b. **If the representation provided by management indicates that it made or held loans for an institution of higher education, as a trustee, obtain relevant agreements/contracts, and through review of these and the loan portfolio, determine if the exceptions provided for in the law apply.**
  - c. **In auditing the lender and in performing tests relating to other compliance, the auditor should be alert for information that indicates an inaccurate representation by management concerning this compliance requirement. Such indications should be reviewed to determine whether there is an issue of noncompliance.**
  - d. **For eligible lenders acting as trustees, test a sample of loans disbursed after January 1, 2007, for compliance with the ELT provisions.**
14. School as Lender Eligibility (Applicable only to schools that are lenders)

**Compliance Requirements** - The HERA revised HEA to limit the ability of schools to be lenders in the FFEL program and changed many of the requirements for school lenders. Effective April 1, 2006, only a school that would have met the school-lender eligibility requirements as they existed in Section 435(d)(2)(A)-(F) of HEA (20 USC 1085(d)(2)(A)-(F)) on the day before the date of the enactment of HERA (February 7, 2006) and made its first loan under the FFEL program on or before April 1, 2006 is eligible to be a lender. For a school to continue to participate as a lender, in accordance with Section 435(d)(2) of HEA (20 USC 1085(d)(2)) and 34 CFR section 682.601(a), the school must:

- Make only subsidized and unsubsidized Stafford loans;
- Make loans only to graduate and professional students;
- Employ at least one person whose full time responsibilities are limited to the administration of the school's financial aid programs for students attending the school;
- Offer origination fees or interest rates, or both, that are less than the statutory maximums for those fees or rates for any loan first disbursed on or after July 1, 2006;
- Use the proceeds from its interest benefits and special allowance payments from ED and from interest payments from its borrowers, as well as the proceeds from

the sale or other disposition of its loans, for need-based grant programs, except for the reimbursement of reasonable direct administrative expenses;

- Not be a home-study school (a school that provides correspondence lesson materials prepared in a sequential and logical order for study and completion by a student on his or her own, with completed lessons returned by the student to the school for evaluation and subsequent return to the student);
- Not had cohort default rates that exceed 10 percent;
- Meet the annual lender compliance audit requirement as specified in 34 CFR section 682.601(a)(7).

**Audit Objective** - If a school was participating in the FFEL program as a lender, determine whether the school/lender was eligible to participate in accordance with the requirements in HEA and met statutory and regulatory requirements.

#### **Suggested Audit Procedures**

- a. Review the loan documentation and verify that the FFEL school lender made only subsidized and unsubsidized Stafford loans to graduate and professional students.
- b. Verify that the origination fees and interest rates charged on loans are in compliance with HEA.
- c. Verify that proceeds from interest and special allowance payments, and from the sale or other disposition of the loans (minus administrative and other allowable expenses specified in 34 CFR section 682.601(a)(8)) are used for need-based grants.
- d. Verify that the school employs a full time person dedicated to the administration of financial aid programs.
- e. Ensure that the school was not a home-study school or that it did not have cohort default rates that exceed 10 percent.

#### **IV. OTHER INFORMATION**

##### ***Selection of Major Programs When the Entity is a School that is a Lender under the FFEL Program***

Some schools make or originate loans under the FFEL program. Under HEA and 34 CFR section 682.601(a)(7), for any fiscal year beginning on or after July 1, 2006, in which a school engages in activities as an eligible lender, the school must submit a compliance audit covering its activities as a lender. An audit conducted in accordance with OMB Circular A-133, that treats the lender function as a major program, will satisfy that requirement.



If the SFA Cluster (see Part 5) was selected as a major program for a school that is also a lender under the FFEL program, the auditor must also include in the audit coverage, work sufficient to render an opinion, as part of an opinion on the SFA Cluster, on the school's compliance with the requirements set forth in this program supplement. Audit documentation must demonstrate sufficient audit coverage of the above compliance requirements to support that opinion, as well as the compliance requirements set forth in the SFA Cluster. When the SFA Cluster is audited as a major program for a school that is a lender, the program should be listed in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs as "SFA Cluster (including CFDA 84.032 FFEL - Lenders)."

For schools that are lenders, if the SFA Cluster is not selected as a major program, CFDA 84.032 must be covered as a separate major program using this program supplement. In such cases, the program should be listed in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs as "CFDA 84.032 - FFEL – Lenders."

#### *Governmental Lenders Covered as Part of a Statewide Single Audit*

Some "statewide" entities are defined to include a governmental lender under the FFEL program. For such entities, this program supplement should be used to identify pertinent compliance requirements. Auditors for such entities with large FFEL lending programs must consider the provisions of OMB Circular A-133, paragraph \_\_.520(b)(3) in determining major programs. When those provisions apply, coverage of the FFEL program for a lender should be identified and reported on separately and listed as a major program in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs as "CFDA 84.032 - FFEL – Lenders."

#### *Use of Third-Party Servicers*

Some lenders (including schools that are lenders in the FFEL program) use third-party servicer organizations to perform some or many lender functions. Third-party servicer organizations are required to obtain an annual audit (attestation engagement) under the December 1996 Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program (Lender Audit Guide)*, issued by ED. Auditors of lenders (including school lenders) may exclude coverage of compliance requirements performed by a third-party servicer, provided the auditor has determined that the third-party servicer has obtained an audit under the Lender Audit Guide for the entire audit period of the lender. If the third-party servicer has a different audit period, the auditor of the lender must determine that the most recently required audit of the third-party servicer under the Lender Audit Guide has been completed timely, and must obtain a representation from the third-party servicer that it has engaged (or will engage) an auditor to perform the required audit under the Lender Audit Guide for the immediate subsequent audit period. The auditor of the lender must confirm that the audit period of the prior third-party servicer audit, together with the audit period for the subsequent third-party servicer audit, covers the entire audit period of the lender/school lender audit. If the auditor excludes coverage of compliance requirements performed for a third-party servicer, the *Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133* must clearly describe the compliance requirements for which coverage has been excluded, name the third-party servicer that performed those compliance requirements, state that

that the third-party servicer has obtained an audit performed under December 1996 Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program (Lender Audit Guide)*, issued by ED, and specify the period of that audit (attestation engagement).

Alternatively, the auditor may decide to use a third-party servicer's audit (attestation engagement) and rely on it in rendering an opinion on compliance. In such cases, the auditor should obtain the servicer's most recent compliance audit report and any other reports regarding servicer compliance. If the servicer's compliance audit report or other reports contain findings of noncompliance, the auditor should assess the effect of that noncompliance on the nature, timing, or extent of substantive tests to be conducted at the lender and/or the servicer organization, as well as reporting that information. The auditor must also adhere to pertinent generally accepted auditing standards relating to use of servicer organization audits and reliance on the work of other auditors.

## DEPARTMENT OF EDUCATION

### CFDA 84.041 IMPACT AID (Title VIII of ESEA)

#### I. PROGRAM OBJECTIVES

The objective of the Impact Aid Program (IAP) under Title VIII of the Elementary and Secondary Education Act (ESEA) is to provide financial assistance to local educational agencies (LEAs) whose local revenues or enrollments are adversely affected by Federal activities. These activities include the Federal acquisition of real property (Section 8002) or the presence of children residing on tax-exempt Federal property or residing with a parent employed on tax-exempt Federal property (“federally connected” children) (Section 8003).

#### II. PROGRAM PROCEDURES

Funds are provided on the basis of statutory criteria and data supplied by LEAs in applications submitted to the Department of Education (ED), with copies provided simultaneously to the State Educational Agency (SEA). ED makes payments directly to the LEA. Generally, payments under Section 8003 of the ESEA are based on membership and attendance counts of federally connected children, with additional funds provided for certain federally connected children with disabilities and children residing on Indian lands. Payments under Section 8002 of the ESEA are based on the estimated assessed value of eligible Federal property and the applicable tax rate, and, in case of insufficient funds, upon a statutory formula that considers past year payments. Except for the additional funds provided for federally connected children with disabilities under Section 8003(d) of the ESEA, funds provided under Sections 8002 and 8003 are considered general aid and generally have no restrictions on their expenditure. Any formula funds that are provided under Section 8007(a) of the ESEA to certain LEAs that received Section 8003 payments must be used for construction, as defined in the statute. Any discretionary construction grant funds that are provided under Section 8007(b) of the ESEA to certain LEAs that received Section 8002 or 8003 payments must be used for emergency repairs or modernization, as defined in the statute and regulations.

#### Source of Governing Requirements

This program is authorized by Sections 8001-8014 of the ESEA, which is codified at 20 USC 7701 through 7714. Implementing regulations are 34 CFR part 222.

#### Availability of Other Program Information

Additional information on this program (including the Impact Aid statute) may be found on the internet at <http://www.ed.gov/about/offices/list/oese/programs.html>.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. *Section 8003(d) - Federally connected children with disabilities*

LEAs must use the payments provided under Section 8003(d) of the ESEA to conduct programs or projects for the free, appropriate public education of the federally connected children with disabilities who generated those funds. Allowable costs include expenditures reasonably related to the conduct of programs or projects for the free, appropriate public education of children with disabilities, including program planning and evaluation and acquisition costs of equipment, except when the title to that equipment would not be held by the LEA. Costs for school construction are not allowable (Section 8003 of ESEA; 34 CFR section 222.53(c)).

2. *Section 8007 - Construction*

LEAs that receive payments under Section 8003 of the ESEA and that meet certain other statutory criteria may receive formula assistance under Section 8007(a) of the ESEA in any fiscal year that the Congress appropriates funds under that Section. LEAs must use the payments provided under Section 8007(a) for construction, as defined in Section 8013(3) of the ESEA. Under Section 8013(3), the term “construction” includes: (a) the preparation of drawings and specifications for school facilities; (b) erecting, building, acquiring, altering, remodeling, repairing, or extending school facilities; (c) inspecting and supervising the construction of school facilities; and (d) debt service for such activities (Sections 8007 and 8013(3) of ESEA). Certain LEAs that receive payments under section 8002 or 8003 of the ESEA and that meet other statutory and regulatory criteria may receive discretionary grant assistance under Section 8007(b) of the ESEA. Selected grantees must use these funds for emergency or modernization construction grant expenditures, as specified in their grant award documents. Emergency and modernization are defined in 34 CFR section 222.176 and the allowable and unallowable uses of these funds are detailed in 34 CFR sections 222.172 through 222.174.

3. *Section 8002 - Federal property payments and Section 8003(b) - Basic support payments*

Funds made available under Sections 8002 and 8003(b) of the ESEA usually become part of the general operating fund of the LEAs. These funds are available as general aid for free public education and may be used for current operating expenditures or capital outlays in accordance with State laws. The auditor is not expected to perform any tests with respect to the expenditure of these funds.

**B. Allowable Costs/Cost Principles**

Sections 8002 (Federal property payments) and 8003(b) (Basic support payments) are not subject to the A-102 Common Rule (See Appendix I) or Circular A-87.

**D. Davis-Bacon Act**

Section 8007 construction funds, as well as any Section 8002 or 8003(b) funds spent for construction or minor remodeling, are subject to Davis-Bacon prevailing wage requirements (20 USC 1232b).

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

**1. Matching - Not Applicable**

**2.1 Level of Effort - *Maintenance of Effort* - Not Applicable**

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

Section 8003(d) funds may not supplant any State funds (either general or special education State aid) that were or would have been available to the LEA for the free, appropriate public education of federally connected children with disabilities counted under Section 8003(d). A reduction in the per-pupil amount of State aid for children with disabilities, including children counted under Section 8003(d), from that received in the previous year raises a presumption that supplanting has occurred. An LEA can rebut this presumption by demonstrating that the reduction was unrelated to the receipt of Section 8003(d) funds (Section 8003(d) of ESEA; 34 CFR section 222.54).

**3. Earmarking - Not Applicable**

**L. Reporting**

**1. Financial Reporting - Not Applicable**

**2. Performance Reporting - Not Applicable**

### 3. Special Reporting

*Application for Impact Aid - Section 8003 (OMB No. 1810-0036)* - Each year an LEA must submit this application, which provides the following information: counts of federally connected children in various categories, membership and average daily attendance data, and information on expenditures for children with disabilities. Membership and average attendance data should be tested. The auditor should use professional judgment when determining which tables to test, taking into account the relative materiality of the number of children reported in other tables. (Note: Eligible LEAs submit a separate application for Section 8002 or Section 8007(b) funding. The auditor is not expected to perform any tests with respect to the Section 8002 or Section 8007(b) applications.)

## N. Special Tests and Provisions

### Required Level of Expenditure

**Compliance Requirement** - For each fiscal year, the amount of expenditures for special education and related services provided to federally connected children with disabilities must be at least equal to the amount of funds received or credited under Section 8003(d) of the ESEA for that fiscal year. This is demonstrated by comparing the amount of Section 8003(d) funds received or credited with the result of the following calculation:

- a. Divide total LEA expenditures for special education and related services for all children with disabilities by the average daily attendance (ADA) of all children with disabilities served during the year.
- b. Multiply the amount determined in a. above by the ADA of the federally connected children with disabilities claimed by the LEA for the year.

If the amount of section 8003(d) funds received or credited is greater than the amount calculated above, an overpayment equal to the excess section 8003(d) funds exists. This overpayment may be reduced or eliminated to the extent that the LEA can demonstrate that the average per pupil expenditure for special education and related services provided to federally connected children with disabilities exceeded its average per pupil expenditure for serving non-federally connected children with disabilities (Section 8003(d) of ESEA; 34 CFR section 222.53(d)).

**Audit Objective** - To determine whether the LEA met the required level of expenditure for providing special education and related services to federally connected children with disabilities.

### Suggested Audit Procedures

- a. Review the LEA's calculation to ascertain if it shows that the required level of expenditure for federally connected children was met. Check accuracy of calculation.

- b. Trace amounts used in the calculation to supporting records.
- c. If the LEA's calculation shows that an overpayment was made, verify that the average per pupil expenditure for federally connected children with disabilities exceeded the average per pupil expenditure for non-federally connected children to the extent of the overpayment.

## DEPARTMENT OF EDUCATION

<b>CFDA 84.042</b>	<b>TRIO—STUDENT SUPPORT SERVICES</b>
<b>CFDA 84.044</b>	<b>TRIO—TALENT SEARCH</b>
<b>CFDA 84.047</b>	<b>TRIO—UPWARD BOUND</b>
<b>CFDA 84.066</b>	<b>TRIO—EDUCATIONAL OPPORTUNITY CENTERS</b>
<b>CFDA 84.217</b>	<b>TRIO—MCNAIR POST-BACCALAUREATE ACHIEVEMENT</b>

### I. PROGRAM OBJECTIVES

The Federal TRIO programs are authorized by Title IV of the Higher Education Act of 1965, as amended, and now consist of seven programs. These programs are designed to help first-generation college and economically disadvantaged students achieve success at the postsecondary level by facilitating high school completion and entry, retention, and completion of postsecondary education. Five of these programs are included in the TRIO single audit cluster. The remaining two TRIO programs do not meet the funding threshold to be included in the Compliance Supplement.

**Student Support Services (SSS)** program provides academic support services to low-income, first-generation, and disabled college students to enable them to be retained and graduate from institutions of higher education. The program also assists participants in making the transition from one level of higher education to the next.

**Talent Search (TS)** program identifies qualified youth with the potential for education at the postsecondary level and encourages them to complete or reenter secondary school and undertake a program of postsecondary education. Talent Search program also publicizes the availability of student financial assistance for persons who seek to pursue a postsecondary education.

**Upward Bound (UB)** program targets low-income and potential first-generation college students who are enrolled in high school, or veterans seeking to prepare themselves for success in postsecondary education. The program provides opportunities for participants to succeed in pre-college performance and ultimately in higher education pursuits.

**Educational Opportunity Centers (EOC)** program provides counseling and information on college admissions to qualified adults who want to enter or continue a program of postsecondary education. EOC projects also publicize the availability of student financial assistance for persons who seek to pursue a postsecondary education and assist individuals in applying for college admission and financial aid.

**Ronald E. McNair Post-Baccalaureate Achievement (McNair)** program provides low-income, first-generation college students and students from groups underrepresented in graduate education with effective preparation for doctoral study through involvement in research and other scholarly activities.



## II. PROGRAM PROCEDURES

All TRIO grants are competitive discretionary grants.

*SSS and McNair* grants are awarded for four-to-five-year cycles. Eligible applicants are institutions of higher education or combinations of such institutions.

*TS, UB, and EOC* grants are awarded for four to five years. Eligible applicants are institutions of higher education, public and private agencies and organizations, combinations of institutions and agencies, and in exceptional cases, secondary schools. The UB program has three types of projects: regular, veterans, and math/science.

### Source of Governing Requirements

The Federal TRIO programs are authorized by the Higher Education Act of 1965, as amended (20 USC 1070a *et seq.*). The applicable regulations are at 34 CFR sections 643 (TS); 644 (EOC); 645 (UB); 646 (SSS); and 647 (McNair).

### Availability of Other Program Information

Other program information is available on the Internet at <http://www.ed.gov/about/offices/list/ope/trio/index.html>.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements of a Federal program, the auditor should first look at Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for details of the requirements.**

### A. Activities Allowed or Unallowed

#### 1. *Activities Allowed*

##### a. *SSS and UB Programs*

Allowable services and activities for these programs include the following: (1) instruction; (2) personal counseling; (3) academic advice and assistance in course selection; (4) tutorial services; (5) exposure to cultural events, academic programs, and other educational activities; (6) activities to acquaint project participants with career options; (7) mentoring; and (8) activities specifically designed for individuals of limited English proficiency (34 CFR sections 645.11 and 646.4).

b. *SSS Only*

- (1) Activities to assist students in two-year institutions to secure financial assistance and admission to a four-year program, and to assist students in a four-year program to secure financial assistance and admission to graduate and professional programs (34 CFR sections 646.4 (g) and (h)).
- (2) The following cost items are allowable if reasonably related to allowed project activities: (a) cost of remedial and special classes and courses in English language instruction for students of limited English proficiency, under certain circumstances; (b) in-service training of project staff; (c) activities of an academic or cultural nature; (d) transportation of participants and staff to and from approved educational and cultural activities sponsored by the project; (e) purchase of computer hardware, computer software, or other equipment to be used for student development, student records and project administration; (f) professional development travel for staff; and (g) project evaluation (34 CFR sections 646.30 and 646.31).
- (3) Grant Aid to Students - See III.E.1.a, "Eligibility - Eligibility for Individuals" (20 USC 1070a-14(c)).

c. *UB Only*

- (1) Special services for veterans to enable them to make the transition to postsecondary education (20 USC 1070a-13(b)(11)).
- (2) Career-related work-study positions (20 USC 1070a-13(b)(10)).
- (3) Examples of specific allowable cost items are in 34 CFR section 645.40.
- (4) Stipends to Students - See III.E.1.c, "Eligibility - Eligibility for Individuals" (34 CFR sections 645.40-645.42).

d. *TS and EOC Programs*

- (1) Allowable project services include: (a) academic advice and assistance in course selection; (b) completing college admission and financial aid applications; (c) preparing for college entrance examinations; (d) guidance on secondary school reentry or entry to other programs leading to a secondary school diploma or its equivalent; (e) personal and career counseling; (f) tutorial services; (g) mentoring; (h) activities specifically designed for students of limited English proficiency; (i) (for TS only) exposure to college campuses, cultural events, academic programs, and other sites or

activities not usually available to disadvantaged youth; (j) workshops and counseling for parents of students served; and (k) activities to meet specific educational needs of individuals in grades six through eight (34 CFR sections 643.4 and 644.4).

- (2) Specific activities may include the following, if reasonably related to the objectives of the TS or EOC project: (a) transportation, meals, and lodging with prior approval for visits to postsecondary educational institutions, participation in “College Day” activities, and career field trips; (b) purchase of testing materials; (c) fees for college admissions applications and entrance examinations with the exceptions noted in 34 CFR sections 643.30(c) and 644.30(c); (d) in-service staff training; (e) rental of space, if space is not owned by the grantee; and (f) purchase of computer hardware, computer software, or other equipment for student development, project administration, and recordkeeping (34 CFR sections 643.30 and 644.30).

e. *McNair Program*

- (1) Allowable project services and activities include: (a) opportunities for research and other scholarly activities designed to provide participants with effective preparation for doctoral study; (b) summer internships; (c) seminars and other educational activities; (d) tutoring; (e) academic counseling; (f) assistance in securing admission to and financial aid for enrollment in graduate programs; (g) mentoring; and (h) exposure to cultural events and academic programs not usually available to project participants. (34 CFR section 647.4).
- (2) Allowable project activities may include the following, if reasonably related to carrying out a project: (a) activities of an academic or scholarly nature, such as trips to institutions of higher education offering doctoral programs and special lectures, symposia, and professional conferences, which have as their purpose the encouragement and preparation for project participants for doctoral study; (b) stipends (see III.E.1.e, “Eligibility - Eligibility - Eligibility for Individuals”); (c) necessary tuition, room and board, and transportation for students engaged in research internships during the summer; and (d) purchase of computer hardware, computer software, or other equipment for student development, project administration, and recordkeeping (20 USC 1070a-15(e); 34 CFR section 647.30).

## 2. *Activities Unallowed*

- a. *All Programs* - The following cost items can never be charged to any TRIO program: (1) tuition, fees, stipends, and other forms of direct financial support for employees; (2) research not directly related to the evaluation or improvement of the project (except for the research activities of McNair participants); and (3) construction, renovation, and remodeling of any facilities (34 CFR sections 643.31, 644.31, 645.41, 646.31, and 647.31).
- b. *SSS Program* - SSS funds cannot be used for activities involved in recruiting students for enrollment at the grantee institution (34 CFR sections 646.30 and 646.31).
- c. *UB Program*- The cost of room and board for the following persons may not be charged to the program: (1) administrative and instructional staff personnel who do not have responsibility for dormitory supervision of project participants; and (2) participants in Veterans UB projects (34 CFR sections 645.40 and 645.41).
- d. *TS and EOC Programs*- TS and EOC funds cannot be used for tuition, fees, stipends, and other forms of direct financial support for project participants (34 CFR sections 643.31 and 644.31).

## C. **Cash Management**

See ED Cross-Cutting Section.

## E. **Eligibility**

### 1. **Eligibility for Individuals**

- a. *SSS Program*
  - (1) *Eligible Participants* - A student is eligible to participate in a SSS project if the student meets all of the following requirements: (a) is a citizen or national of the United States or meets the residency requirements for Federal student financial assistance; (b) is enrolled at the grantee institution or accepted for enrollment in the next academic term at that institution; (c) has a need for academic support as determined by the grantee in order to pursue successfully a postsecondary educational program; and (d) is a low-income individual, a first-generation college student, or an individual with disabilities (34 CFR sections 646.3 and 646.7).

- (2) *Grant Aid to SSS Students* - Grant aid to students is restricted to students who meet all the following criteria: (a) participating in the SSS project, undergoing their first two years of postsecondary education; and (b) receiving Federal Pell Grants. In exceptional cases, grant aid may be offered to students who have completed their first two years of postsecondary education and are receiving Federal Pell Grants (20 USC 1070a-14(c)(2)).

The amount of grant aid awarded to an SSS student may not exceed the maximum appropriated Pell Grant (\$4,050 for the 2005-06 academic year) or be less than the minimum appropriated Pell Grant (\$400 for the 2005-06 academic year) (20 USC 1070a-14(c)(1)).

- b. *TS Program - Eligible Participants* - An individual is eligible to participant in a TS project if the individual meets all the following requirements: (1) is a citizen, national, or permanent resident of the United States or is in the United States for other than a temporary purpose; (2) has completed five years of elementary education or is at least 11 years of age but not more than 27 years of age (an individual more than 27 years of age and a veteran regardless of age may participate in a TS project if there is no EOC in the area); and (3) is enrolled in or has dropped out of any grade from 6 through 12 or has graduated from secondary school or dropped out of the postsecondary education and needs one or more of the services provided by the project (34 CFR section 643.3).

c. *UB Program*

- (1) *Eligible Participants* - An individual is eligible to participate in a Regular, Veterans, or Math-Science UB project if the individual meets all the following requirements: (a) is a citizen, national, or permanent resident of the United States, or is in the United States for other than a temporary purpose; (b) is a potential first-generation college student or a low-income individual; (c) has a need for academic support in order to pursue successfully a program of education beyond high school; and (d) at the time of initial selection has completed the 8th grade but has not entered the 12th grade and is at least 13 years old but not older than 19. A veteran, regardless of age, who meets all other criteria is eligible to participate (34 CFR sections 645.3 and 645.6).
- (2) *Stipends* - Stipends for regular and math-science projects may not exceed \$40 per month from September to May of the academic year and \$60 for each of the summer months (June, July, and August). Youth participating in a work-study position may be paid a stipend of \$300 per month during June, July and August. Stipends for participants in veterans project may not exceed \$40

per month. To be eligible for a stipend, participants must show evidence of satisfactory participation in project activities, including regular attendance and performance in accordance with the number of sessions in which a student participated (20 USC 1070a-13(e); 34 CFR section 645.42).

- d. *EOC Program - Eligible Participants* - An individual is eligible to participate in an EOC project if the individual meets all of the following requirements: (1) is a citizen, national, or permanent resident of the United States or is in the United States for other than a temporary purpose; (2) is at least 19 years of age (an individual less than 19 years of age and a veteran regardless of age can be served by the EOC project if TS services are not available); and (3) expresses a desire to enroll or is enrolled in a program of postsecondary education and requests information or assistance in applying for admission or financial aid for such a program (34 CFR section 644.3).
- e. *McNair Program*
  - (1) *Eligible Participants* - A student is eligible to participate in a McNair project if the student meets all the following requirements: (a) is a citizen, national, or permanent resident of the United States or is in the United States for other than a temporary purpose; (b) is currently enrolled in a degree program at an institution of higher education that participates in the student financial assistance programs; (c) is a low-income individual who is a first-generation college student or a member of a group that is underrepresented in graduate education or, under certain circumstances, underrepresented in certain academic disciplines; and (d) has not enrolled in doctoral level study (34 CFR sections 647.3 and 647.7).
  - (2) *McNair Stipends* - Stipends of up to \$2,800 per year for students engaged in approved research internships, provided that the student has completed the sophomore year of study at an eligible institution before the internship begins (20 USC 1070a-15(e); 34 CFR section 647.30).

2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients** - Not Applicable

**G. Matching. Level of Effort, Earmarking****1. Matching**

An institution that operates an SSS project and uses any portion of its SSS program grant for grant aid to students must furnish 33 percent of the total funds it uses for that purpose in cash, from non-federal sources. However, institutions eligible to receive funds under Title III, Part A or B, or Title V of the Higher Education Act, as amended, are not required to provide such matching funds (20 USC 1070a-14).

**2. Level of Effort - Not Applicable****3. Earmarking****a. SSS Program**

- (1) At least two-thirds of the students served by an SSS project must be low-income individuals who are the first generation college students or individuals with disabilities. Not less than one-third of the individuals with disabilities must also be low-income individuals. The remaining students served must be low-income individuals, first generation college students, or individuals with disabilities (34 CFR sections 646.7 and 646.11).
- (2) An institution operating an SSS project may not award more than 20 percent of its Federal SSS Program funds as grant aid to students (20 USC 1070a-14(c)(5)).

**b. TS Program - At least two-thirds of the individuals served by a TS project must be low-income individuals who are potential first-generation college students (34 CFR sections 643.10 and 643.7).****c. UB Program - Not less than two-thirds of the project's participants must be low-income individuals who are potential first-generation college students. The remaining participants must be either low-income individuals or potential first-generation college students (34 CFR sections 645.21 and 645.6).****d. EOC Program - At least two-thirds of the individuals served by an EOC project must be low-income individuals who are potential first-generation college students (34 CFR sections 644.10 and 644.7).****e. McNair Program - At least two-thirds of the students served by a McNair project must be low-income individuals who are first-generation college students. The remaining students must be members of groups underrepresented in graduate education (34 CFR sections 647.10 and 647.7).**

## L. Reporting

### 1. Financial Reporting

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Only grantees placed on reimbursement are required to complete this form to request payment of grant award funds. The requirement to use this form is imposed on a individual recipient basis.
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

### 2. Performance Reporting

- a. *Student Support Services Program Annual Performance Report (OMB No. 1840-0525)* - Grantees must submit an annual performance report to ED each year of the project period.

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

- (1) Section II, subsection A, *Number of Participants Assisted During the Report Period*, and subsection B, *Participant Distribution by Eligibility*.

- (2) Section III, *Record Structure for Participant List*, fields:

- 10 Eligibility
- 11 First School Enrollment Date
- 12 Date of First Service
- 15 Participant Status
- 17 Enrollment Status (at the end of the 2006-07 academic year)
- 18 College Grade Level (Entry into project)
- 19 College Grade Level (Current - at the end of the current reporting year)
- 26 Academic Standing
- 27 Undergraduate Degree/Certificate Completed at Grantee Institution

- b. *Upward Bound, Upward Bound Math-Science, and Veterans Upward Bound Programs Annual Performance Report (OMB No. 1840-0762)* - Grantees must submit an annual performance report to ED each year of the project period.



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

- (1) Section II-A, *Record Structure for Participant List for Upward Bound and Upward Bound Math-Science Projects*, fields:

11 Eligibility  
 12 UB Initiative Participant  
 14 Date of First Entry into Project  
 17 Date of Last Program Service (if applicable)  
 19 Participant Status  
 20 Participation Level (for the reporting period only)  
 21 Academic Need - Primary  
 33 Grade Level (at time of first entry into project)  
 34 Grade Level (at the end of the reporting period)

- (2) Section II-B, *Record Structure for Participant List for Veterans Upward Bound Projects*, fields:

11 Eligibility  
 13 Date of First Entry into Project  
 14 Educational Status (at time of entry into project)  
 17 Participant Status  
 18 Length of Program Participation  
 19 Educational Status (at end of reporting period)

- c. *Talent Search and Educational Opportunity Centers Programs Annual Performance Report (OMB No. 1840-0561)* - Grantees must submit an annual performance report to ED each year of the project periods.

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

- (1) Section II, *Demographic Profile of Project Participants*, subsection A, *Number of Participants Assisted*
- (2) Section II, *Demographic Profile of Project Participants*, subsection B, *Participant Distribution by Eligibility*
- (3) Section II, *Demographic Profile of Project Participants*, subsections F and G, *Grade Level Distribution of Secondary School Students and Educational Status of Project Participants Not in Secondary School*
- (4) Section IV, *Educational Status of Talent Search Participants (at end of budget period or for the fall 2007 term)*, lines:
- A1. Promoted to next grade in middle or high school  
 B1. Received high school diploma

- E1. Enrolled in postsecondary education (first-time enrollment or reentry)
- (5) Section IV, *Educational Status of EOC Participants (at the end of the budget period or for the fall 2007 term)*, lines:
  - A1. Enrolled in a continuing education program
  - B. Number of such participants who applied for student financial aid
  - D1. Enrolment in postsecondary education (first-time enrollment or reentry)
- d. *Ronald E. McNair Postbaccalaureate Achievement Program Performance Report (OMB No. 1840-0640)* - Grantees must submit an annual performance report to the Department each year of the project period.

*Key Line Items* - The following items contain critical information:

- (1) Section II, *Record Structure for Participant List*, fields:
  - 11-13 Eligibility
  - 14 First School Enrollment Date
  - 15 Project Entry Date
  - 16 Participant Status
  - 17 College Grade Level (entry into project)
  - 18 College Grade Level (Current - at the end of the spring/summer term)
  - 19 Enrollment Status (for the academic year being reported)
  - 21 Highest Degree Earned in the Reporting Year

**3. Special Reporting** - Not Applicable

## DEPARTMENT OF EDUCATION

### CFDA 84.048 CAREER AND TECHNICAL EDUCATION—BASIC GRANTS TO STATES (Perkins IV)

#### I. PROGRAM OBJECTIVES

Career and Technical Education (Perkins IV) (formerly Vocational and Technical Education—Basic Grants to States (Perkins III)) provides grants to States and outlying areas to develop the career, technical, vocational, and academic skills of secondary students and postsecondary students by: (1) promoting the integration of career, academic, and technical instruction; (2) developing challenging academic and technical standards; (3) increasing State and local flexibility in providing services and activities designed to develop, implement and improve career and technical education, including tech-prep education; (4) conducting and disseminating national research; (5) providing technical assistance; (6) supporting partnerships among secondary schools, postsecondary institutions, baccalaureate degree-granting institutions, area career and technical education schools, local workforce investment boards, business and industry, and intermediaries; and (7) providing individuals with opportunities to develop, in conjunction with other educational and training programs, the knowledge and skills needed to keep the United States competitive.

#### II. PROGRAM PROCEDURES

Participating States must designate or establish a State board of career and technical education (referred to in Perkins IV as the “eligible agency”) to administer and supervise State career and technical education programs. In order to receive funds for program year (PY) 2007 (July 1, 2007 – June 30, 2008), the State must submit either a 1-year transitional or a 6-year State plan for career and technical education or a unified plan. Any State that submitted a 1-year transitional plan for PY 2007 must then submit a 5-year plan for PY 2008 to receive funds. For subsequent years, funds are distributed based on the approved plan together with such revisions as the State eligible agency determines to be necessary.

The Department of Education (ED) allocates funds to the State based on a statutory formula. The State must allocate and use funds for the following statutorily prescribed activities or programs (referred to as the “basic programs”):

1. Secondary and postsecondary career and technical education programs (Section 135 of Perkins IV (20 USC 2355));
2. State leadership activities (Section 124 of Perkins IV (20 USC 2344));
3. State administration (Section 121 of Perkins IV (20 USC 2341)).

The grantee may transfer funds to other State agencies to administer one or more of these programs. A State makes grants to subrecipients, operates programs directly, or contracts for services. Subrecipients submit plans or applications to the State in order to receive funds.

## Source of Governing Requirements

This program is authorized by the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV) (20 USC 2301 *et seq.*), Pub. L. No. 109-270. In addition, some of the requirements in the Carl D. Perkins Vocational and Technical Education Act of 1998 (Perkins III), as amended, Pub. L. No. 105-332, which was codified at 20 USC 2301 *et seq.*, are still applicable. Certain requirements applicable to the Perkins IV grants are contained in the Workforce Investment Act (29 USC 2801 *et seq.*) as amended by Pub. L. No.105-220.

## Availability of Other Program Information

The Carl D. Perkins Career and Technical Education Improvement Act of 2006 (Perkins IV) (Pub. L. No. 109-270), is available on the Internet at <http://www.ed.gov/policy/sectech/leg/perkins/index.html#memo>. A number of documents contain guidance applicable to the Career and Technical Education—Basic Grants To States (Perkins IV) requirements in this Supplement. They include:

- Questions and Answers Regarding the Implementation of the Carl D. Perkins Career and Technical Education Act of 2006 – Version 1.0 (January 9, 2007); and Questions and Answers Regarding the Implementation of the Carl D. Perkins Career and Technical Education Act of 2006 – Version 2.0 (June 7, 2007)  
<http://www.ed.gov/about/offices/list/ovae/pi/memoperkinsiv.html>
- **Non-Regulatory Guidance Regarding the Consolidation of Title II Tech Prep Funds into Title I Basic Grant Funds (May 17, 2007)**  
<http://www.ed.gov/policy/sectech/guid/cte/perkinsiv/titleiinonregguid.doc>
- Student Definitions and Measurement Approaches for the Core Indicators of Performance Under the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV) (May 13, 2007)  
<http://www.ed.gov/policy/sectech/guid/cte/perkinsiv/studentdef.doc>
- Guide For The Submission Of State Plans Under the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV) (March 12, 2007)  
<http://www.ed.gov/policy/sectech/guid/cte/perkinsiv/stateplan.doc>
- Estimated FY 2007 State Allocations under the Carl D. Perkins Career and Technical Education Act of 2006 (May 1, 2007)  
<http://www.ed.gov/policy/sectech/guid/cte/perkinsiv/07perkinsallocations.doc>
- Guidance on the State Distribution of Secondary Funds -- Estimated FY 2007 State Allocations under the Carl D. Perkins Career and Technical Education Act of 2006 (May 1, 2007) <http://www.ed.gov/policy/sectech/guid/cte/perkinsiv/07perkinsallocations.doc>
- Bureau of the Census data, reflecting 2005-2006 school district boundaries, in FY 2007 funding distribution formulas [www.census.gov/hhes/www/saipe/district.html](http://www.census.gov/hhes/www/saipe/district.html)
- National Center for Education Statistics data [www.nces.ed.gov/ccd/pubagency.asp](http://www.nces.ed.gov/ccd/pubagency.asp).

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple ED programs are discussed once in the ED Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements.

#### A. Activities Allowed or Unallowed

See ED Cross-Cutting Section.

1. *State-Level Activities* - The State plan describes the specific activities to be carried out. A State must use funds for State leadership activities as described in a, b, and c below and State administration as described in 1.d. below.
  - a. *State Leadership Activities – Required Uses*. A State must use State leadership funds for:
    - (1) Assessing programs conducted with assistance under Perkins IV;
    - (2) Developing, improving, or expanding the use of technology in career and technical education;
    - (3) Professional development activities that, among other things:
      - (a) Provide in-service and pre-service training in career and technical education programs, and
      - (b) Are high-quality, sustained, intensive, and classroom-focused and are not 1-day or short-term workshops or conferences;
    - (4) Support for strengthening the academic and career and technical education skills of students;
    - (5) Providing preparation for nontraditional fields;
    - (6) Supporting partnerships among local educational agencies and other education and business entities assisting students to achieve state academic standards and career and technical skills, or complete career and technical programs of study;
    - (7) Serving students in State institutions;

- (8) Support for programs for special populations that lead to high-skill, high-wage, high-demand careers; and
  - (9) Technical assistance for eligible recipients (Section 124(b) of Perkins IV (20 USC 2344(b))).
- b. *State Leadership Activities – Other Uses.* A State may use State leadership funds for: (1) improvement of career guidance and academic counseling programs; (2) establishment of agreements, including articulation agreements, between secondary and postsecondary career and technical education programs; (3) support of initiatives to facilitate the transition of subbaccalaureate career and technical education students into baccalaureate degree programs; (4) support for career and technical education students' organizations; (5) support for public charter schools operating career and technical education programs; (6) support for career and technical education programs that offer experience in all aspects of an industry; (7) support for family and consumer sciences programs; (8) support for partnerships between education and business or business intermediaries; (9) support to improve or develop new career and technical education courses and initiatives; (10) awarding incentive grants to eligible recipients; (11) providing for activities to support entrepreneurship education and training; (12) providing career and technical education programs for adults and school dropouts; (13) providing assistance to individuals who participate in career and technical education programs and services under Perkins IV to continue their education and training or finding appropriate jobs; (14) developing valid and reliable assessments of technical skills; (15) developing and enhancing data systems to collect and analyze data on secondary and postsecondary academic and employment outcomes; (16) improving recruitment and retention for career and technical education programs and the transition of individuals to teaching from business and industry; and (17) support for occupational and employment information resources such as described in Section 118 of Perkins IV (Section 124(c) of Perkins IV (20 USC 2344(c))).
- c. *State Leadership Activities - Unallowed Uses.* A State may not use State leadership funds for administrative costs (Section 124(d) of Perkins IV (20 USC 2344(d))).
- d. *State Administration -* A State may use funds reserved for State administration for: (1) developing the State plan; (2) reviewing local applications; (3) monitoring and evaluating program effectiveness; (4) assuring compliance with all applicable Federal laws; (5) providing technical assistance; and (6) supporting and developing State data systems relevant to the provisions of Perkins IV (Section 112(a)(3) of Perkins IV (20 USC 2322(a)(3))).

2. *Subrecipient Activities - Secondary and Postsecondary Career and Technical Education Programs* - Funds must be used to improve career and technical education programs. The subrecipient plan or approved application describes the specific activities to be carried out. Required uses of funds are identified in Section 135(b) of Perkins IV. Examples of other allowable activities are identified in Section 135(c) of Perkins IV (Sections 135(a), (b), and (c) of Perkins IV (20 USC 2355(a), (b), and (c))).

**B. Allowable Costs/Cost Principles**

See ED Cross-Cutting Section.

**C. Cash Management**

See ED Cross-Cutting Section.

**E. Eligibility**

1. **Eligibility for Individuals** - Not Applicable
2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable

**3. Eligibility for Subrecipients**

- a. *Secondary Career and Technical Education Programs* - A subrecipient must be: (1) a local educational agency (LEA), including a public charter school, that is eligible to receive \$15,000 or more under Section 131(a) of Perkins IV; (2) an area career and technical education school or an educational service agency that meets the requirements in Section 131(e) of Perkins IV; or (3) a consortium of LEAs that meets the requirements in Section 131(f) of Perkins IV (Section 3(14)(A) of Perkins IV (20 USC 2302(14)(A)) and Sections 131(a), (e), and (f) of Perkins IV (20 USC 2351(a), (e), and (f))).

The State must treat a secondary school funded by the Bureau of Indian Affairs (BIA) within the State as if such school were an LEA within the State for the purpose of receiving a distribution under Section 131 of Perkins IV (Section 131(h) of Perkins IV (20 USC 2351(h))). Except as noted below, the State must provide funds to a public charter schools offering a career and technical education program in the same manner as it provides those funds to other schools; career and technical education programs within a charter school must be of sufficient size, scope, and quality to be effective (Section 133(d) of Perkins IV (20 USC 2353(d))). For the definition of “charter school” applicable to Perkins IV, see Section 5210 (20 USC 7221i) of the No Child Left Behind Act of 2001 at <http://www.ed.gov/legislation/ESEA02/pg62.html>.

For the program year beginning July 1, 2007, and subsequent program years, unless a State has an approved alternative formula, a State must distribute the amount reserved for the secondary school career and technical education programs as follows:

- (1) 30 percent to each LEA in proportion to the number of individuals aged 5 through 17, inclusive, who reside in the school district served by such LEA for the preceding fiscal year compared to the total number of such individuals who reside in the school districts served by all LEAs in the State for such preceding fiscal year, as determined on the basis of the most recent satisfactory data provided to the Secretary by the Bureau of the Census for the purpose of determining eligibility under Title I of the Elementary and Secondary Act of 1965; or student membership data collected by the National Center for Educational Statistics through the Common Core of Data survey system; and
- (2) 70 percent to each LEA in proportion to the number of individuals aged 5 through 17, inclusive, who reside in the school district served by such LEA and are from families with incomes below the poverty level for the preceding fiscal year, as determined on the basis of the most recent satisfactory data used under Section 1124(c)(1)(A) of the Elementary and Secondary Education Act of 1965, compared to the total number of such individuals who reside in the school districts served by all the LEAs in the State for such preceding fiscal year (Section 131(a) of Perkins IV (20 USC 2351(a))).

An LEA that does not meet the minimum grant requirement of \$15,000 can form a consortium with one or more LEAs to meet the minimum grant requirement (Section 131(f) of Perkins IV (20 USC 2351(f))). The State must waive the minimum grant requirement for an LEA that is in a rural, sparsely populated area or that is a public charter school operating a secondary school career and technical education program if the LEA demonstrates that the LEA is unable to enter into a consortium for purposes of providing activities under Title I, Part C of Perkins IV (Section 131(c)(2) of Perkins VI (20 USC 2351(c)(2))).

If the State reserves 15 percent or less for this program, it may distribute funds on a competitive basis or through any alternative method (Section 133(a) of Perkins IV (20 USC 2353(a))).

- b. *Postsecondary Career and Technical Education Programs* - A subrecipient must be an eligible institution, which is: a public or nonprofit institution of higher education that offers career and technical education courses that lead to technical skill proficiency, an industry-recognized credential, a certificate, or a degree; an LEA providing education at the



postsecondary level; an area career technical educational school providing education at the postsecondary level; a postsecondary education institution controlled by BIA or operated by or on behalf of any Indian tribe; an educational service agency; or a consortium of two or more of these entities (Section 3(13) of Perkins IV (20 USC 2302(13))).

Unless a State has an approved alternative formula, the State must distribute the amounts reserved for the postsecondary career and technical education programs to each eligible institution in proportion to the number of Pell grant recipients and recipients of assistance from BIA enrolled in programs meeting the requirements of Section 135 of Perkins IV at that institution in the preceding year compared to the total of such recipients enrolled in those programs in the State in the preceding year (Section 132(a) of Perkins IV (20 USC 2352(a))). The minimum grant is \$50,000; a State must reallocate amounts allocated to recipients that are less than \$50,000 to other eligible recipients except as provided below (Section 132(c) of Perkins IV (20 USC 2352(c))).

An eligible institution that does not meet the minimum grant requirement of \$50,000 may form a consortium with one or more eligible institutions to meet the minimum grant requirement (Section 132(a)(3) of Perkins IV (20 USC 2352(a)(3))). The State may waive the minimum grant requirement for eligible institutions in rural, sparsely populated areas (Section 132(a)(4) of Perkins IV (20 USC 2352(a)(4))).

If the State reserves 15 percent or less for its postsecondary program, it may distribute these funds on a competitive basis or through any alternative method (Section 133(a) of Perkins IV (20 USC 2353(a))).

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

### **1. Matching**

*State Administration* - A State must match, from non-Federal sources and on a dollar-for-dollar basis, the funds reserved for administration of the State plan. The matching requirement may be applied overall, rather than line-by-line, to State administrative expenditures (Section 112(b) of Perkins IV (20 USC 2322 (b))).

### **2.1 Level of Effort - Maintenance of Effort**

#### *a. General*

- (1) A State must maintain its fiscal effort in the preceding year from State sources for career and technical education on **either** an aggregate **or** a per-student basis when compared with such effort in the second preceding year, unless this requirement is specifically waived by the Secretary of Education. For example, to receive its

PY 2007 grant award, a State must maintain its level of fiscal effort on either an aggregate or per-student basis in PY 2006 (July 1, 2006 - June 30, 2007) at the level of its fiscal effort in PY 2005 (July 1, 2005 - June 30, 2006). An example of how a State may maintain effort on a per-student basis, but not in the aggregate, is as follows:

In PY 2005, a State spends \$50 million from State funds to provide career and technical education to 300,000 students. In PY 2006, the State spends only \$49 million to provide career and technical education to 290,000 students. Even though the State's aggregate effort decreased by \$1 million, the State's per-student effort increased from \$166.67 per student to \$168.97 per student. Thus, the State met the maintenance-of-effort requirement for its fiscal year 2007 grant (Section 311(b)(1)(A) of Perkins IV (20 USC 2391(b)(1)(A))).

If a State has been granted a waiver of the maintenance-of-effort requirement that allows it to receive a grant for a program year, the maintenance-of-effort requirement for the year after the year of the waiver is determined by comparing the amount spent for career and technical education from non-Federal sources in the first preceding program year with the amount spent in the third preceding program year (Section 311(b)(2) of Perkins IV (20 USC 2391(b)(2))).

In computing the fiscal effort or aggregate expenditures, a State must exclude capital expenditures, special one-time project costs, and the cost of pilot programs (Section 311(b)(1)(B) of Perkins IV (20 USC 2391(b)(1)(B))).

- (2) *Decrease in Federal Support* - If the amount made available for career and technical education programs under Perkins IV for a fiscal year is less than the amount made available for career and technical education programs under Perkins IV for the preceding fiscal year, then the fiscal effort per student or the aggregate expenditures of a State for such preceding fiscal year shall be decreased by the same percentage as the percentage decrease in the amount so made available (Section 311(b)(1)(C) of Perkins IV (20 USC 2391(b)(1)(C))).

b. *Administration*

- (1) A State must provide from non-Federal sources for State administration under the Perkins Act an amount that is not less than the amount provided by the State from non-Federal sources

for State administrative costs for the preceding fiscal or program year (Section 323(a) of Perkins IV (20 USC 2413(a))).

- (2) *Decrease in Federal Support* - If the amount made available for administration of programs under Perkins IV for a fiscal year is less than the amount made available for administration of programs under the Perkins Act for the preceding fiscal year, the amount the State is required to provide from non-Federal sources for costs the State incurs for administration of programs shall be decreased by the same percentage (Section 323(b) of Perkins IV (20 USC 2413(b))).

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

The State and its subgrantees may use funds for career and technical education activities that shall supplement, and shall not supplant, non-Federal funds expended to carry out career and technical education activities and tech-prep activities (Section 311(a) of Perkins IV (20 USC 2391(a))). The examples of instances where supplanting is presumed to have occurred described in III.G.2.2 of the ED Cross-Cutting Section (84.000) also apply to the career and technical education program.

Notwithstanding the above paragraph, funds made available under Perkins IV may be used to pay for the costs of career and technical education services required in an individualized education plan (IEP) developed pursuant to Section 614(d) of the Individuals with Disabilities Education Act (IDEA) and services necessary to meet the requirements of Section 504 of the Rehabilitation Act of 1973 with respect to ensuring equal access to career and technical education (Section 324(c) of Perkins IV (20 USC 2414(c))).

## 3. Earmarking

- a. *States* - Subject to the requirements discussed below regarding the minimum amount for State administration, a State must reserve the following percentages:
  - (1) *Secondary and postsecondary career and technical education programs*—not less than 85 percent. A State must distribute all of these funds to its subrecipients. A State may reserve no more than 10 percent of the 85 percent of funds to make grants for activities described in Section 135 of Perkins IV (20 USC 2355) to eligible subrecipients in : (a) rural areas; (b) areas with high percentages of career and technical education students; and (c) areas with high numbers of career and technical education students (Sections 112(a)(1) and (c) of Perkins IV (20 USC 2322(a)(1) and (c))).

- (2) *State Leadership Activities* - not more than 10 percent. Within the State leadership activities not more than 1 percent of the amount allocated to each State in Section 111 of Perkins IV (20 USC 2321) shall be allotted to activities that serve individuals in State institutions. Also, not less than \$60,000 and not more than \$150,000 of the amount allocated to each State in Section 111 of Perkins IV shall be made available for services that prepare individuals for nontraditional fields (Section 112(a)(2) of Perkins IV (20 USC 2322(a)(2))).
- (3) *State Administration* - not more than 5 percent or \$250,000, whichever is greater, for administration of the State plan (Section 112(a)(3) of Perkins IV (20 USC 2322 (a)(3))).

A State must consider any tech-prep-education grant funds that it consolidates, as approved in its State plan submitted under Section 122 of Perkins IV (20 USC 2342), as funds allotted under Section 111 of Perkins IV (20 USC 2321) and must distribute these funds in accordance with Section 112 of Perkins IV (20 USC 2322) requirements as described above in paragraphs (1) – (3) (Section 202 of Perkins IV (20 USC 2372)).

- b. *Subrecipients* – Subrecipients under the secondary and postsecondary career and technical education programs may use no more than 5 percent of those funds for administrative costs (Section 135(d) of Perkins IV (20 USC 2355(d))).

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

See ED Cross-Cutting Section.

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269 - *Financial Status Report* – Not Applicable.
- b. SF-270 - *Request for Advance or Reimbursement* - Only grantees placed on reimbursement are required to complete this form to request payment of grant award funds. The requirement to use this form is imposed on an individual recipient basis.
- c. SF-271 - *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272 - *Federal Cash Transactions Report* - Not Applicable

- e. *Financial Status Report (Form II) for the Consolidated Annual Performance, Accountability, and Financial Status Report (CAR) (OMB No. 1830-0503)* - This replaces the SF 269. This form is a web-based format entitled “*Status of Funds*” (FSR). Each State files two “FSR” forms each December for two distinct grant periods: (1) an interim FSR that reports the expenditure of those Federal funds available to a State on or after July 1 of the preceding year during the first 12 to 15 months of availability and (2) a final FSR that reports the expenditure of those Federal funds available to the State on or after July 1 of the second preceding year for the full 27 months of availability.
- f. LEAs and other subrecipients are generally required to report financial information to the pass-through entity. These reports should be tested during audits of LEAs and other subrecipients.

**2. Performance Reporting – Not Applicable**

**3. Special Reporting - Not Applicable**

**N. Special Tests and Provisions**

**1. Schoolwide Programs**

See ED Cross-Cutting Section

**2. Access to Federal Funds for New or Significantly Expanded Charter Schools**

See ED Cross-Cutting Section.

**3. Annual Accountability Report**

Each year a grantee must file an accountability report in the CAR containing data to be used in determining whether it met its adjusted performance levels for each of its core indicators of performance and any State indicators of performance (Section 113(c) of Perkins IV (20 USC 2323(c))). LEAs and other subrecipients must submit data to the grantee for the grantee’s report. The grantee determines the format of the data submissions. A grantee is required to describe how it will ensure that the data reported to it from LEAs and other eligible recipients, and the data the grantee reports to ED, are complete, accurate, and reliable (Section 122(c)(13) of Perkins IV (20 USC 2341(c)(13))).

For the program year ending June 30, 2007, for which the grantee must submit performance data in its CAR due December 31, 2007, a grantee must provide data for each sub-indicator of the four core indicators required in Perkins III:

(1) attainment of academic and vocational skills; (2) attainment of diploma or credential; (3) placement and retention; and (4) participation in, and completion of programs leading to non-traditional occupations. To meet the requirement to include a quantifiable description of the progress special populations participating

in vocational and technical education programs have made in meeting the State adjusted levels of performance established by a grantee, the grantee must report disaggregated data for each subindicator for each special population (Section 113(c)(2) of Perkins III (20 USC 2323(c)(2))). The term “special populations” is defined in Section 3(23) of Perkins III as:

- Individuals with disabilities;
- Individuals from economically disadvantaged families, including foster children;
- Individuals preparing for non-traditional training and employment;
- Single parents, including single pregnant women;
- Displaced homemakers;
- Individuals with other barriers to educational achievement; and
- Individuals with limited English proficiency (20 USC 2302).

For the program year ending June 30, 2007, for which a grantee must submit performance data in its CAR by December 31, 2007, to meet the requirement to report on the effectiveness of its tech-prep program, the grantee must report disaggregated data for each subindicator for tech-prep students (Section 206 of Perkins III (20 USC 2375)). A grantee also must report disaggregated data for each subindicator by gender, race, ethnicity, and migrant status. The grantee’s adjusted performance level for each subindicator for each program year is contained in the “Final Agreed-Upon Baseline and Adjusted Levels of Performance,” which is incorporated by reference in the grantee’s State plan and grant award (Section 113(b)(3)(A)(v) of Perkins III (20 USC 2323(b)(3)(A)(v))). The “Final Agreed-Upon Baseline and Adjusted Levels of Performance” data are transmitted to the grantee each year with the grant award documents.

**Audit Objective** – Determine whether grantee procedures for reviewing data submitted by subrecipients provide for complete, accurate, and reliable data.

#### **Suggested Audit Procedures**

- a. Review how the grantee collects, compiles, and determines that data obtained from its subrecipients are complete, accurate and reliable.
- b. Review data received from subrecipients to ascertain that these data were included and correctly reflected in the grantee’s submission to ED.

**DEPARTMENT OF EDUCATION****CFDA 84.126 REHABILITATION SERVICES--VOCATIONAL REHABILITATION GRANTS TO STATES****I. PROGRAM OBJECTIVES**

The purpose of Title I of the Rehabilitation Act of 1973, as amended (Act), which authorizes the State Vocational Rehabilitation (VR) Services Program, is to assist States in operating statewide comprehensive, coordinated, effective, efficient, and accountable VR programs, each of which is: (1) an integral part of a statewide workforce investment system; and (2) designed to assess, plan, develop, and provide VR services for individuals with disabilities, consistent with their strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice, so that such individuals may prepare for and engage in gainful employment (Section 100(a)(2) of the Act (29 USC 720(a)(2))).

**II. PROGRAM PROCEDURES**

Federal funds are distributed to the States on a formula basis with the States required to provide a 21.3 percent match. The program is administered by an agency designated by the State as having overall administrative responsibility for the VR program. If the designated State agency is not an agency primarily concerned with VR, or vocational and other rehabilitation of individuals with disabilities, it must include a designated State unit within the agency that is responsible for the designated State agency's VR program (State VR Agency).

The States must submit to the Rehabilitation Services Administration (RSA) a State Plan that provides both assurances and descriptions that are required by Title I of the Act and the implementing regulations (34 CFR part 361). The State Plan is one of the key bases of RSA's monitoring of the State's administration of the VR program.

Services are provided either directly by State VR Agency staff or purchased from community-based vendors. Services, except those of an assessment nature, are provided under the Individualized Plan for Employment (IPE), as determined by the individual, which can be developed by the individual, or with assistance provided by others, including a qualified VR counselor employed by the State VR Agency, to achieve an employment outcome that is consistent with the individual's strengths, resources, priorities, concerns, abilities, capabilities and informed choice.

The Workforce Investment Act of 1998, as amended (WIA), requires the VR program to collaborate with other workforce development, educational, and human resource programs in a one-stop service delivery system. The WIA's objective is to create a seamless delivery system by linking the agencies operating these programs in order to provide universal access to the programs operated by each agency. While the one-stop system operates as a common portal for gaining access to these programs, each program provides its respective services to persons meeting its respective eligibility criteria.

Agencies responsible for administering the programs whose services are delivered in a one-stop system are known as “partners;” those whose participation is mandated by the WIA, including the State VR agency, are “required partners.” Each partner must enter into a Memorandum of Understanding (MOU) with the Local Workforce Investment Board regarding the operation of the one-stop system. The MOU covers the services to be provided through the one-stop system, funding for those services and for the system’s administrative costs, and the methods for referring individuals between one-stop operators and partners. It establishes how each partner will participate in the one-stop system and share in the cost of operating it. Each partner’s resources may be used only for: (1) services that are authorized under that partner’s program and delivered to clients eligible for those services; and (2) administrative costs allocable to the partner’s program.

In addition to the MOU required by the WIA, the Rehabilitation Act requires that a State VR agency’s State Plan provide for a network of cooperative agreements binding that agency’s central and local offices to the central and local offices, respectively, of the other partners in the one-stop service delivery system. States can choose to use the same document to meet the requirements for both the MOU and the cooperative agreements. As used henceforth in this discussion, “MOU” refers to whatever document(s) a State agency uses to meet these requirements.

### **Source of Governing Requirements**

The VR program is authorized by Title I of the Rehabilitation Act of 1973, as amended (29 USC 701 *et seq.*). The Rehabilitation Act Amendments of 1998 are found in Title IV of the WIA. Program regulations are found at 34 CFR part 361. In addition, the Education Department General Administrative Regulations (EDGAR) at 34 CFR parts 74, 76, 77, 79, 80, 81, 82, 85, and 86 apply to this program. Requirements in 20 CFR part 662 (Description of the One-Stop Service Delivery System) also apply to the extent that VR activities are being conducted as part of a one-stop service delivery system.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

#### *1. Services to Individuals*

Services provided under the VR program are any services described in an IPE necessary to assist an individual with a disability in preparing for, securing, retaining, or regaining an employment outcome that is consistent with the strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice of the individual. Section 103(a) of the Act (29 USC 723(a)) contains examples of the types of services that can be provided.



## 2. *Services to Groups*

The State VR Agency may provide other services to groups of individuals with disabilities (Section 103(b) of the Act (29 USC 723(b))):

- a. In the case of any type of small business operated by individuals with significant disabilities the operation of which can be improved by management services and supervision provided by the designated State agency, the provision of such services and supervision, along or together with the acquisition by the designated State agency of vending facilities or other equipment and initial stocks and supplies.
- b. *Community Rehabilitation Programs* - The establishment, development, or improvement of a public or other non-profit community rehabilitation program including, under special circumstances, the construction of a facility for a public or non-profit community rehabilitation program.
- c. The provision of other services, that promise to contribute substantially to the rehabilitation of a group of individuals but that are not related directly to the individualized plan for employment of any one individual with a disability.
- d. Telecommunications systems that have the potential for substantially improving vocational rehabilitation service delivery methods and developing appropriate programming to meet the particular needs of individuals with disabilities.
- e. Special services to provide non-visual access to information for individuals who are blind, including telecommunications, Braille, sound recordings or other appropriate media; captioned television, films, or video cassettes for individuals who are deaf or hard of hearing; tactile materials for individuals who are deaf-blind; and other special services that provide information through tactile, vibratory, auditory, and visual media.
- f. Technical assistance and support services to businesses that are not subject to Title I of the Americans with Disabilities Act of 1990, and that are seeking to employ individuals with disabilities.
- g. Consultative and technical assistance services to assist educational agencies in planning for the transition of students with disabilities from school to post-school activities, including employment.

### 3. *Participation in a One-Stop Service Delivery System*

Any service or administrative cost charged to the VR program through its participation in the one-stop service delivery system must be: (a) allowable under the program's authorizing statute and regulations; (b) allocable to the program under the State VR agency's cost allocation plan; and (c) consistent with the MOU between the State VR agency and the Local Workforce Investment Board. The MOU is the primary vehicle by which the State VR agency sets forth how it will participate in the one-stop service delivery system and how it will share in the cost of operating the system (29 USC 2841(b)(1)(B)(iv); 34 CFR section 361.4; 20 CFR part 662; Notice: *Resource Sharing for Workforce Investment Act One-Stop Centers: Methodologies for Paying or Funding Each Partner Program's Fair Share of Allocable One-Stop Costs*, issued May 31, 2001 (66 FR 29637)).

The MOU identifies the resources the State VR agency will provide for compliance with 20 CFR section 662.270, which requires the VR program to support a fair share of the one-stop system's common administrative costs. The amount provided must be proportionate to the use of the system by individuals attributable to this program. The MOU may provide for cash payments of billings from the one-stop operator, or for providing goods and services that benefit the system's operation. Examples of goods and services that the VR agency may provide for this purpose include: (a) making VR staff available to provide training or technical assistance to other partners in such areas as disability, accessibility, adaptive equipment, and rehabilitation engineering; (b) VR staff participation in cooperative efforts with employers to promote job placement (such as job analysis and employer visits); and (c) applying VR staff and other resources to the VR program's participation in information and financial management systems that link all partners to one another.

## **C. Cash Management**

See ED Cross-Cutting Section

## **E. Eligibility**

### **1. Eligibility for Individuals**

An individual is eligible for VR services if the individual (a) has a physical or mental impairment that, for the individual, constitutes or results in a substantial impediment to employment; (b) can benefit in terms of an employment outcome from VR services; and (c) requires VR services to prepare for, secure, retain, or regain employment (Section 102(a)(1) of the Act (29 USC 722(a)(1))).

An individual who is a beneficiary of Social Security Disability Insurance or a recipient of Supplemental Security Income is presumed to be eligible for VR services (provided that the individual intends to achieve an employment outcome consistent with the unique strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice of the individual) unless the State VR

Agency can demonstrate by clear and convincing evidence that such individual is incapable of benefiting in terms of an employment outcome from VR services due to the severity of the disability of the individual (Section 102(a)(3) of the Act (29 USC 722(a)(3))).

An individual is presumed to be able to benefit in terms of an employment outcome from VR services unless the State VR Agency can demonstrate by clear and convincing evidence that the individual is incapable of benefiting in terms of an employment outcome from VR services due to the severity of the individual's disability. This determination must be made through the use of trial work experiences with appropriate supports provided by the State VR Agency, except under limited circumstances when the individual can not take advantage of such experiences (Section 102(a)(2) of the Act (29 USC 722(a)(2))).

The State VR Agency must determine whether an individual is eligible for VR services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless (Section 102(a)(6) of the Act (29 USC 722(a)(6))):

- a. Exceptional and unforeseen circumstances beyond the control of the State VR agency preclude making an eligibility determination within 60 days and the State agency and the individual agree to a specific extension of time; or
- b. The State VR Agency is exploring an individual's abilities, capabilities, and capacity to perform in work situations through trial work experiences in order to determine the eligibility of the individual or the existence of clear and convincing evidence that the individual is incapable of benefiting in terms of an employment outcome from VR services.

The State may choose to consider the financial need of eligible individuals, or individuals who are receiving services during a trial work experience or an extended evaluation, for the purpose of determining the extent of their participation in the cost of VR services. The State may not consider financial need when providing services described in 34 CFR section 361.54(b)(3). If the State indicates in its State Plan that it will use financial need tests for one or more types of VR services, it must apply such tests in accordance with its written policies uniformly to all individuals under similar circumstances. The policies may require different levels of need for different geographic regions in the State, but must be applied uniformly to all individuals within each geographic region (34 CFR section 361.54).

2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients** - Not Applicable

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

### **1. Matching**

- a. The State share of expenditures made by the State VR Agency under the State Plan, including expenditures for the provision of VR services and the administration of the State Plan, is 21.3 percent (Sections 7(14) and 111(a)(1) of the Act (29 USC 705(14) and 731(a)(1))).
- b. The Federal share of expenditures made for the construction of a facility for community rehabilitation program purposes may not be more than 50 percent of the total cost of the project (34 CFR section 361.60(a)(2)).

### **2.1 Level of Effort - *Maintenance of Effort***

- a. The amount otherwise payable to a State for a fiscal year under this section shall be reduced by the amount by which expenditures from non-Federal sources under the State Plan for the previous fiscal year are less than the total of such expenditures for the fiscal year two years prior to the previous fiscal year. For example, for fiscal year 2001, a State's maintenance-of-effort level is based on the amount of its expenditures from non-Federal sources for fiscal year 1999. Thus, if the State's non-Federal expenditures in fiscal year 2001 are less than they were in fiscal year 1999, the State has a maintenance of effort deficit, and the Secretary reduces the State's allotment for fiscal year 2002 by the amount of that deficit (Section 111(a)(2)(B) of the Act (29 USC 731(a)(2)(B)); 34 CFR section 361.62).
- b. If the State Plan provides for the construction of a facility for community rehabilitation program purposes, the amount of the State's share of expenditures for a fiscal year for VR services under the Plan, other than for the construction of a facility for community rehabilitation program purposes or the establishment of a facility for community rehabilitation purposes, must be at least equal to the State's share of those expenditures for the second prior fiscal year (34 CFR section 361.62).

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

### **3. Earmarking - Not Applicable**

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

Federal funds appropriated for a fiscal year remain available for obligation in the succeeding fiscal year only to the extent that the State VR Agency met the matching requirement for those Federal funds by obligating, in accordance with 34 CFR section 76.707, the non-Federal share in the fiscal year for which the funds were appropriated. Any program income received during a fiscal year that is not obligated by the State VR Agency by the end of that fiscal year will remain available for obligation by the State VR

Agency during the succeeding fiscal year (Section 19 of the Act (29 USC 716); 34 CFR section 361.64).

## **J. Program Income**

Sources of program income include, but are not limited to, payments from the Social Security Administration for rehabilitating Social Security beneficiaries, payments received from workers' compensation funds, fees for services to defray part or all of the costs of services provided to particular individuals, and income generated by a State-operated community rehabilitation program.

Except as indicated below, program income, whenever earned, must be used for the provision of VR services and the administration of the State Plan under the State Vocational Rehabilitation Services Program. Program income is considered earned when it is received (Section 108 of the Act (29 USC 728); 34 CFR section 361.63).

The State VR Agency is authorized to treat program income as a deduction from total allowable costs or as an addition to the grant funds to be used for additional allowable program expenditures, in accordance with 34 CFR sections 80.25(g)(1) or (2) (34 CFR section 361.63).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Only grantees placed on reimbursement are required to complete this form to request payment of grant award funds. The requirement to use this form is imposed on an individual recipient basis.
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. RSA-2, *Program Cost Report (OMB No. 1820-0017)*. State VR agencies submit the RSA-2 annually.

### **2. Performance Reporting** - Not Applicable

### **3. Special Reporting** - Not Applicable

## DEPARTMENT OF EDUCATION

### CFDA 84.181 SPECIAL EDUCATION—GRANTS FOR INFANTS AND FAMILIES WITH DISABILITIES

#### I. PROGRAM OBJECTIVES

The purposes of the Individuals with Disabilities Education Act (IDEA), Part C (Part C) are to: (1) to develop and implement a statewide, comprehensive, coordinated, multi-disciplinary interagency system that provides early intervention services for infants and toddlers with disabilities and their families; (2) to facilitate the coordination of payment for early intervention services from Federal, State, local and private sources (including public and private insurance coverage); (3) to enhance the State's capacity to provide quality early intervention services and expand and improve existing early intervention services being provided to infants and toddlers with disabilities and their families; and (4) to encourage States to expand opportunities for children under the age of three years who would be at risk of having substantial developmental delay if they did not receive early intervention services (20 USC 1431(b); 34 CFR section 303.1).

#### II. PROGRAM PROCEDURES

Generally, the State is responsible for maintaining and implementing a statewide system to identify, evaluate and provide early intervention services to eligible children and their families. Such a system includes a public awareness and child find system, development and implementation of an individualized family service plan for eligible children, maintenance of a central directory of information about early intervention services, personnel development and contracting for or otherwise providing services to eligible children and their families.

A State must have an approved application that provides required assurances and describes the statewide system and related policies. The State designates a lead agency that is responsible for administering, and supervising activities funded by this program. Program services may be carried out by the lead agency, other State agencies, or by public or private organizations either under contract to the State or through other arrangements with such agencies. The lead agency also monitors activities that are covered by the program, whether or not this program funds them. The State also must establish a State Interagency Coordinating Council that, among other things, advises and assists the lead agency in the development and implementation of policies and achieving participation, cooperation, and coordination of all appropriate public agencies in the State.

The amount of a State's allocation under Part C for a fiscal year is based on its proportion of the general population of infants and toddlers, from birth through two years, in the State (i.e., the ratio of the number of infants and toddlers in the State compared to the number of infants and toddlers in all the States).

#### Source of Governing Requirements

This program is authorized under 20 USC 1431 through 1445. Implementing regulations specific to this program are 34 CFR part 303.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for details of the requirements.**

Certain compliance requirements that apply to multiple Department of Education (ED) programs are discussed once in the ED Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references to the Cross-Cutting Section for these requirements.

#### A. Activities Allowed or Unallowed

The approved application describes the activities to be carried out. Generally, allowable activities for a State, include (20 USC 1433 and 1438; 34 CFR section 303.3):

1. Maintaining a statewide, comprehensive, coordinated, multi-disciplinary, interagency system to provide early intervention services for infants and toddlers with disabilities and their families.
2. Providing direct early intervention services for infants and toddlers with disabilities and their families, which are otherwise not funded through other public or private sources.
3. Expanding and improving on services under Part C that are otherwise available for infants and toddlers and their families.
4. Providing a free appropriate public education, in accordance with Part B of the IDEA, to children with disabilities from their third birthday to the beginning of the following school year.
5. With the written consent of the parents, continuing to provide early intervention services under this part to children with disabilities from their third birthday until such children enter, or are eligible under State law to enter, kindergarten, in lieu of a free appropriate public education provided in accordance with Part B.
6. In any State that does not provide services for at risk infants and toddlers, to strengthen the statewide system by initiating, expanding, or improving collaborative efforts related to at-risk infants and toddlers including establishing linkages with appropriate public or private community-based organizations, services, and personnel for the purpose of: (a) identifying and evaluating at-risk infants and toddlers; (b) making referrals of the infants and toddlers identified and evaluated; and (c) conducting periodic follow-up on each such referral to determine if the status of the infant or toddler involved has changed with respect to the eligibility of the infant and toddler for services.

**B. Allowable Costs/Cost Principles**

See ED Cross-Cutting Section (84.000, Section III, B.3), which explains that a Restricted Indirect Cost Rate (RICR) must be applied. For States, when ED is cognizant agency for indirect costs under OMB Circular A-87, RICRs are incorporated into indirect cost rate agreements approved by ED.

However, Part C is often administered by State entities for which ED is not the cognizant Federal agency for indirect costs. In addition, subrecipients who may not have had their indirect cost rate approve by ED can also administer Part C funding. For these entities, the provisions of ED regulations pertaining to RICRs may not be reflected in the indirect cost rate charged to Part C. However, indirect costs charged to Part C must conform to the RICR regulations (20 USC 1437(b)(5)(B); 34 CFR sections 76.560 through 34 CFR 76.580).

**C. Cash Management**

See ED Cross-Cutting Section.

**G. Matching, Level of Effort, Earmarking****1. Matching - Not Applicable****2.1 Level of Effort - *Maintenance of Effort***

The total amount of State and local funds budgeted for expenditure in the current fiscal year for early intervention services for children eligible under Part C and their families must be at least equal to the total amount of State and local funds actually expended for early intervention services for these children and their families in the most recent preceding fiscal year for which the information is available. Allowances may be made for: (a) decreases in the number of children who are eligible to receive Part C early intervention services and (b) unusually large amounts of funds expended for such long-term purposes such as the acquisition of equipment and the construction of facilities (20 USC 1437(b)(5); 34 CFR section 303.124).

Although this requirement is identified as a supplement not supplant requirement in the law and regulation, this Supplement classifies this type of requirement as maintenance of effort.

**2.2 Level of Effort - *Supplement Not Supplant* - Not Applicable****3. Earmarking - Not Applicable****H. Period of Availability of Federal Funds**

See ED Cross-Cutting Section.



**L. Reporting****1. Financial Reporting**

See ED Cross-Cutting Section.

**2. Performance Reporting – Not Applicable****3. Special Reporting – Not Applicable**

## DEPARTMENT OF EDUCATION

### CFDA 84.186 SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES -- STATE GRANTS (Title IV, Part A, Subpart 1 of ESEA)

#### I. PROGRAM OBJECTIVES

The objective of the Safe and Drug-Free School and Communities program authorized by the Safe and Drug-Free Schools and Communities Act (SDFSCA), contained in Title IV of the ESEA, is to support programs that prevent violence in and around schools and by strengthening programs that prevent the illegal use of alcohol, tobacco, and drugs, involve parents, and are coordinated with related Federal, State, and community efforts and resources.

#### II. PROGRAM PROCEDURES

In general, SDFSCA funds are allocated to States based on their relative share of school-aged population and Title I Concentration Grant funds. Of each State's annual allocation amount, at least 80 percent is awarded to the State Educational Agency (SEA) for programs described in Section 4112(b) of the SDFSCA and no more than 20 percent may be awarded to the Governor for programs described in Section 4112(a) of the SDFSCA. On the grant documents the Department of Education (ED) codes these programs with an "A" following the CFDA number to indicate a grant to the SEA program and a "B" following the CFDA number to indicate a grant to the Governor's program. However, these are treated as one program under OMB Circular A-133.

SEAs may use a portion of the funds they receive for administrative activities and to carry out State-level program activities. The majority of the funds received by an SEA must be distributed to local educational agencies (LEAs) for drug and violence prevention activities. LEAs must submit an application that includes, among other things, how it will use the funds.

Governors also may use a portion of the funds they receive for administration. Excluding the percentage of funds reserved for administration, Governors must make grants to, or enter into contracts with eligible entities for drug and violence prevention activities. Governors may have another State agency, including an SEA, administer the program on their behalf. No matter which agency administers the program, the program remains the responsibility of the Governor's office (Sections 4112 and 4113 of the SDFSCA (20 USC 7112 and 7113)).

#### Source of Governing Requirements

This program is authorized by Title IV, Part A, Subpart 1 of the Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001 (Pub. L. No. 107-110), which is codified at 20 USC 7101 through 7117 and 7161 through 7165. There are no program regulations. However, this program is subject to the Education Department General Administrative Regulations (EDGAR) at 34 CFR parts 76, 77, 79, 80, 81, 82, and 85.

## Availability of Other Program Information

ED issued non-regulatory guidance to assist in the administration of this program. That guidance and other program information are available on the Internet at <http://www.ed.gov/about/offices/list/osdfs/index.html?src=mr>.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple ESEA programs are discussed once in the Department of Education (ED) Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references to the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

### A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

#### 1. *Activities Allowed*

##### a. *Use of Funds by State*

A State may use SDFSCA funds to carry out various activities including:

(1) *Administration Costs* (Sections 4112(a)(6) and (b)(2)(A) of the SDFSCA (20 USC 7112(a)(6) and (b)(2)(A))).

##### (2) *State-Level Activities*

A State may use a portion of its SDFSCA funds for grants and contracts to plan, develop, and implement capacity building, technical assistance and training, evaluation, program improvement services, and coordination activities for local educational agencies, community-based organizations, and other public and private entities (Section 4112(c)(2) of the SDFSCA (20 USC 7112(c)(2))).

##### b. *Use of Funds by the Governor*

A Governor must use a competitive process to award grants or contracts for programs or activities that complement and support the activities of LEAs. Grants or contracts may be awarded to LEAs, community-based organizations (including community anti-drug coalitions) other public

entities and private organizations and consortia of these agencies. Grants or contracts awarded under Section 4112(a)(1) shall be subject to a peer review process (Section 4112(a) of the SDFSCA (20 USC 7112(a))).

c. *Use of Funds by LEAs*

- (1) LEAs may use funds for drug and violence prevention activities as listed in Section 4115(b)(2) of the SDFSCA (20 USC 7115(b)(2)). (This Section may be found on the Internet at <http://www.ed.gov/legislation/ESEA02/pg52.html>)
- (2) An LEA may apply to the SEA for a waiver of the requirement found in Section 4115(a)(1)(C) that the program or activity be based on scientifically based research that provides evidence that it will reduce violence and illegal drug use (Section 4115(a)(3) of the SDFSCA (20 USC 7115(a)(3))).

d. *Rural Education Achievement Program (REAP) (LEAs)*

REAP provides authorization to spend all or part of funds under certain programs for activities authorized in other programs. After notification to the SEA, an LEA that meets both of the following requirements may spend all or part of this program's funds for activities authorized in Title I Grants to Local Educational Agencies (LEAs) (84.010); Eisenhower Professional Development State Grants (84.281); and Education Technology Grants (84.318):

- (1) Have an Average Daily Attendance of less than 600 students; and
- (2) All of the schools in the LEA have been coded as rural schools by the National Center for Educational Statistics (NCES code 7 or 8) (Title III of the Consolidated Appropriations Act, 2001, Pub. L. No. 106-554, 114 Stat. 2763A-89, December 21, 2000).

See the program sections of III.A, "Activities Allowed or Unallowed" in this program supplement for the respective compliance requirements.

e. *Transferability*

See ED Cross-Cutting Section

2. ***Activities Unallowed*** (Governors/SEAs/LEAs) - SDFSCA funds may not be used for construction, or to provide medical services, drug treatment, or rehabilitation. Pupil services or referral to treatment for students who are victims of or witnesses to crime or who use alcohol, tobacco, or drugs are not included in the prohibition (Section 4154 of the SDFSCA (20 USC 7164)).

**B. Allowable Costs/Cost Principles**

See ED Cross-Cutting Section.

**C. Cash Management**

See ED Cross-Cutting Section.

**G. Matching, Level of Effort, Earmarking****1. Matching - Not Applicable****2.1 Level of Effort - *Maintenance of Effort* (SEAs/LEAs)**

See ED Cross-Cutting Section.

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

See ED Cross-Cutting Section.

**3. Earmarking**

Also see ED Cross-Cutting Section.

**a. *State-level programs, administrative costs, initial allocations to LEAs (SEAs)***

(1) A minimum of 93 percent of the SEA's total allocation must be distributed to its LEAs. Of the amount made available for distribution to LEAs, an SEA must allocate (a) 60 percent based on the relative amount LEAs received under Part A of Title 1 for the preceding fiscal year; and (b) 40 percent to LEAs based on their relative share of enrolled students in public and private non-profit elementary and secondary schools (Sections 4112(b)(1) and 4114(a)(1) of the SDFSCA (20 USC 7112(b)(1) and 7114(a)(1))).

(2) An SEA may reserve not more than five percent of its total allocation for State-level activities authorized under Section 4112(c)(1) of the SDFSCA (20 USC 7112(c)(1)).

**b. *Administrative Cost*****(1) *Governor's Program***

A Governor may use no more than three percent of its total allocation for administrative activities (Section 4112(a)(6) of the SDFSCA (20 USC 7112(a)(6))).

(2) *SEA*

An SEA may also reserve not more than three percent of its total allocation for administrative costs, including the implementation of the Uniform Management Information and Reporting System. However, in fiscal year 2002, the SEA may reserve up to an additional one percent of its total allocation for administrative costs, provided that the additional reservation is used to support the Uniform Management Information and Reporting System (Section 4112(b)(2) of the SDFSCA (20 USC 7112(b)(2))).

(3) *LEA*

An LEA may use no more than two percent of its total allocation for administrative activities (Section 4114(a)(2) of the SDFSCA (20 USC 7114(a)(2))).

c. *Cap on Security Devices and Security Personnel (LEAs)*

An LEA may use not more than 40 percent of its allocation to support the following activities (a) through (e) but not more than half of that amount or a maximum of 20 percent to support the following activities (a) through (d). An LEA may use the entire 40 percent to support the following activity (5). However, the LEA may use funds for the following activities (a) through (d) only if funding for these activities was not received from other Federal agencies (Section 4115(c) of the SDFSCA (20 USC 7115(c))).

- (1) Acquiring and installing metal detectors, electronic locks, surveillance cameras, or other related equipment and technologies (20 USC 7115(b)(2)(E)(ii)).
- (2) Reporting criminal offenses committed on school property (20 USC 7115(b)(2)(E)(iii)).
- (3) Developing and implementing comprehensive school security plans or obtaining technical assistance concerning those plans (20 USC 7115(b)(2)(E)(iv)).
- (4) Supporting safe zones of passage activities, including bicycle and pedestrian safety programs, which ensure that students can travel safely to and from school (20 USC 7115(b)(2)(E)(v)).
- (5) Hiring and mandatory training of school security personnel who interact with students in support of youth drug and violence prevention activities implemented in schools (20 USC 7115(b)(2)(E)(vi)).

## **H. Period of Availability of Federal Funds (SEAs/LEAs Programs)**

Also see ED Cross-Cutting Section.

### **1. *Return and Reallocation of Funds (SEA/LEA)***

- a. Except as stated in III.H.2, “Period of Availability of Federal Funds - Carryover of Funds (LEA)” below, an LEA must return to the SEA any funds that remain unobligated after a period of one-year beginning on the date the LEA receives its original allocation. The SEA must reallocate the funds to LEAs that have submitted plans for using the funds for SDFSCA programs and activities on a timely basis (Section 4114(a)(3)(A) of the SDFSCA (20 USC 7114(a)(3)(A))).
- b. If an LEA does not apply for SDFSCA funds or if an LEA is disapproved for funding, the SEA must reallocate that amount to one or more of its other LEAs (Section 4114(a)(3)(C) of the SDFSCA (20 USC 7114(a)(3)(C))).

### **2. *Carryover of Funds (LEA)***

An LEA may retain up to 25 percent of its fiscal year allocation for obligation in the next Federal fiscal year. If an LEA wishes to retain an amount greater than 25 percent of its fiscal year allocation for use in a succeeding year, it must demonstrate good cause for such a carryover to its SEA, and the SEA must approve the request for additional carryover (Section 4114(a)(3)(B) of the SDFSCA (20 USC 7114(a)(3)(B))).

## **L. Reporting**

### **1. Financial Reporting (SEAs/LEAs/Governor’s Programs)**

See ED Cross-Cutting Section.

### **2. Performance Reporting - Not Applicable**

### **3. Special Reporting - Not Applicable**

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

### **1. Participation of Private School Children (SEAs/LEAs)**

See ED Cross-Cutting Section.

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

See ED Cross-Cutting Section.

**3. Access to Federal Funds for New or Significantly Expanded Charter Schools**

See ED Cross-Cutting Section.



## DEPARTMENT OF EDUCATION

### CFDA 84.282 CHARTER SCHOOLS

#### I. PROGRAM OBJECTIVES

The objective of the Charter Schools Program (CSP), authorized under Title V, Part B, Subpart 1 of the Elementary and Secondary Education Act, is to increase national understanding of the charter schools model by (1) providing financial assistance for the planning, program design, and initial implementation of charter schools; (2) expanding the number of high-quality charter schools available to students across the Nation; (3) evaluating the effects of charter schools; and (4) encouraging States to provide support to charter schools for facilities financing in an amount more nearly commensurate to the amount States typically have provided for traditional public schools.

#### II. PROGRAM PROCEDURES

Generally, CSP funds are awarded on a competitive basis to State educational agencies (SEAs) in States with specific statutes authorizing charter schools. SEAs use their CSP funds to award subgrants to eligible applicants for planning, program design, and initial implementation of charter schools; and to support the dissemination of information about, and successful practices in, charter schools. If an eligible SEA elects not to participate in this program, or its application is not approved, non-SEA eligible applicants that serve the State may apply directly to the Secretary.

Grants awarded to SEAs are for a period not to exceed three years. Once a three-year grant is over, an SEA may apply for a subsequent three-year grant. Planning and initial implementation grants awarded to non-SEA eligible applicants by the Secretary and subgrants awarded by SEAs are awarded for a period not to exceed three years, of which not more than 18 months may be used for planning and not more than two years may be used for implementation. Grants or subgrants to charter schools for dissemination activities are made for a period not to exceed two years.

A charter school is limited to receiving not more than one grant or subgrant for planning and initial implementation activities and not more than one grant or subgrant for dissemination activities. A charter school may apply to the SEA for funds to carry out dissemination activities if the charter school has been in operation for at least three consecutive years and has demonstrated overall success, including substantial progress in improving student achievement; high levels of parent satisfaction; and the management and leadership necessary to overcome initial start-up problems and establish a thriving, financially viable charter school. A charter school may receive a dissemination grant, whether or not the charter school has applied for or received funds under the CSP for planning or implementation.

## Source of Governing Requirements

This program is authorized by Title V, Part B, Subpart 1 of the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the No Child Left Behind Act of 2001 (20 USC 7221-7221j). This program is subject to the Education Department (ED) General Administrative Regulations at 34 CFR parts 75, 76, 77, 79, 80, 81, 82, 85, 86, and 99. There are no program specific regulations. However, 34 CFR sections 76.785 through 76.799 prescribe administrative requirements that States and local educational agencies must follow when allocating funds to new or expanding charter schools under ED's formula grant programs.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple ESEA programs are discussed once in the ED Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

#### A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

##### 1. *Use of Funds by SEAs*

Funds must be used to award subgrants to eligible applicants. Funds may also be used to establish a revolving loan fund for eligible applicants that have received implementation subgrants, for State dissemination activities, and for administrative costs of the program. See "III.G.3. Matching, Level of Effort, Earmarking - Earmarking" for limitations on amounts that can be used for these activities (20 USC 7221c(f)(1), (4), and (5)).

##### 2. *Use of Funds by Eligible Applicants*

- a. Each eligible applicant may use these funds in accordance with its approved application to plan and implement a charter school, or to disseminate information about the charter school and successful practices in charter schools (20 USC 7221c(f)(2)).
- b. An eligible applicant receiving a CSP grant or subgrant may use funds for:  
(1) post-award planning and design of the educational program, which may include: (a) refinement of the desired educational results and of the methods for measuring progress toward achieving those results; and (b) professional development of teachers and other staff who will work in the

charter school; and (2) initial implementation of the charter school, which may include: (a) informing the community about the school; (b) acquiring necessary equipment and educational materials and supplies; (c) acquiring or developing curriculum materials; and (d) other initial operational costs that cannot be met from State or local sources (20 USC 7221c(f)(3)).

- c. A charter school receiving funds for dissemination activities may use funds to assist other schools in adapting the charter school's program (or certain aspects of the charter school's program), or to disseminate information about the charter school, through such activities as:
  - (1) assisting other individuals with the planning and start-up of one or more new public schools, including charter schools, that are independent of the assisting charter school and the assisting charter school's developers, and that agree to be held to at least as high a level of accountability as the assisting charter school;
  - (2) developing partnerships with other public schools, including charter schools, designed to improve student performance in each of the schools participating in the partnership;
  - (3) developing curriculum materials, assessments, and other materials that promote increased student achievement and are based on successful practices within the assisting charter school; and
  - (4) conducting evaluations and developing materials that document the successful practices of the assisting charter school and that are designed to improve student performance in other schools (20 USC 7221c(f)(6)).

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

See ED Cross-Cutting Section.

## **C. Cash Management**

See ED Cross-Cutting Section.

## **E. Eligibility**

- 1. Eligibility for Individuals - Not Applicable**
- 2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**
- 3. Eligibility for Subrecipients**

A non-SEA eligible applicant for planning and initial implementation funds is a charter school developer that has applied to an authorized public chartering authority to operate a charter school, and has provided that authority with adequate and timely notice of its application for funding under the CSP. A charter school is a public school that provides a program of elementary or secondary education, or both; is nonsectarian and does not charge tuition; complies with Federal and State civil rights laws; is a school to which parents

choose to send their children; and that admits students on the basis of a lottery, if more students apply than can be accommodated. The term “developer” means an individual or group of individuals (including a public or private nonprofit organization), which may include teachers, administrators, and other school staff, parents, or other members of the local community in which a charter school project will be carried out. A for-profit entity does not qualify as an eligible applicant for purposes of the CSP. However, a CSP grant recipient may enter into a contract with a for-profit entity for the day-to-day management of the charter school (20 USC 7221i).

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

- 1. Matching** - Not Applicable
- 2. Level of Effort** - Not Applicable
- 3. Earmarking**

Also see ED Cross-Cutting Section.

- a. Each SEA receiving a grant may reserve not more than 5 percent of these funds for administrative expenses associated with the charter school grant program (20 USC 7221c(f)(4)).
- b. The SEA must provide 95 percent of the grant funds to eligible applicants in the State for planning and initial implementation activities or for State dissemination activities. Not more than 10 percent of the grant amount may be used to establish a revolving loan fund for eligible applicants that have received a CSP grant and not more than 10 percent of the grant amount may be reserved for dissemination activities (20 USC 7221(f)(1) and (5)).

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

See ED Cross-Cutting Section.

**L. Reporting**

- 1. Financial Reporting**  
See ED Cross-Cutting Section.
- 2. Performance Reporting** - Not Applicable
- 3. Special Reporting** - Not Applicable

## DEPARTMENT OF EDUCATION

### CFDA 84.287 TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS

#### I. PROGRAM OBJECTIVES

The objective of this program is to establish or expand community learning centers that provide students with academic enrichment opportunities along with activities designed to complement the students' regular academic program. Community learning centers must also offer families of these students literacy and related educational development. Centers, which can be located in elementary or secondary schools or other similarly accessible facilities, provide a range of high-quality services to support student learning and development, including tutoring and mentoring, homework help, academic enrichment (such as hands-on science or technology programs), and community service opportunities, as well as music, arts, sports and cultural activities. At the same time, centers help working parents by providing a safe environment for students during non-school hours or periods when school is not in session.

#### II. PROGRAM PROCEDURES

With enactment of the No Child Left Behind Act of 2001 (NCLB), the requirements for this program were modified from those previously established under the Improving America's Schools Act (IASA). The NCLB converted the 21st Century Community Learning Centers (CCLC) authority to a State formula grant program. In past years, the U. S. Department of Education (ED) made competitive awards directly to local education agencies (LEAs). Under the reauthorized authority, funds flow to States based on their share of Title I, Part A funds. States, in turn, use their allocations to make competitive awards to eligible entities. The Secretary of Education awards 21st CCLC grants through a formula grant process to States; the States then award, through a competitive process, subgrants to LEAs, community-based organizations (CBOs), other public or private entities, or consortia of two or more of such agencies, organizations, or entities.

#### Source of Governing Requirements

This program is authorized under Title IV, Part B of the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the NCLB (20 USC 7171 *et seq.*; Section 4201 *et seq.* of Pub. L. No. 107-110, 115 Stat. 1765, January 8, 2002) and is subject to the Education Department General Administrative Regulations in 34 CFR parts 74, 76, 77, 79, 80, 81, 82, 85, and 86.

#### Availability of Other Program Information

Information on this program can be found in Non-Regulatory Guidance on the 21<sup>st</sup> Century Learning Centers (February 2003) on the Internet at:  
<http://www.ed.gov/programs/21stcccl/guidance2003.pdf>.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple ED programs are discussed once in the ED Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements.

#### A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

##### 1. SEAs

- a. *Awards to subrecipients* (20 USC 7172(c)(1)).
- b. *State Administration:*
  - (1) The administrative costs of carrying out its responsibilities under Title IV, Part B of the ESEA.
  - (2) Establishing and implementing a peer review process for grant applications; and
  - (3) Supervising the awarding of funds to eligible entities (20 USC 7172(c)(2)).
- c. *State Activities:*
  - (1) Monitoring and evaluation of programs and activities.
  - (2) Providing capacity building, training, and technical assistance.
  - (3) Conducting a comprehensive evaluation (directly, or through a grant or contract) of the effectiveness of programs and activities.
  - (4) Providing training and technical assistance to eligible entities who are applicants for or recipients of this program (20 USC 7172(c)(3)).

2. ***LEAs, CBOs, and Other Public or Private Entities***

Grant awards may be use to carry out a broad array of before- and after-school activities (including summer recess periods) that advance student academic achievement including:

- a. Remedial education activities and academic enrichment learning programs, including providing additional assistance to students to allow the students to improve their academic achievement.
- b. Mathematics and science education activities.
- c. Arts and music education activities.
- d. Entrepreneurial education programs.
- e. Tutoring services (including those provided by senior citizen volunteers) and mentoring programs.
- f. Programs that provide after school activities for limited English proficient students that emphasize language skills and academic achievement.
- g. Recreational activities.
- h. Telecommunications and technology education programs.
- i. Expanded library service hours.
- j. Programs that promote parental involvement and family literacy.
- k. Programs that provide assistance to students who have been truant, suspended, or expelled to allow the students to improve their academic achievement.
- l. Drug and violence prevention programs, counseling programs, and character education programs (20 USC 7175(a)).

**B. Allowable Costs/Cost Principles**

See ED Cross-Cutting Section.

**C. Cash Management**

See ED Cross-Cutting Section.

**E. Eligibility**

1. **Eligibility for Individuals** - Not Applicable
2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients**

SEAs make awards to eligible entities that propose to serve:

- a. Students who primarily attend (1) schools eligible for schoolwide programs under section 1114 of the ESEA; or (2) schools that serve a high percentage of students from low-income families; and
- b. The families of such students (20 USC 7173(a)(3)); Section 4203(a)(3) of ESEA as amended by Pub. L. No. 107-110, 115 Stat. 1767)

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

1. **Matching** – LEAs, CBOs, and Other Public or Private Entities

An SEA may require matching funds on a sliding scale based on the relative poverty of the population to be targeted and the ability of the grantee to obtain such matching funds. The match may not exceed the amount of the grant award and may not be derived from other Federal or State funds. Each State educational agency that requires an entity to match funds shall permit the entity to provide all or any portion of such match in the form of in-kind contributions (20 USC 7174(d)).

- 2.1 **Level of Effort** - *Maintenance of Effort*

See ED Cross-Cutting Section

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

See ED Cross-Cutting Section

3. **Earmarking**

Also see ED Cross-Cutting Section

- a. *General* - A State shall reserve not less than 95 percent of the State allotments for each fiscal year for awards to eligible entities under 20 USC 7174 (20 USC 7172(c)(1)).
- b. *State Administration* - A SEA may use not more than two percent of the State allotment for State administration (20 USC 7172(c)(2)). (See III.A.1.b, “Activities Allowed or Unallowed – State Administration.”)



- c. *State Activities* - A State educational agency may use not more than three percent of the State allotment for State-level activities (20 USC 7172(c)(3)). (See III.A.1.c, “Activities Allowed or Unallowed – State Activities.”)

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

Funds not obligated by the end of the Federal fiscal year for which they were appropriated may be obligated for one additional Federal fiscal year. For example, funds appropriated for the Federal fiscal year 2008 are available from October 1, 2007 (the beginning of Federal fiscal year 2008) until September 30, 2009 (Title III of Pub. L. No. 107-116, School Improvement Programs, 115 Stat. 2202) plus an additional 12 months (34 CFR sections 76.707 through 76.709).

## **L. Reporting**

### **1. Financial Reporting**

See ED Cross-Cutting Section.

### **2. Performance Reporting - Not Applicable**

### **3. Special Reporting - Not Applicable**

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

### **1. Participation of Private School Children**

See ED Cross-Cutting Section.

### **2. Schoolwide Programs**

See ED Cross-Cutting Section.

### **3. Access to Federal Funds for New or Significantly Expanded Charter Schools**

See ED Cross-Cutting Section.

**DEPARTMENT OF EDUCATION**

**CFDA 84.288 BILINGUAL EDUCATION—PROGRAM DEVELOPMENT AND IMPLEMENTATION GRANTS**

**CFDA 84.290 BILINGUAL EDUCATION—COMPREHENSIVE SCHOOL GRANTS**

**CFDA 84.291 BILINGUAL EDUCATION—SYSTEMWIDE IMPROVEMENT GRANTS**

**I. PROGRAM OBJECTIVES****Program Development and Implementation Grants (CFDA 84.288)**

Develop and implement new comprehensive, coherent, and successful bilingual education or special alternative instructional programs for limited English proficient (LEP) students, including programs of early childhood education, kindergarten through twelfth grade education, gifted and talented education, and vocational and applied technology education (Title VII, Section 7112 of the ESEA (20 USC 7422)).

**Comprehensive School Grants (CFDA 84.290)**

Implement schoolwide bilingual education programs or special alternative instruction programs for reforming, restructuring, and upgrading all relevant programs and operations, within an individual school, that serve all (or virtually all) children and youth of limited English proficiency in schools with significant concentrations of such children and youth (Title VII, Section 7114 of the ESEA (20 USC 7424)).

**Systemwide Improvement Grants (CFDA 84.291)**

Implement districtwide bilingual education programs or special alternative instruction programs to improve, reform, and upgrade relevant programs and operations, within an entire local educational agency (LEA), that serve a significant number of children and youth of limited English proficiency in local educational agencies with significant concentrations of such children and youth (Title VII, Section 7115 of the ESEA (20 USC 7425)).

**II. PROGRAM PROCEDURES**

The Secretary of Education awards Bilingual Education grants through a competitive grant process to the following eligible entities: one or more LEAs; one or more LEAs in collaboration with an institution of higher education, community-based organization, or State educational agency (SEA); and, in some circumstances, a community-based organization or an institution of higher education that has received approval from an LEA. If more than one entity is party to the grant, one of the entities will be designated as the fiscal agency. For purposes of audits under OMB Circular A-133, the fiscal agency is treated as the recipient of the grant.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple ESEA programs are discussed once in the Department of Education (ED) Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references to the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

#### A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

A grantee under these programs must do the following in carrying out a grant award in order to provide allowable services: (1) implement the project described in its approved application and (2) expend the funds in accordance with the terms of the approved budget (34 CFR sections 75.234, 80.20 and 80.22).

#### B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section.

#### C. Cash Management

See ED Cross-Cutting Section.

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

1. **Matching** - Not Applicable

2.1 **Level of Effort** - *Maintenance of Effort* - Not Applicable

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

See ED Cross-Cutting Section.

3. **Earmarking** - Not Applicable

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

See ED Cross-Cutting Section.

**L. Reporting****1. Financial Reporting**

See ED Cross-Cutting Section.

**2. Performance Reporting - Not Applicable****3. Special Reporting - Not Applicable****N. Special Tests and Provisions****1. Participation of Private School Children (SEAs/LEAs)**

See ED Cross-Cutting Section.

**2. Schoolwide Programs (LEAs)**

See ED Cross-Cutting Section.

## DEPARTMENT OF EDUCATION

### CFDA 84.298 STATE GRANTS FOR INNOVATIVE PROGRAMS

#### I. PROGRAM OBJECTIVES

This former Title VI program was reauthorized by the No Child Left Behind Act (NCLB Act), Pub. L. No. 107-110, as Title V, Part A of the Elementary and Secondary Education Act (ESEA). The objectives of Title V, Part A are to: (1) support local educational reform efforts that are consistent with and support statewide education reform efforts; (2) provide funding to enable State Educational Agencies (SEAs) and Local Educational Agencies (LEAs) to implement promising educational reform programs and school improvement programs based on scientifically based research; (3) provide a continuing source of innovation, and educational improvement, including support programs to provide library services and instructional and media materials; (4) meet the educational needs of all students, including at-risk youth; and (5) develop and implement education programs to improve school, student, and teacher performance, including professional development activities and class size reduction programs (Title V, Part A, Section 5101(a) of the ESEA (20 USC 7201(a))).

#### II. PROGRAM PROCEDURES

Title V, Part A funds are obtained by a State following submission of an application or consolidated plan to the Secretary of Education that satisfies the application requirements as stipulated in the statute. The SEA distributes at least 85 percent of the funds to its LEAs that have filed an application that meets certain requirements. These funds are distributed to LEAs according to the relative enrollments in public and private, nonprofit schools within the school districts of the LEAs, adjusted to provide higher per pupil allocations to those LEAs with children whose education imposes a higher than average cost per child. The criteria for making these adjustments must be approved by the Secretary of Education. LEAs have complete discretion, subject only to legal requirements, in determining the allocation of expenditures of Title V, Part A funds among the allowable program activities (Title V, Part A, Sections 5112 and 5133(d) of the ESEA (20 USC 7211a and 7215b(d))).

#### Source of Governing Requirements

This program is authorized by Title V, Part A of the ESEA, as amended by the No Child Left Behind Act of 2001 (20 USC 7201 *et seq.*). There are no program regulations. However, the following parts of the Education (ED) Department General Administrative Regulations (EDGAR) apply to this program: 34 CFR parts 76, 77, 80, 81, 82, and 85.

#### Availability of Other Program Information

Other program information is available on the Internet at <http://www.ed.gov/programs/innovative/titlevguidance2002.doc>.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple ESEA programs are discussed once in the Department of Education (ED) Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references to the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

#### A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

##### 1. SEAs

Funds may be used for:

- a. One or more program areas, including:
  - (1) Support for the planning, design, and initial implementation of charter schools under Title V, Part B.
  - (2) Statewide education reform, school improvement programs and technical assistance and direct grants to LEAs which assist LEAs in providing innovative assistance programs under section 5131 of Title V, Part A.
  - (3) Support for the design and implementation of high-quality yearly student assessments.
  - (4) Support for implementation of challenging State and local academic achievement standards.
  - (5) Support for arrangements that provide for independent analysis to measure and report on school district achievement.
  - (6) Support for the school renovation, Individuals with Disabilities Education Act, and technology program described in section 321 of the 2001 Department of Education Appropriations Act, Pub. L. No. 106-554.

- (7) Support for programs to assist in the implementation of the unsafe school choice policy described in section 9532 of the ESEA (20 USC 7912), which may include payment of reasonable transportation and tuition costs (Title V, Part A, Sections 5121(2) through (8) of the ESEA (20 USC 7213(2) through (8))).
- b. To support the provision of supplemental educational services by LEAs to students under Title I, Part A, section 1116(e)(7) of the ESEA (20 USC 6316(e)(7))).
- c. State administration, which includes
  - (1) Allocating funds to LEAs;
  - (2) Planning, supervising and processing SEA funds; and
  - (3) Monitoring and evaluating programs and activities (Title V, Part A, section 5121(1) of the ESEA (20 USC 7213(1))).
- d. Subgrants to LEAs (Title V, Part A, section 5112(a) of the ESEA (20 USC 7211a(a))).

## 2. *LEAs*

LEAs must use Title V, Part A funds for programs, projects and activities under one or more of the 27 innovative assistance program areas described in Title V, Part A, section 5131(a) of the ESEA (20 USC 7215(a)). The innovative assistance program areas are:

- (i) Programs to recruit, train, and hire highly qualified teachers to reduce class size, especially in the early grades, and professional development activities carried out in accordance with Title II of the ESEA, as amended.
- (ii) Technology activities related to the implementation of school-based reform efforts, including professional development to assist teachers and other school personnel (including school library media personnel) regarding how to use technology effectively.
- (iii) Programs for the development or acquisition and use of instructional and educational materials, including library services and materials (including media materials), academic assessments, reference materials, computer software and hardware for instructional use, and other curricular materials that are tied to high academic standards, that will be used to improve student achievement, and that are part of an overall education reform program.
- (iv) Promising education reform projects, including effective schools and magnet schools.

- (v) Programs to improve the academic achievement of disadvantaged elementary and secondary school students, including activities to prevent students from dropping out of school.
- (vi) Programs to improve the literacy skills of adults, especially the parents of children served by the LEA, including adult education and family literacy programs.
- (vii) Programs to provide for the educational needs of gifted and talented children.
- (viii) Planning, design and initial implementation of charter schools as described in Title V, Part B of the ESEA.
- (ix) School improvement programs or activities under sections 1116 and 1117 of the ESEA.
- (x) Community service programs that use qualified school personnel to train and mobilize young people to measurably strengthen their communities through nonviolence, responsibility, compassion, respect, and moral courage.
- (xi) Activities to promote consumer, economic, and personal finance education, such as disseminating information on and encouraging use of the best practices for teaching the basic principles of economics and promoting the concept of achieving financial literacy through the teaching of personal financial management skills.
- (xii) Activities to promote, implement, or expand public school choice.
- (xiii) Programs to hire and support school nurses.
- (xiv) Expansion and improvement of school-based mental health services, including early identification of drug use and violence, assessment, and direct individual or group counseling services provided to students, parents, and school personnel by qualified school-based mental health services personnel.
- (xv) Alternative educational programs for those students who have been expelled or suspended from their regular educational setting, including programs to assist students to reenter the regular educational setting upon return from treatment or alternative educational programs.
- (xvi) Programs to establish or enhance prekindergarten programs for children.
- (xvii) Academic intervention programs that are operated jointly with community-based organizations and that support academic enrichment, and counseling programs conducted during the school day (including



during extended school day or extended school year programs), for students most at risk of not meeting challenging State academic achievement standards or not completing secondary school.

- (xviii) Programs for cardiopulmonary resuscitation (CPR) training in schools.
- (xix) Programs to establish smaller learning communities.
- (xx) Activities that encourage and expand improvements throughout the area served by the LEA that are designed to advance student academic achievement.
- (xxi) Initiatives to generate, maintain, and strengthen parental and community involvement.
- (xxii) Programs and activities that expand learning opportunities through best practice models designed to improve classroom learning and teaching.
- (xxiii) Programs to provide same-gender schools and classrooms, consistent with applicable law and with guidelines published by the Secretary of Education in the May 8, 2002, *Federal Register* (67 FR 31101).
- (xxiv) Service learning activities.
- (xxv) School safety programs, including programs to implement the unsafe school choice policy described in section 9532 of the ESEA (20 USC 7912) and which may include payment of reasonable transportation and tuition costs.
- (xxvi) Programs that employ research-based cognitive and perceptual development approaches and rely on a diagnostic-prescriptive model to improve students' learning of academic content at the preschool elementary, and secondary levels.
- (xxvii) Supplemental education services, as defined in section 1116(e) of the ESEA.

**B. Allowable Costs/Cost Principles**

See ED Cross-Cutting Section.

**C. Cash Management**

See ED Cross-Cutting Section.

**G. Matching, Level of Effort, Earmarking****1. Matching - Not Applicable****2.1 Level of Effort - *Maintenance of Effort* (SEAs)**

The combined fiscal effort per child or the aggregate expenditures within the State for free public education for the preceding fiscal year must be at least 90 percent of the combined fiscal effort per child or aggregate expenditures for the second preceding fiscal year, unless specifically waived by the Secretary of Education for one fiscal year only.

Expenditures to be considered are State and local expenditures for free public education. These expenditures include expenditures for administration, instruction, attendance, health services, pupil transportation, plant operation and maintenance, fixed charges, and net expenditures to cover deficits for food services and student activities. States may include in the maintenance of effort calculation expenditures of Federal funds for which no accountability to the Federal Government is required. Certain Impact Aid funds are an example of such funds. (However, Impact Aid funds for which there is a requirement of accountability to the Federal Government, such as those received for children with disabilities, cannot be included in the calculation.) States must be consistent in the manner in which they calculate maintenance of effort from year-to-year in order to ensure that the annual comparisons are on the same basis (i.e., calculations must consistently, from year-to-year, either include or exclude expenditures of Federal funds for which accountability to the Federal Government is not required). Expenditures not to be considered are any expenditures for community services, capital outlay, or debt service, and any expenditures of Federal funds for which accountability to the Federal Government is required. (Title V, Part A, section 5141(a) of the ESEA (20 USC 7217(a))).

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

See ED Cross-Cutting Section.

**3. Earmarking (SEAs)**

Also see ED Cross-Cutting Section.

**a. *Minimum 85 Percent Distribution to LEAs***

An SEA must distribute at least 85 percent of the funds to its LEAs, based on relative enrollments in public and private, non-profit schools within the LEAs (Title V, Part A, section 5112(a) of the ESEA (20 USC 7211a(a))).

The calculation of relative enrollments must be based on the number of children currently enrolled in (1) public schools and (2) those private schools that participated in the Title V, Part A programs during the preceding fiscal year (FY). (For FY 2002 LEA allocations, the State will include in the calculation enrollment data for those private schools that participated in the former Title VI program during the FY 2001 fiscal year.) If current enrollment data is not available, an SEA may use enrollment data from the preceding year (Title V, Part A, section 5112(c) of the ESEA (20 USC 7211a(c))).

The SEA must adjust the relative enrollments to provide higher per-pupil allocations only to those LEAs that serve the greatest numbers or percentages of children living in areas with high concentrations of economically disadvantaged families; children from economically disadvantaged families; or children living in sparsely populated areas. The criteria for making these adjustments must be approved by the Secretary of Education (Title V, Part A, section 5112(c)(3) of the ESEA (20 USC 7211a(c)(3))).

b. *Remaining Reserved for State Use (Maximum of 15 Percent)*

Of the amount reserved for State use, no more than 15 percent may be used for State administration of Title V, Part A or transferred to a Consolidated Administration pool. See “III.A.1, Activities Allowed or Unallowed - SEAs” for what is considered “administration” (Title V, Part A, section 5112(b) of the ESEA (20 USC 7211a(b))).

c. *Allocation of Increased Amounts*

In any fiscal year in which a State’s Title V, Part A allocation is larger than its FY 2002 Title V, Part A allocation, it must distribute the entire excess amount to its LEAs using the formula described above in “III.G.3a. Matching, Level of Effort, Earmarking - (Minimum 85 Percent Distribution to LEAs)”. In any fiscal year in which the allocation to a small State (any State receiving a minimum allocation of one-half of one percent of the amount available for allocation to the States) exceeds the amount that it received in FY 2002, it must distribute at least 50 percent of the excess amount to its LEAs (Title V, Part A, section 5112(a)(2) of the ESEA (20 USC 7211a(a)(2))).

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

See ED Cross-Cutting Section.

**L. Reporting****1. Financial Reporting**

See ED Cross-Cutting Section.

**2. Performance Reporting - Not Applicable****3. Special Reporting - Not Applicable****N. Special Tests and Provisions****1. Participation of Private School Children**

See ED Cross-Cutting Section.

**2. Schoolwide Programs (LEAs)**

See ED Cross-Cutting Section.

**3. Access to Federal Funds for New or Significantly Expanded Charter Schools**

See ED Cross-Cutting Section.

## DEPARTMENT OF EDUCATION

### CFDA 84.318 EDUCATION TECHNOLOGY STATE GRANTS (Enhancing Education through Technology Program)

Note: The Education Technology State Grants (Ed Tech) program was enacted as Part D of Title II of the Elementary and Secondary Act (ESEA), as amended by the No Child Left Behind Act of 2001 (NCLB). This program is the successor program to the previously authorized Technology Literacy Challenge Fund (TLCF) program.

#### I. PROGRAM OBJECTIVES

The primary goal of the Ed Tech program is to improve student academic achievement through the use of technology in elementary and secondary schools. It is designed to assist every student in becoming technologically literate by the end of eighth grade. The purpose of the program is, among other things, to assist States and localities in implementing and supporting a comprehensive system that effectively uses technology in elementary and secondary schools to improve student academic achievement.

#### II. PROGRAM PROCEDURES

State educational agencies (SEAs) in the 50 States, the District of Columbia, Puerto Rico, the Outlying areas, and the Bureau of Indian Affairs (BIA) are eligible to participate in the program.

An “eligible local entity” is either a “high-need LEA” or an “eligible local partnership” (Section 2403(3) of the ESEA, as amended by the NCLB (20 USC 6753(1))).

A “high need LEA” is an LEA that (Section 2403(3) of the ESEA as amended by the NCLB (20 USC 6753(3))):

- (1) Is among those LEAs in the State with the highest numbers or percentages of children from families with incomes below the poverty line; and
- (2) Serves one or more schools identified for improvement or corrective action under Section 1116 of the ESEA, or has a substantial need for assistance in acquiring and using technology.

An “eligible local partnership” is a partnership that includes at least one high-need LEA and at least one of the following (Section 2403(3) of the ESEA, as amended by the NCLB (20 USC 6753(2))):

- (1) An LEA that can demonstrate that teachers in its schools are effectively integrating technology and proven teaching practices into instruction, based on a review of relevant research, and that integration results in improvement in classroom instruction and in helping students meet challenging academic standards.

- (2) An institution of higher education that is in full compliance with the reporting requirements of section 207(f) of the Higher Education Act of 1965, as amended, and that has not been identified by the State as low-performing under that act.
- (3) A for-profit business or organization that develops, designs, manufactures, or produces technology products or services or has substantial expertise in the application of technology in instruction.
- (4) A public or private nonprofit organization with demonstrated expertise in the application of educational technology in instruction.

In making competitive awards, an SEA must give priority to applications from LEAs that receive formula allocations too small to carry out the purposes of the program effectively. In addition, an SEA must ensure that competitive awards are of sufficient size and duration to carry out the purposes of the program effectively (Section 2412(b) of the ESEA, as amended by the NCLB (20 USC 6762(b))).

### **Source of Governing Requirements**

The Ed Tech program is authorized by Title II, Part D, Subpart 1 of the ESEA, as amended by the NCLB (20 USC 6761 through 6766; Section 2411 *et seq.* of Pub. L. No. 107-110, 115 Stat. 1673, January 8, 2002). The Education Department General Administrative Regulations in 34 CFR Parts 76, 77, 79, 80, 81, 82, 85, and 86 apply to this program.

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

Additional information about this program is available on the Internet at <http://www.ed.gov/programs/edtech/index.html>.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple ED programs are discussed once in the ED Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements.

## A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

### 1. SEAs

- a. State-level activities and to assist local efforts to carry out the purpose of the program, including activities such as the following (Section 2415(a)(1) of the ESEA as amended by the NCLB (20 USC 6765(a)(1))):
  - (1) Developing or assisting the development and utilization of innovative strategies for the delivery of academic courses and curricula through the use of technology, including distance learning technologies, and providing other technical assistance with priority given to high-need LEAs.
  - (2) Establishing or supporting public-private partnerships to acquire educational technology for high-need LEAs.
  - (3) Providing professional development.
  - (4) Ensuring access to educational technology for students and faculty.
  - (5) Developing performance measurement systems.
  - (6) Collaborating with other State educational agencies on distance learning.

### 2. LEAs

- a. Funds may be used for:
  - (1) *Professional Development* - To provide ongoing, sustained, and intensive, high-quality professional development (Section 2416(a) of the ESEA as amended by the NCLB (20 USC 6766(a))).
  - (2) *Other Activities* (Section 2416(b) of the ESEA as amended by the NCLB (20 USC 6766(b)))
    - (a) Increasing accessibility to technology, particularly through public-private partnerships, with special emphasis on accessibility for high-need schools.
    - (b) Adapting or expanding applications to technology to enable teachers to increase student academic achievement, including technology literacy, based on the review of relevant research and use of innovative distance learning strategies.

- (c) Acquiring proven and effective courses and curricula that include integrated technology and that are designed to help student reach challenging academic standards.
- (d) Using technology to promote parental involvement and foster communication among students, parents, and teachers about curricula, assignments, and assessments.
- (e) Preparing one or more teachers in schools as technology leaders who will assist other teachers, and providing bonus payments to the technology leaders.
- (f) Enhancing existing technology and acquiring new technology to support education reforms and to improve student achievement.
- (g) Acquiring connectivity linkages, resources, and services to be used by students and school personnel to improve academic achievement.
- (h) Using technology to collect, manage, and analyze data to inform and enhance teaching and school improvement efforts.
- (i) Implementing enhanced performance measurement systems to determine the effectiveness of education technology programs funded with Ed Tech funds.
- (j) Developing, enhancing, or implementing information technology courses.

**B. Allowable Costs/Cost Principles**

See ED Cross-Cutting Section.

**C. Cash Management**

See ED Cross-Cutting Section.

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

**1. Matching** - Not Applicable

**2.1 Level of Effort** - *Maintenance of Effort*

See ED Cross-Cutting Section.



## **2.2 Level of Effort - *Supplement Not Supplant* (LEA)**

See ED Cross-Cutting Section.

## **3. Earmarking**

Also see ED Cross-Cutting Section.

- a. An SEA may retain no more than five percent of its annual allocation for State-level activities (Section 2412(a)(1) of the ESEA as amended by the NCLB (20 USC 6762(a)(1))). Of the amount retained for State-level activities, no more than 60 percent may be used for administrative purposes (Section 2404(d) of the ESEA as amended by the NCLB (20 USC 6754(d))).
- b. From the 95 percent or more remaining in its total allocation, an SEA must distribute:
  - (1) 50 percent by formula to eligible LEAs that have submitted applications to the State. The formula is based on each LEA's proportionate share of SEA funds allocated under Part A of Title I (Section 2412(a)(2)(A) of the ESEA, as amended by the NCLB (20 USC 6762(a)(2)(A))).
  - (2) 50 percent on a competitive basis to "eligible local entities" that have submitted applications to the State (Section 2412(a)(2)(B) of the ESEA, as amended by the NCLB (20 USC 6762(a)(2)(B))).
  - (3) Notwithstanding the requirement in paragraph b(1) above, up to 100 percent of fiscal year 2006 funds, but at least 50 percent, may be used for competitive subgrants under Section 2412(a)(2)(B) (Title III of Pub. L. No. 109-149, Department of Education Appropriations Act, 2006, 119 Stat. 2864).
- c. Unless an LEA can demonstrate to the satisfaction of its SEA that it already provides high-quality professional development in the integration of technology into curricula, it must use at least 25 percent of its funds for such professional development (Section 2416(a) of the ESEA as amended by the NCLB (20 USC 6766(a))).

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

See ED Cross-Cutting Section.

Funds are available for obligation for a 15-month period starting July 1 of the fiscal year for which they are appropriated, plus a carryover period of one additional fiscal year. For example, funds appropriated for fiscal year 2006 are available for obligation from July 1, 2006 through September 30, 2008 (34 CFR section 76.709(a)).

**L. Reporting****1. Financial Reporting**

See ED Cross-Cutting Section.

**2. Performance Reporting - Not Applicable****3. Special Reporting - Not Applicable****N. Special Tests and Provisions****1. Participation of Private Schools**

See ED Cross-Cutting Section.

**2. Schoolwide Programs**

See ED Cross-Cutting Section.

**3. Access to Federal Funds for New or Significantly Expanded Charter Schools**

See ED Cross-Cutting Section.

## DEPARTMENT OF EDUCATION

### CFDA 84.357 READING FIRST STATE GRANTS

#### I. PROGRAM OBJECTIVES

The purpose of Reading First is to ensure that all children can read at grade level or above by the end of third grade. The Reading First program will provide the necessary assistance to States and districts to implement programs based on scientifically based reading research for students in kindergarten through third grade. Reading First funds will also focus on providing significantly increased teacher professional development to ensure that all teachers, including special education teachers, have the skills they need to teach these programs effectively. Additionally, the program provides assistance to States and districts in preparing classroom teachers to effectively screen, identify and overcome reading barriers facing their students.

#### II. PROGRAM PROCEDURES

Reading First grants are distributed to States by formula. States must apply to the U.S. Department of Education (ED) for grants. Application review and approval began in spring 2002 and will continue on a rolling basis. The formula is based on States' relative share of children aged 5 to 17 from families with incomes below the poverty line. States then award subgrants to eligible districts on a competitive basis.

#### Source of Governing Requirements

The Reading First program is authorized by Title I, Part B, Subpart 1 of the Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001 (20 USC 6361 *et seq.*). No regulations have been published on this program. However, this program is subject to the Department of Education's General Administrative Regulations at 34 CFR parts 76, 77, 80, 82 and 85.

#### Availability of Other Program Information

Other program information is available on the Internet at <http://www.ed.gov/programs/readingfirst/index.html>.

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and look to Parts 3 and 4 for details of the requirements.**

Certain compliance requirements that apply to multiple ED programs are discussed once in the ED Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements.

**A. Activities Allowed or Unallowed**

Also see ED Cross-Cutting Section.

1. *State Education Agencies (SEAs)*
  - a. Making competitive subgrants to eligible Local Education Agencies (LEAs) in accordance with the SEA's approved grant application (20 USC 6362(b)(4)).
  - b. Professional inservice and preservice development and review (20 USC 6362(d)(3)).
  - c. Technical assistance for LEAs and schools (USC 6362(d)(4)).
  - d. Planning, administration, and reporting (20 USC 6362(d)(5)).
2. *Local Education Agencies (LEAs)*
  - a. *Instructional reading assessments* - Selection and administration of screening, diagnostic, and classroom-based instructional reading assessments (with proven validity and reliability) (20 USC 6362(c)(7)(A)(i)).
  - b. *Reading program* - Selection and implementation of a program of reading instruction based on scientifically based reading research that includes the essential components of reading instruction and provides such instruction to children in kindergarten through grade three in the schools served by the LEA (20 USC 6362(c)(7)(A)(ii)).
  - c. *Instructional materials* - Selection and implementation of instructional materials, including education technology such as software and other digital curricula, that are based on scientifically based reading research (20 USC 6362(c)(7)(A)(iii)).
  - d. *Professional development* - Professional development for teachers of kindergarten through grade 3 and special education teachers of kindergarten through grade 12 that will prepare these teachers and other instructional staff in all of the essential components of reading instruction. Professional development must be provided that will assist teachers in becoming fully qualified for reading instruction in accordance with the requirements of section 1119. Providers of professional development must base training in reading instruction on scientifically based reading research (20 USC 6362(c)(7)(A)(iv)).

- e. *Evaluation strategies* - Collection and summary of valid and reliable data to document the effectiveness of Reading First in individual schools and in the LEA as a whole and to stimulate and accelerate improvement by identifying the schools that produce significant gains in reading achievement (20 USC 6362(c)(7)(A)(v)).
- f. *Reporting* - Reporting data for all students and categories of students described in the State's Title I adequate yearly progress definition (20 USC 6362(c)(7)(A)(vi))
- g. *Access to reading material* - Promotion of reading and library programs that provide access to engaging reading material (20 USC 6362(c)(7)(A)(vii)).
- h. *Additional uses* - Additional activities for which an LEA may use Reading First funds, provided they are based on scientifically based reading research and align with the LEA's overall Reading First plan. These activities must be identified and approved in the State's Reading First plan (20 USC 6362(c)(7)(B)).

**B. Allowable Costs/Cost Principles**

See ED Cross-Cutting Section.

**C. Cash Management**

See ED Cross-Cutting Section.

**E. Eligibility**

1. **Eligibility for Individuals** - Not Applicable.
2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable.
3. **Eligibility for Subrecipients**

A LEA that meets both of the following criteria as defined in the SEA's approved grant application is eligible to apply to its State educational agency for Reading First funds:

- a. The LEA is among the local educational agencies in the State with the highest numbers or percentages of students in kindergarten through grade three reading below grade level, based on the most current data available 20 USC 6362(c)(6)(A); and
- b. The LEA has jurisdiction over at least one of the following (20 USC 6362(c)(6)(B)):

- (1) A geographic area that includes an area designated as an empowerment zone, or an enterprise community, under part I of subchapter U of chapter I of the Internal Revenue Code;
- (2) A significant number or percentage of schools that are identified for school improvement under Title I, Part A; or
- (3) The highest numbers or percentages of children who are counted for allocations under Title I, Part A, in comparison to other LEAs in the State.

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

**1. Matching** - Not Applicable.

**2. Level of Effort** - Not Applicable.

**3. Earmarking**

a. SEAs may not spend more than a total of 20 percent for: professional inservice and preservice development and review; technical assistance for LEAs and schools; and planning, administration, and reporting (20 USC 6362(d)(2)).

(1) From this amount, a SEA may not spend more than:

(a) 65 percent on professional inservice and preservice development and review (20 USC 6362(d)(3)).

(b) 25 percent for technical assistance for LEAs and schools (USC 6362(d)(4)).

(c) 10 percent for planning, administration, and reporting (20 USC 6362(d)(5)).

(2) SEAs must use any funds not reserved for these purposes for subgrants to local educational agencies (20 USC 6362(f)).

b. LEAs may not spend more than 3.5 percent for planning and administration (20 USC 6362(c)(8)).

**H. Period of Availability of Federal Funds** - See ED Cross-Cutting Section.

**L. Reporting**

**1. Financial Reporting**

See ED Cross-Cutting Section.

2. **Performance Reporting** - Not Applicable.
3. **Special Reporting** - Not Applicable.

**N. Special Tests and Provisions**

1. **Participation of Private School Children (SEAs/LEAs)**  
See ED Cross-Cutting Section.
2. **Access to Federal Funds for New or Significantly Expanded Charter Schools**  
See ED Cross-Cutting Section.

## DEPARTMENT OF EDUCATION

### CFDA 84.365 ENGLISH LANGUAGE ACQUISITION GRANTS

#### I. PROGRAM OBJECTIVES

The objective of Title III, Part A of the Elementary and Secondary Education Act (ESEA) is to improve the education of limited English proficient (LEP) children and youths by helping them learn English and meet challenging state academic content and student academic achievement standards. The program also provides enhanced instructional opportunities for immigrant children and youths.

#### II. PROGRAM PROCEDURES

The Department of Education (ED) provides Title III, Part A funds to each State Educational Agency (SEA) on the basis of a statutory formula that takes into account the number of LEP and immigrant children and youth in each State. To receive funds, an SEA must submit to ED for approval either: (1) an individual State plan as provided under Section 3113 of the ESEA (20 USC 6823) or (2) a consolidated plan that includes Part A of Title III in accordance with Section 9302 of the ESEA (20 USC 7842). The plan must be updated to reflect substantive changes.

SEAs use Title III, Part A funds for administration, to carry out State activities, and to make two types of subgrants to LEAs. The two types of subgrants are: (1) for school districts that have experienced a significant increase in the number of immigrant children and youth in their schools and (2) for school district to use to serve LEP children. In order to receive one of these subgrants, an LEA must submit to the SEA a plan under either Section 3116 of the ESEA (20 USC 6826) or an approved consolidated plan under Section 9305 of the ESEA (20 USC 7845) (20 USC 6821).

LEAs use their immigrant subgrants to pay for enhanced instructional opportunities for immigrant children and their LEP subgrants to support activities that increase the English proficiency and academic achievement of LEP children by providing high-quality language instruction educational programs that are based on scientifically based research (20 USC 6824). SEAs are required to develop annual measurable achievement objectives for LEP children concerning their development of English proficiency while meeting challenging State academic standards. SEAs are required to hold LEAs accountable if they failed to meet these annual achievement objectives (20 USC 6842). In addition, LEAs receiving subgrants under Part A of Title III are required to assess the English language proficiency and academic achievement of the LEP children they serve (20 USC 6823).

#### Source of Governing Requirements

This program is authorized by Title III, Part A of the ESEA, as amended by the No Child Left Behind Act (Pub. L. No. 107-110) (20 USC 6821 through 6871, 7011 through 7014). The Education Department General Administrative Regulations (EDGAR) at 34 CFR parts 76, 77, 81, and 82 also apply to this program.



## Availability of Other Program Information

Additional program information is available on the Internet at <http://www.ed.gov/offices/OELA>.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements which apply to multiple ESEA programs are discussed once in the ED Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

#### A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

##### 1. SEA

- a. *Subgrants to LEAs* (20 USC 6821(b)(1)).
- b. *State administration* (20 USC 6821(b)(3)).
- c. *State activities* - Funds may be used carry out one or more of the following State activities for this program (20 USC 6821(b)(2)):
  - (1) Professional development and other activities that assist personnel in meeting State and local certification and licensing requirements for teaching LEP children.
  - (2) Planning, evaluation, administration, and interagency coordination related to LEA subgrants.
  - (3) Providing technical assistance and other forms of assistance to LEA subgrantees.
  - (4) Providing recognition, which may include providing financial awards, to subgrantees that have exceeded their annual measurable achievement objectives pursuant to 20 USC 6842.

2. **LEA** - There are two types of subgrants to LEAs:
- a. **Immigrant Subgrants** - Subgrants to LEAs that have experienced significant increases in immigrant children and youth. LEAs receiving subgrants Section 3114 (20 USC 6824) shall use the funds awarded to pay for activities that provide enhanced instructional opportunities for immigrant children and youth. These activities include (20 USC 6825(e)):
- (1) Family literacy, parent outreach, and training activities designed to assist parents to become active participants in the education of their children.
  - (2) Support for personnel, including teacher aides who have been specifically trained, or are being trained, to provide services to immigrant children and youth.
  - (3) Provision of tutorials, mentoring, and academic or career counseling for immigrant children and youth.
  - (4) Identification and acquisition of curricular materials, educational software, and technologies to be used in the program carried out with funds.
  - (5) Basic instruction services that are directly attributable to the presence in the school district of immigrant children and youth, including the payment of costs of providing additional classroom supplies, costs of transportation, or such other costs as are directly attributable to such additional basic instruction services.
  - (6) Other instruction services that are designed to assist immigrant children and youth to achieve in elementary schools and secondary schools in the United States, such as programs of introduction to the educational system and civics education.
  - (7) Activities, coordinated with community-based organizations, institutions of higher education, private sector entities, or other entities with expertise in working with immigrants, to assist parents of immigrant children and youth by offering comprehensive community services.
- b. **LEP Subgrants**
- (1) **Administrative Costs** (20 USC 6825(b)).
  - (2) **Required Activities** - An LEA is required to use LEP subgrant funds to (20 USC 6825e):

- (a) Increase the English proficiency of LEP children by providing high-quality language instruction educational programs that are based on scientifically based research demonstrating the effectiveness of the programs in increasing English proficiency and student academic achievement in the core academic subjects (20 USC 6825(c)(1)).
  - (b) Provide high-quality professional development to classroom teachers (including teachers in classroom settings that are not the settings of language instruction educational programs), principals, administrators, and other school or community-based organizational personnel (20 USC 6825(c)(2)).
- (3) *Authorized Activities* - An LEA receiving an LEP subgrant may, but is not required to, use those funds for the following activities (20 USC 6825(d)):
- (a) Upgrading program objectives and effective instruction strategies.
  - (b) Improving the instruction program for LEP children by identifying, acquiring, and upgrading curricula, instruction materials, educational software, and assessment procedures.
  - (c) Providing tutorials and academic or vocational education for LEP children and intensified instruction.
  - (d) Developing and implementing elementary school or secondary school language instruction educational programs that are coordinated with other relevant programs and services.
  - (e) Improving the English proficiency and academic achievement of LEP children.
  - (f) Providing community participation programs, family literacy services, and parent outreach and training activities to LEP children and their families to improve the English language skills of LEP children and to assist parents in helping their children to improve their academic achievement and becoming active participants in the education of their children.

- (g) Improving the instruction of LEP children by providing for (i) the acquisition or development of educational technology or instructional materials and (ii) access to, and participation in, electronic networks for materials, training, and communication; and incorporation of these resources into curricula and programs.

**B. Allowable Costs/Cost Principles**

See ED Cross-Cutting Section.

**C. Cash Management**

See ED Cross-Cutting Section.

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

**1. Matching - Not Applicable**

**2.1 Level of Effort - *Maintenance of Effort***

See ED Cross-Cutting Section.

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

See ED Cross-Cutting Section.

**3. Earmarking (SEAs)**

- a. *SEA Reserved Funds* - SEAs can reserve up to 5 percent of their entire grant to carry out State activities and for administration. (Please note, however, discussion under SEA administration below, which indicates that there are circumstances under which an SEA can have a reservation for administration that exceeds 5 percent) (20 USC 6821(b)(2)):

- (1) *State Activities* - SEA reserved funds not used for administration can be used to carry out one or more of the State activities (20 USC 6821(b)(2)).

- (2) *SEA Administration* - SEA's are authorized to reserve up to 3 percent of their grant, or \$175,000, whichever is greater, for the costs of administration. Because SEAs can use up to \$175,000 of their grant for administration, they may, because of that option, reserve more than 5 percent of their grant for administration (20 USC 6821(b)(3)).

- b. *Subgrants to LEAs* - A SEA must expend at least 95 percent for subgrants to LEAs that submit approvable plans under either Section 3116 of the ESEA, (20 USC 6826) or an approvable consolidated plan under Section 9305 of the ESEA (20 USC 7845) as follows (20 USC 6821):
- (1) *Immigrant Subgrants* - SEAs are required to reserve not more than 15 percent of their grants for subgrants to LEAs that have experienced a significant increase, as compared to the average of the two preceding fiscal years, in the percentage or numbers of immigrant children and youth, who have enrolled, during the fiscal year preceding the fiscal year for which the grant is made, in public and nonpublic elementary and secondary schools in the geographic areas served by the LEA. In awarding these subgrants, SEAs must equally consider LEAs that have limited or no experience in serving immigrant children and youth and the quality of the local plans that the LEAs submit under Section 3116 of the ESEA (20 USC 6826). SEAs have discretion to award these subgrants on a competitive, formula, or some other basis (20 USC 6824(d)).
  - (2) *LEP Subgrants* - SEAs are required by to use funds not used for State activities, SEA administration, and immigrant subgrants as described above, to award subgrants to LEAs to serve LEP children. SEAs shall allocate LEP subgrants to their LEAs on a formula basis. The formula is based on the number of LEP children in schools served by a particular LEA as a percentage of the number of such LEP children in the entire State. The SEA, however, shall not award a subgrant if the amount of the subgrant, under the statutory formula for LEP subgrants, would be less than \$10,000 (20 USC 6824).
- c. *LEA Administrative Costs* - An LEA receiving an LEP subgrant may use no more than 2 percent of that subgrant for administrative costs (20 USC 6825(b)).

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

See ED Cross-Cutting Section.

## **L. Reporting**

### **1. Financial Reporting**

See ED Cross-Cutting Section.

### **2. Performance Reporting - Not Applicable**

### **3. Special Reporting - Not Applicable**

**N. Special Tests And Provisions****1. Participation of Private School Children**

See ED Cross-Cutting Section.

**2. Schoolwide Programs (LEAs)**

See ED Cross-Cutting Section.

**3. Access to Federal Funds for New or Significantly Expanded Charter Schools**

See ED Cross-Cutting Section.

## DEPARTMENT OF EDUCATION

### CFDA 84.366 MATHEMATICS AND SCIENCE PARTNERSHIPS

#### I. PROGRAM OBJECTIVES

The objective of the Mathematics and Science Partnerships program in Title II, Part B of the Elementary and Secondary Education Act (ESEA) of 1965, as amended by the No Child Left Behind Act of 2001 (NCLB) (Pub. L. No. 107-110), is to provide funds to State education agencies (SEAs) for improvement of the academic achievement of students in the areas of mathematics and science through partnerships comprised, at a minimum, of an engineering, mathematics, or science department of an institution of higher education (IHE) and a high-need local educational agency (LEA).

#### II. PROGRAM PROCEDURES

Mathematics and Science Partnerships grant funds are obtained by a State without the need to submit a program application. Except for funds that it retains for administrative costs, the SEA must award all of the program funds as competitive subgrants to eligible partnerships.

##### Source of Governing Requirements

This program is authorized by 20 USC 6661-6663. While there are no program regulations, the following parts of the Department of Education (ED) General Administrative Regulations apply to this program: 34 CFR parts 76, 77, and 86. General ESEA requirements in 34 CFR part 299 also apply.

##### Availability of Other Program Information

There is no additional publicly available guidance on administration of the program.

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple ESEA programs are discussed once in the ED Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

**A. Activities Allowed or Unallowed**

Also see ED Cross-Cutting Section.

**1. SEAs**

- a. *Subgrants to Eligible Partnerships* (20 USC 6662).
- b. *Administrative Costs.* An SEA may claim a reasonable and necessary amount of program funds for administrative costs (20 USC 6662).

**2. Eligible Partnerships**

- a. An eligible partnership project may focus one or more of the broad span of activities designed to improve the quality of instruction in mathematics and science in the State's elementary and secondary schools that are identified in 20 USC 6662(c).
- b. Eligible partnerships also may conduct a wide array of other projects designed to recruit qualified individuals to become mathematics and science teachers, or otherwise to enhance the proficiency of mathematics and science teachers who participate in project activities (20 USC 6662(c)).

**B. Allowable Costs/Cost Principles**

See ED Cross-Cutting Section.

**C. Cash Management**

See ED Cross-Cutting Section.

**E. Eligibility****1. Eligibility for Individuals - Not Applicable****2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable****3. Eligibility for Subrecipients**

- a. An eligible partnership must include both of the following:
  - (1) An engineering, mathematics, or science department of an institution of higher education, and
  - (2) A high-need LEA (as defined by the State; the ESEA contains no definition of this term, and ED has not established one) (20 USC 6661(b)(1)).



- b. An eligible partnership may include other entities, such as: another engineering, mathematics, science, or teacher training department of an institution of higher education; additional LEAs, public charter schools, public or private elementary schools or secondary schools, or a consortium of such schools; a business; or a non-profit or for-profit organization of demonstrated effectiveness in improving the quality of mathematics and science teachers (20 USC 6661(b)(1)).
- c. Eligible partnerships apply to the SEAs for program funds on a competitive basis. The application must contain, at minimum:
  - (1) The results of a comprehensive assessment of the teacher quality and professional development needs of any schools, LEAs, and SEAs that comprise the eligible partnership with respect to the teaching and learning of mathematics and science;
  - (2) A description of how the activities to be carried out by the eligible partnership will be aligned with challenging State academic content and student academic achievement standards in mathematics and science and with other educational reform activities that promote student academic achievement in mathematics and science;
  - (3) A description of how the activities to be carried out by the eligible partnership will be based on a review of scientifically based research, and an explanation of how the activities are expected to improve student academic achievement and strengthen the quality of mathematics and science instruction;
  - (4) A description of:
    - (a) How the eligible partnership will carry out the authorized activities described in 20 USC 6662(c); and
    - (b) The eligible partnership's evaluation and accountability plan described in 20 USC 6662(e); and
  - (5) A description of how the eligible partnership will continue the activities funded under the program after the original grant or subgrant period has expired (20 USC 6662(a)(2) and 6662(b)).

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

### **1. Matching - Not Applicable**

### **2.1 Level of Effort – *Maintenance of Effort* – Not Applicable**

**2.2 Level of Effort - *Supplement Not Supplant* (SEAs/eligible partnerships)**

See ED Cross-Cutting Section.

**3. Earmarking – Not Applicable****H. Period of Availability of Federal Funds**

See ED Cross-Cutting Section.

**L. Reporting****1. Financial Reporting**

See ED Cross-Cutting Section.

**2. Performance Reporting - Not Applicable****3. Special Reporting - Not Applicable****N. Special Tests and Provisions****1. Participation of Private School Children (LEAs in eligible partnerships)**

See ED Cross-Cutting Section.

**2. Competition (SEAs)**

**Compliance Requirement** – The SEA must select eligible partnerships for award on a competitive basis. No specific competition requirements have been established by ED. The State must follow its own requirements for competing subgrant awards (20 USC 6662(a)(2)(A)(ii)).

**Audit Objective** - Determine whether the SEA has selected applications for funding on the basis of a competitive process that follows State procedures.

**Suggested Audit Procedures**

- a. Review the SEA's procedures for competing subgrant awards.
- b. Review a sample of funded partnerships to determine if the SEA followed State competition procedures.

## DEPARTMENT OF EDUCATION

### CFDA 84.367 IMPROVING TEACHER QUALITY STATE GRANTS

#### I. PROGRAM OBJECTIVES

The objective of the Improving Teacher Quality State Grants program in Title II, Part A of the Elementary and Secondary Education Act (ESEA) of 1965, as amended by the No Child Left Behind Act of 2001 (NCLB) (Pub. L. No. 107-110), is to provide funds to State educational agencies (SEAs), local educational agencies (LEAs), State agencies for higher education (SAHEs), and partnerships comprised of institutions of higher education (IHEs), high-need LEAs and other entities to increase the academic achievement of all students by helping schools and school districts to: (1) improve teacher and principal quality (including hiring teachers to reduce class size) and (2) ensure that all teachers are highly qualified.

#### II. PROGRAM PROCEDURES

Improving Teacher Quality State Grant funds are obtained by a State on the basis of the Department of Education's (ED) approval of either (1) an individual State plan as provided in Section 2112 of the ESEA (20 USC 2112), or (2) a consolidated application that includes the program, in accordance with Section 9302 of the ESEA (20 USC 7842). Separate grants are provided to SEAs and SAHEs.

#### Source of Governing Requirements

This program is authorized by Title II, Part A, subparts 1-3 of the ESEA as amended by the NCLB (Pub. L. No. 107-110) (20 USC 2111 - 2134). The program purpose and definitions in Title II, Part A of the ESEA, Sections 2101 and 2102 (20 USC 6601 - 6602), and the accountability provisions in Title II, Part A, Subpart 4, Section 2141 (20 USC 6641) also apply to this program. While there are no program regulations, the following parts of the ED General Administrative Regulations (EDGAR) apply to this program: 34 CFR parts 76, 77, 80, 82, 85, and 86. General ESEA requirements in 34 CFR part 299 also apply. Rules governing the amount of funds available to both the SEA and to the SAHE for the costs of administration and planning were announced in a notice published in the *Federal Register* on May 22, 2002 (67 FR 35967, 35977).

#### Availability of Other Program Information

Non-regulatory guidance for the Title II, Part A program is available on ED's web site at <http://www.ed.gov/programs/teacherqual/guidance.doc>.

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

Certain compliance requirements that apply to multiple ESEA programs are discussed once in the Department of Education (ED) Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

## **A. Activities Allowed or Unallowed**

Also see ED Cross-Cutting Section.

### **1. SEAs**

- a. *Subgrants to LEAs* (Sections 2113(a)(1) of the ESEA; (20 USC 6613(a)(1))).
- b. *Subgrants to Eligible Partnerships* (Sections 2113(a)(2) of the ESEA; 20 USC 6613(a)(2)).
- c. *State Activities* - Allowable State-level activities are identified in Section 2113(c) of the ESEA. Examples of allowable activities include: (1) developing or enhancing activities to encourage high-quality individuals to become teachers or principals through alternative routes for State certification; (2) carrying out activities that focus on increasing the subject matter knowledge of teachers and the instructional leadership skills of principals; (3) reforming and streamlining teacher licensure requirements as well as aligning licensure requirements with State content standards; (4) developing and expanding mentoring activities for new teachers and activities that help teachers use assessment data to guide instructional decisions; (5) implementing teacher testing to assess subject matter knowledge, and conducting activities to help teachers meet the requirements in Section 9101(23) (20 USC 7801(23)) to become “highly qualified;” (6) developing and expanding merit-based performance; and (7) developing systems to measure the effectiveness of professional development on student academic achievement (Section 2113(c) of the ESEA (20 USC 6613(c))).
- d. Administrative costs (Sections 2113(d) of the ESEA; 20 USC 6613(d)).

### **2. LEAs**

Consistent with the LEA’s assessment of need for professional development and hiring, LEAs may use funds for a broad span of activities designed to improve teacher quality that are identified in Section 2123(a) of the ESEA. Examples of allowable activities include: (1) providing “professional development” (as the term is defined in Section 9101(34) of the ESEA, 20 USC 6602(34)) to teachers, and, where appropriate, to principals and paraprofessionals in content knowledge and classroom practice; (2) developing and implementing a wide variety of strategies and activities to recruit, hire, and retain highly qualified teachers and

principals; (3) developing and implementing initiatives to promote retention of highly qualified teachers and principals; (4) carrying out professional development programs to assist principals and superintendents in becoming outstanding managers and educational leaders; and (5) carrying out teacher advancement initiatives that promote professional growth and emphasize multiple career paths and pay differentiation, and establish programs and activities related to exemplary teachers. LEAs also may use funds to hire teachers to reduce class size (Sections 2101 and 2123(a) of the ESEA (20 USC 6601 and 6623(a))).

### 3. *Subrecipients of SAHEs - Eligible Partnerships*

Eligible Partnerships must use the funds for the following activities:

- a. Professional development activities (as the term is defined in Section 9101(34) of the ESEA (20 USC 6602(34)) in core academic subjects to ensure that teachers and “highly qualified paraprofessionals” (as the term is defined in Section 2102(4) of the ESEA (20 USC 6602(4))), and, if appropriate, principals have subject matter knowledge in the academic subjects the teachers teach, and principals have instructional leadership skills that will help them work effectively with teachers (Sections 2101 and 2134(a)(1) of the ESEA (20 USC 6601 and 6634(a)(1))).
- b. Developing and providing assistance to LEAs and to their teachers, highly qualified paraprofessionals, or principals for sustained, high-quality professional development activities that (Sections 2101 and 2134(a)(2) of the ESEA (20 USC 6601 and 6634(a)(2)):
  - (1) Ensure the use of challenging State academic content standards, student achievement standards, and State assessments to improve instruction.
  - (2) May include intensive programs designed to prepare these individuals to return to school to provide instruction related to their professional development to others in the school.
  - (3) May include activities of partnerships between one or more LEAs, schools or IHEs in order to improve teaching and learning in low-performing schools, as the term is used in Section 1116 of the ESEA.

### **B. Allowable Costs/Cost Principles** (All grantees)

See ED Cross-Cutting Section.

### **C. Cash Management**

See ED Cross-Cutting Section.

**E. Eligibility**

- 1. Eligibility for Individuals - Not Applicable**
- 2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**
- 3. Eligibility for Subrecipients**
  - a. A subgrant to an “Eligible Partnership” must be made on a competitive basis and the Eligible Partnership must include all of the following (Sections 2131(1)(A) and 2132(a) of the ESEA (20 USC 6631(1)(A) and 6632(a))):
    - (1) A private or State IHE and the division of the institution that prepares teachers and principals.
    - (2) A school of arts and sciences.
    - (3) A “high-need LEA” (as the term is defined in Section 2102(3) of the ESEA (20 USC 6602(3))).
  - b. An Eligible Partnership may include other entities, such as an LEA that is not a high-need LEA, a public charter school, an elementary school or secondary school, an educational service agency, a non-profit educational organization, another IHE, a non-profit cultural organization, a teacher or principal organization, or a business (Section 2131(1)(B) of the ESEA (20 USC 6631(1)(B))).
  - c. LEAs apply to the SEAs for program funds. The amount of each LEA’s allocation that an SEA provides reflects (1) a “hold-harmless” based on the amount of funds the LEA received in FY 2001 under the former Eisenhower Professional Development and Class-Size Reduction programs, and (2) the LEA’s share of any funds still remaining. In any year in which the amount available in the State for LEA grants exceeds the sum of the “hold-harmless” amounts for LEAs in the State, the SEA must distribute the excess funds based on the following formula (Section 2121(a) of the ESEA (20 USC 6621(a))):
    - (1) 20 percent of the excess funds must be distributed to LEAs based on the relative population of children ages five through 17, as determined by the Secretary.
    - (2) 80 percent of the excess funds must be distributed to LEAs based on the relative numbers of individuals ages five through 17 from families with incomes below the poverty line, as determined by the Secretary.

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

1. **Matching** (LEAs) - Not Applicable
2. **Level of Effort** - *Maintenance of Effort* (SEAs/LEAs)

See ED Cross-Cutting Section.

- 2.1 **Level of Effort** - *Supplement Not Supplant* (SEAs/LEAs)

See ED Cross-Cutting Section. Supplement Not Supplant is not applicable to the SAHEs and their subgrants to Eligible Partnerships (Section 2134 of the ESEA (20 USC 6634)).

3. **Earmarking**

See ED Cross-Cutting Section.

**H. Period of Availability of Federal Funds** (All grantees)

See ED Cross-Cutting Section.

**L. Reporting**

1. **Financial Reporting**  
See ED Cross-Cutting Section.
2. **Performance Reporting** - Not Applicable
3. **Special Reporting** - Not Applicable

**N. Special Tests and Provisions**

1. **Participation of Private School Children** (SEAs/LEAs)  
See ED Cross-Cutting Section.
2. **Schoolwide Programs** (LEAs)  
See ED Cross-Cutting Section.
3. **Access to Federal Funds for New or Significantly Expanded Charter Schools**  
See ED Cross-Cutting Section.

#### **4. Assessment of Need (LEAs)**

**Compliance Requirement** - To be eligible to receive a subgrant of Title II, Part A funds, an LEA must conduct an assessment of local needs for professional development and hiring, as identified by the LEA and school staff. The needs assessment must be conducted with the involvement of teachers, including teachers who work in Title I, Part A targeted assistance programs and schoolwide program schools (Sections 2122(b)(8) and (c) (20 USC 2122(b)(8) and (c))).

**Audit Objective** - Determine whether the LEA, with the required participation of teachers, conducted the required needs assessment.

#### **Suggested Audit Procedure (LEAs)**

Review documentation to ascertain if the LEA conducted the required needs assessment and if teachers, including Title I, Part A teachers from targeted assistance or schoolwide program schools, participated in the needs assessment.



**DEPARTMENT OF EDUCATION****CFDA 84.938 HURRICANE EDUCATION RECOVERY****I. PROGRAM OBJECTIVES**

The Hurricane Education Recovery Act (HERA) (Division B, Title IV of Pub. L. No. 109-148) authorized three new grant programs to assist school districts and schools in meeting the educational needs of students displaced by Hurricanes Katrina and Rita, and to help schools that were closed as a result of the hurricanes to reopen as quickly and effectively as possible. These programs are (1) the Immediate Aid to Restart School Operations (Restart) program, (2) the Assistance for Homeless Youth (Homeless Youth) program, and (3) the Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid) program. The Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act of 2006 (Division B, Title I of Pub. L. No. 109-148) also funded three programs for institutions of higher education to provide assistance for students attending institutions of higher education in areas affected by Hurricanes Katrina and Rita. These programs are (1) the Emergency Assistance for Higher Education to the Louisiana Board of Regents, (2) Payments to Institutions of Higher Education to Defray Unexpected Expenses of Displaced Students, and (3) Assistance for Higher Education to the Mississippi Institutes of Higher Learning. The Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 (Chapter 6, Title II of Pub. L. No. 109-234) provided assistance (Higher Education Recovery Awards) to institutions of higher education that are located in an area in which a major disaster was declared related to hurricanes in the Gulf of Mexico in calendar year 2005, and that were forced to close, relocate, or significantly curtail their activities as a result of damage directly caused by the hurricanes. The U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 (Chapter 7, Title IV of Pub. L. No. 110-28) authorized a new grant program to assist Louisiana, Mississippi, and Alabama to recruit, retain, and compensate new and current educators who commit to work at least 3 years in a public elementary or secondary school located in an area affected by Hurricanes Katrina or Rita (Hurricane Educator Assistance Program). While all eight programs are funded under the same CFDA number, ED has assigned an alpha suffix for each of them to help identify the individual programs and the related requirements. See Section IV, Other Information for an explanation on the use of alpha suffixes added to the CFDA number.

**A. Restart (CFDA 84.938A)**

The objective of the Restart program is to award funds to the State educational agencies (SEAs) in Louisiana, Mississippi, Texas, and Alabama to provide assistance or services to local educational agencies (LEAs) and non-public schools to help defray the expenses related to the restart of operations in, the reopening of, and the re-enrollment of students in elementary and secondary schools that serve an area in which a major disaster has been declared related to Hurricane Katrina or Hurricane Rita.

**B. Homeless Youth (CFDA 84.938B)**

The objective of the Homeless Youth program is to provide a separate source of funding to SEAs and LEAs to address the needs of homeless children and youth displaced by Hurricane Katrina or Hurricane Rita.

**C. Emergency Impact Aid (CFDA 84.938C)**

The objective of the Emergency Impact Aid program is to provide funds to SEAs, LEAs, and Bureau of Indian Affairs (BIA)-funded schools to assist with the cost of educating students displaced by Hurricane Katrina or Hurricane Rita during school year 2005-2006. Funds are also provided for non-public schools on behalf of displaced students they serve.

**D. Emergency Assistance for Higher Education to the Louisiana Board of Regents (CFDA 84.938D)**

This program provides the Louisiana Board of Regents a grant to provide emergency assistance based on demonstrated need under part B of title VII of the Higher Education Act of 1965 (HEA). These funds may be used for student financial assistance, faculty and staff salaries, equipment and instruments, or any purpose authorized under the HEA, to institutions of higher education that are located in an area affected by hurricanes in the Gulf of Mexico in calendar year 2005 and were forced to close, relocate, or curtail their operations as a result of damage directly sustained by reasons of such hurricanes.

**E. Payments to Institutions of Higher Education to Defray Unexpected Expenses of Displaced Students (CFDA 84.938E)**

Under this program, the Secretary of Education provides grants to institutions of higher education to help defray unexpected expenses associated with enrolling displaced students from institutions of higher education directly affected by hurricanes in the Gulf of Mexico in calendar year 2005.

**F. Assistance for Higher Education to the Mississippi Institutes of Higher Learning (CFDA 84.938F)**

This program provides the Mississippi Institutes of Higher Learning a grant to provide assistance under the programs authorized by subparts 3 and 4 of part A and part C of title IV of the HEA, for students attending institutions of higher education that are located in an area in which a major disaster has been declared in accordance with section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act related to hurricanes in the Gulf of Mexico in calendar year 2005.

**G. Higher Education Recovery Awards (CFDA 84.938H)**

The objective of the Higher Education Recovery Awards program is to make payments to institutions of higher education to help defray expenses, including expenses that would have been covered by revenue lost as a direct result of a hurricane, expenses already incurred, and construction expenses, incurred by such institutions that were forced to close, relocate, or significantly curtail activities as a result of damage directly caused by the hurricanes. These institutions of higher education must be located in an area in which a major disaster was declared in accordance with section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act related to hurricanes in the Gulf of Mexico in calendar year 2005. This area includes certain counties in Alabama, Florida, Louisiana, Mississippi, and Texas.

**H. Hurricane Educator Assistance Program (CFDA 84.938K)**

The objective of the Hurricane Education Assistance Program (HEAP) is to provide funding to the States of Louisiana, Mississippi, and Alabama to help recruit, retain, and compensate educators who commit to work for at least 3 years in an area in which a major disaster area was declared as a result of Hurricane Katrina or Hurricane Rita.

**II. PROGRAM PROCEDURES****A. Restart**

The Department of Education (ED) provides Restart funds to the SEAs in Louisiana, Mississippi, Texas, and Alabama taking into consideration the number of students who were enrolled during the 2004 -2005 school year in elementary and secondary schools that were closed on September 12, 2005, as a result of Hurricane Katrina, or on October 7, 2005, as a result of Hurricane Rita. The SEAs use these funds to provide services and assistance to the LEAs and non-public schools located in their States. The services may be provided directly by the SEA, through contractual arrangements, or through subgrants to public agencies. The SEAs are required to consider (1) the number of school-aged children served by LEAs or non-public schools in the academic year preceding the academic year for which the services and assistance are provided, and (2) the severity of the impact of the hurricanes on the LEAs or non-public schools, and the extent of the needs in each LEA or non-public school.

SEAs are required to reserve an amount of funds for non-public schools that bears the same relation to their total payment as the number of non-public schools bears to the total number of non-public and public schools, as determined by the National Center for Education Statistics Common Core of Data for the 2003 – 2004 school year. However, if all of the reserved funds available under this program have not been obligated by April 29, 2006 (120 days after the date of enactment), the SEA may use the remaining funds to provide services or assistance to LEAs or non-public schools. Regardless of whether all of the reserved funds are fully obligated by this date, the SEA must comply with the requirement to provide equitable services to eligible private school students. Any educational services and assistance provided for eligible non-public school students must

be equitable in comparison to those provided for public school students, and must be provided in a timely manner.

LEAs or non-public schools desiring services or assistance under the Restart program must have submitted an application to the SEA at such time, in such manner, and accompanied by such information as the SEA may reasonably require to ensure expedited and timely provision of services or assistance to the LEA or non-public school.

## **B. Homeless Youth**

ED provides assistance to LEAs, through SEAs, to serve homeless children and youth displaced by Hurricane Katrina or Hurricane Rita. Services include identification, enrollment assistance, assessment and school placement assistance, transportation, coordination of school services, supplies, referrals for health, mental health, and other needs. ED disburses funds to SEAs based on demonstrated need, as determined by ED. SEAs must distribute the funds to LEAs based on demonstrated need for the purposes of carrying out section 723 of the McKinney-Vento Homeless Assistance Act.

## **C. Emergency Impact Aid**

Funds are provided on the basis of statutory criteria and student count data supplied by SEAs and LEAs. LEAs provide counts to their SEA, which provides counts to ED. The SEA must have provided student counts for four quarters of the 2005-2006 school year separated into four categories—public school students reported as children without or with disabilities, and non-public school students reported as children without or with disabilities.

On January 12, 2006, ED published a Federal Register notice announcing the availability of funds for this one-time program. Under the statute, LEAs were required to apply to their SEAs for funds under the program no later than 14 calendar days after the date of the Federal Register notice, i.e., January 26, 2006. The law further specified that SEAs must submit their initial applications to the ED no later than 21 calendar days after the publication of the notice, i.e., February 2, 2006. ED made payments to SEAs to enable them to make payments to LEAs as soon as possible, and LEAs must have made payments to accounts on behalf of non-public students within 14 calendar days of receiving payments from their SEAs. When students enroll in different non-public schools on different quarterly count dates, LEAs needed to ensure that payments for these students were directed to the correct accounts on their behalf.

SEAs and LEAs that met these specified timelines could make upward or downward revisions to their initial child counts if they collected more accurate data than was available at the time of their initial application submission. SEAs also provided student counts for quarters 3 and 4. Any SEA application amendments must have been submitted to ED no later than April 30, 2006.

Generally, ED made payments under the Emergency Impact Aid program as follows:

For each quarter, the Secretary provided each State with a payment equal to:

- (1) the number of displaced students who were not reported as children with disabilities determined by the State to be enrolled in public and non-public schools for that quarter, multiplied by \$1,500, plus
- (2) the number of displaced students who were reported as children with disabilities determined by the State to be enrolled in public and non-public schools for that quarter, multiplied by \$1,875.

However, if the amount available to the Secretary was not sufficient to make the payments in full, the Secretary would have to proportionately reduce the payments to fit within the amount available.

In any case, the total amount of a payment on behalf of a displaced student enrolled in a non-public school could not exceed the lesser of—

- (1) \$6,000 for a student who was not reported as a child with a disability;
- (2) \$7,500 for a student who was reported as a child with a disability, or
- (3) the cost of tuition and fees (and transportation expenses, if any) at the non-public school for the 2005-2006 school year.

**D. Emergency Assistance for Higher Education to the Louisiana Board of Regents**

The program provided a grant to the Louisiana Board of Regents, which in turn may provide emergency assistance authorized under law directly, by contract, or through subgrants.

**E. Payments to Institutions of Higher Education to Defray Unexpected Expenses of Displaced Students**

**Grants were made by the Secretary of Education directly to 99 institutions of higher education to be used by them to cover authorized expenses.**

**F. Assistance for Higher Education to the Mississippi Institutes of Higher Learning**

The program provided a grant to the Mississippi Institutes of Higher Learning, which was to provide services authorized under law directly, by contract, or through subgrants.

**G. Higher Education Recovery Awards**

Grants have been made by the Secretary of Education directly to 41 institutions of higher education to be used to cover authorized expenses.

## H. Hurricane Educator Assistance Program

An SEA must use its allocation to award subgrants to eligible LEAs to support the recruitment, retention, and compensation of new and current educators. The SEA may also use the funds to award subgrants for other activities.

## I. Sources of Governing Requirements

Sources of governing requirements are:

<u>Program</u>	<u>Source</u>
Restart (CFDA 84.938A)	HERA, Section 102
Homeless Youth (CFDA 84.938B)	HERA, Section 106
Emergency Impact Aid (CFDA 84.938C)	HERA, Section 107
Emergency Assistance for Higher Education to the Louisiana Board of Regents (84.938D)	Pub. L. No. 109-148
Payments to Institutions of Higher Education to Defray Unexpected Expenses of Displaced Students (CFDA 84.938E)	Pub. L. No. 109-148
Assistance for Higher Education to the Mississippi Institutes of Higher Learning (CFDA 84.938F)	Pub. L. No. 109-148
Higher Education Recovery Awards (CFDA 84.938H)	Pub. L. No. 109-234
Hurricane Educator Assistance Program (CFDA 84.938K)	Pub. L. No. 110-28

ED has not issued specific program regulations, but the Education Department General Administrative Regulations (EDGAR) at 34 CFR parts 76, 77, 81, 86, 97, 98, and 99 also apply, as do the regulations applicable to the Title IV, HEA programs for funds awarded under those programs, subject to any waivers granted by the ED under the authority in the HERA.

### Availability of Other Program Information

A copy of the HERA may be found on the internet at:

<http://www.ed.gov/policy/elsec/guid/secletter/051230Bill.pdf>.

Additional information on this program, including the Notice of Availability for Funding for the Homeless Youth and Emergency Impact Aid programs, may be found on the Internet at <http://hurricanehelpforschools.gov/proginfo/index.html>.

Additional information regarding HEAP can be located at:  
<http://www.ed.gov/programs/heap/index.html>.

## **I. COMPLIANCE REQUIREMENTS**

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Certain compliance requirements that apply to multiple programs are discussed once in the ED Cross-Cutting Section of this Supplement (page 4-84.000.1) rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements.

### **A. Activities Allowed or Unallowed**

#### **1. *Restart***

Services and assistance allowable under this program, whether provided by the SEA, an LEA, or a public entity on behalf of a non-public school, must support the restart of operations in, the re-opening of, and the re-enrollment of students in elementary and secondary schools in areas affected by Hurricane Katrina or Hurricane Rita. An SEA, LEA or public entity can contract with private vendors to offer services and assistance under this program. Such services or assistance must provide for:

##### **a. *Allowable costs.***

- (1) Recovery of student and personnel data, and other electronic information;
- (2) Replacement of school district information systems, including hardware and software;
- (3) Financial Operations;
- (4) Reasonable transportation costs;
- (5) Rental of mobile educational units and leasing of neutral sites or spaces;
- (6) Initial replacement of instructional materials and equipment, including textbooks;

- (7) Redeveloping instructional plans, including curriculum development;
- (8) Initiating and maintaining education and support services; and
- (9) Such other activities related to the purposes of the program that are approved by ED (HERA, Section 102(e)(1)).

b. *Unallowable costs.*

Restart program funds may not be used for construction or major renovation of schools. However, funds may be used for minor renovation and minor remodeling of schools (HERA, Section 102(e)(3)(A)).

ED has approved the use of Restart funds for other activities related to the purposes of the program, as authorized under Section 102(e)(1)(I) of HERA. Information on these activities, as well as examples of allowable activities under the other categories, is available on ED's Web site for Hurricanes Katrina and Rita victims at <http://hurricanehelpforschools.gov/index.html> (HERA, Section 102(e)(1)).

An SEA, LEA, or public entity on behalf of a non-public school may use Restart program funds in coordination with other Federal, State, or local funds available for the activities described above (HERA, Section 102(e)(2)).

**2. *Homeless Youth***

Funds under this program must be used to provide activities for, and services to, homeless children displaced by Hurricane Katrina or Hurricane Rita consistent with Section 723 of the McKinney Vento Homeless Assistance Act. These services or activities may include identification; enrollment assistance; assessment and school placement assistance; transportation; coordination of school services; supplies; and referrals for health, mental health, and other needs (HERA, Section 106(a)).

**3. *Emergency Impact Aid***

a. *Allowable Uses of Funds for a Child Reported without a Disability*

LEAs, BIA-funded schools, or non-public schools may use Emergency Impact Aid funds to provide instructional opportunities for displaced students without disabilities who enroll in their schools and for expenses the recipient incurs in serving those displaced students. Allowable expenses are:

- (1) Paying the compensation of personnel, including teacher aides, in schools enrolling displaced students;



- (2) Identifying and acquiring curricular material and classroom supplies;
- (3) Acquiring or leasing mobile educational units or leasing sites and spaces;
- (4) Providing basic instructional services for displaced students, including tutoring, mentoring, or academic counseling;
- (5) Paying reasonable transportation costs;
- (6) Providing health and counseling services; and
- (7) Providing education and support services (HERA, Section 107(e)).

b. *Allowable Uses of Funds for a Child Reported with a Disability*

Recipients of funds under this program for students reported with disabilities may use those funds only to pay for special education and related services consistent with the Individuals with Disabilities Education Act (IDEA)(20 USC 1400 *et seq.*)(see CFDA 84.027, III.A, “Activities Allowed or Unallowed”). HERA does not require that these funds be used to provide special education and related services only to students displaced by the hurricanes. The funds may become part of an LEA’s or school’s regular special education budget, and the LEA or school may use them to provide activities and services in which both displaced and other students with disabilities participate, taking care to ensure that the special education needs of displaced students are met (HERA, Section 107(e)(4)).

The requirements that apply to the use of the funds provided for displaced students reported with disabilities are the same as those that apply to the use of funds provided under Part B of the IDEA. They include the requirement that the funds be used for the excess costs of providing special education and related services to students with disabilities (See compliance requirements at CFDA 84.027, III.A.2, “Activities Allowed or Unallowed”) (HERA, Section 107(e)(4)(A)).

c. *Allowable Uses of Funds - General*

While the activities and services must be related to serving displaced students, HERA does not require that they be restricted to displaced students. For instance, one of the allowable activities under the law is the provision of basic instructional services. LEAs may use the funds to provide such services in which both displaced and other students participate (HERA, Sections 107(d)(3) and (e)).

*d. Unallowable Uses*

Costs for construction or major renovation are not allowable (HERA, Section 107(e)(3)).

**4. *Emergency Assistance for Higher Education to the Louisiana Board of Regents***

Funds are to be used based on demonstrated need under part B of title VII of HEA, and may be used for student financial assistance, faculty and staff salaries, equipment and instruments, or any purpose authorized under the HEA, to institutions of higher education that are located in an area affected by hurricanes in the Gulf of Mexico in calendar year 2005 and were forced to close, relocate, or curtail their operations as a result of damage directly sustained by reason of such hurricanes (Pub. L. No. 109-148).

**5. *Payments to Institutions of Higher Education to Defray Unexpected Expenses of Displaced Students***

Funds are to be used to help defray the unexpected expenses associated with enrolling displaced students from institutions of higher education directly affected by hurricanes in the Gulf of Mexico in calendar year 2005 (Pub. L. No. 109-148).

**6. *Assistance for Higher Education to the Mississippi Institutes of Higher Learning***

Funds are available to provide assistance under the programs authorized by subparts 3 (Federal Supplement Educational Opportunity Grants (FSEOG) - CFDA 84.007) and 4 (Leveraging Educational Assistance Partnership (LEAP) - CFDA 84.069) of part A, and part C of title IV (Federal Work-Study Program (FWS) - CFDA 84.033) of the HEA. Funds may be used to provide assistance for students who attend institutions in an area in which a major disaster has been declared in accordance with section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act related to hurricanes in the Gulf of Mexico in calendar year 2005 and who qualify for assistance under the three programs described in this paragraph (Pub. L. No. 109-148).

**7. *Hurricane Educator Assistance Program***

a. Funds may be used by the SEA to provide funds to the LEAs for allowable recruitment, retention, and compensation activities including:

- (1) Salary premiums;
- (2) Performance bonuses;
- (3) Housing subsidies;
- (4) Signing bonuses;

- (5) Relocation costs;
  - (6) Loan forgiveness; and
  - (7) Other mechanisms aimed at recruiting and retaining educators.
- b. The SEA may also use the funds to award subgrants to:
- (1) Build the capacity, knowledge, and skill of teachers and school-based school principals, assistant principals, principal resident directors, assistant directors, and other educators in such public elementary and secondary schools to provide an effective education, including the design, adaptation, and implementation of high-quality formative assessments;
  - (2) Establish partnerships with nonprofit entities with a demonstrated track record in recruiting and retaining outstanding teachers and other school-based school principals, assistant principals, principal resident directors, and assistant directors; and
  - (3) Pay release time for teachers and principals to identify and replicate successful practices from the fastest-improving and highest-performing schools (Pub. L. No. 110-28).

**C. Cash Management**

See ED Cross-Cutting Section.

**E. Eligibility**

1. Eligibility for Individuals

**a. *Assistance for Higher Education to the Mississippi Institutes of Higher Learning***

Students receiving funds under a program authorized by subparts 3 (FSEOG-CFDA 84.007) and 4 (LEAP-CFDA 84.069) of part A, and part C of title IV (FWS-CFDA 84.033) of the Higher Education Act of 1965, must qualify for assistance under (and thus be eligible for) those programs, except for any waivers granted by ED under HERA. See Part 5, SFA Cluster, Appendix A for eligibility requirements for the FSEOG and FWS Programs. Students must attend an institution of higher education located in an area in which a major disaster has been declared in accordance with section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act related to hurricanes in the Gulf of Mexico in calendar year 2005 (Pub. L. No. 109-148 and Section IV of Grant Agreement).

b. ***Hurricane Educator Assistance Program***

Individuals receiving benefits from the Hurricane Educator Assistance Program must commit to continue employment in school-based positions in public elementary and secondary schools located in the disaster area for at least 3 years (Pub. L. No. 110-28).

**2. Eligibility for Groups of Individuals or Areas of Service Delivery – Not Applicable**

**3. Eligibility for Subrecipients**

a. ***Restart***

LEAs and non-public schools located in the declared major disaster areas are eligible to participate in this program. In determining which LEAs and schools should be served, the SEAs should consider (1) the number of school-aged children served by the LEA or non-public school in the academic year preceding the academic year for which the services or assistance are provided, and (2) the severity of the impact of Hurricane Katrina or Hurricane Rita on the LEA or non-public school and the extent of the needs in each school in a declared major disaster area, per section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 USC 5170). For the purposes of this program, a non-public school means a non-public elementary or secondary school that is accredited or licensed or otherwise operates in accordance with State law, and was in existence prior to August 22, 2005 (HERA, Sections 102(c)(1) and (g)).

b. ***Emergency Impact Aid***

LEAs and BIA-funded schools, including charter schools, in which a displaced student is enrolled, are eligible to participate in this program. A non-public school, including a charter school, was eligible to participate if (1) it was accredited or otherwise operated in accordance with State law, (2) was in existence on August 22, 2005, and (3) served at least one displaced student whose family has applied for assistance under the program. Non-public schools must waive tuition or reimburse tuition paid in order to receive funds under this program.

For purposes of determining eligibility, “displaced students,” that is, the students for whom schools may receive payments, are those students who:

- (1) On August 22, 2005, resided in, and were enrolled or were eligible to be enrolled in, a school in an area for which the Federal Government later declared a major disaster related to Hurricane Katrina or Hurricane Rita; and

(2) As a result of their displacement by the disaster, were enrolled in a different school on a date on which an enrollment count is taken for the purpose of this program (HERA, Section 107(b)).

**c. *Emergency Assistance for Higher Education to the Louisiana Board of Regents***

Subrecipients must be institutions of higher education that are located in an area affected by hurricanes in the Gulf of Mexico in calendar year 2005 and were forced to close, relocate, or curtail their operations as a result of damage directly sustained by reason of such hurricanes (Pub. L. No. 109-148).

**d. *Assistance for Higher Education to the Mississippi Institutes of Higher Learning***

Subrecipients must be institutions of higher education that are located in an area in which a major disaster has been declared in accordance with section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act related to hurricanes in the Gulf of Mexico in calendar year 2005 (Pub. L. No. 109-148).

**e. *Hurricane Educator Assistance Program***

The State may award subgrants to an LEA with at least one public school in an area in which a major disaster was declared as a result of Hurricanes Katrina or Rita. The State may award the subgrants either by formula or competitively. Regardless of the method used, the State must first give priority to LEAs with the highest percentages of public elementary and secondary schools that were closed as of May 25, 2007 as a result of the hurricanes. The State must then give priority to LEAs with the highest percentages of public elementary and secondary schools with a student-teacher ratio of at least 25 to 1. The State may then distribute any remaining funding to other LEAs with demonstrated need (Pub. L. No. 110-28).

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

**1. Matching – Not Applicable**

**2.1 Level of Effort – *Maintenance of Effort***

*Emergency Impact Aid*

The maintenance of effort requirements that apply to the use of the funds provided for displaced students reported with disabilities are the same as those that apply to the use of funds provided under Part B of the IDEA. See CFDA 84.027, Special Education – Grants To States (IDEA, Part B), III.G.2.1.b,

“Matching, Level of Effort, Earmarking – Level of Effort – Maintenance of Effort (SEAs/LEAs) (HERA, Section 107(e)(4)).

## **2.2 Level of Effort – *Supplement Not Supplant***

### *Restart*

Services or assistance provided by this program shall be used to supplement, not supplant, any funds made available through the Federal Emergency Management Agency or through a State. However, if an SEA, LEA, or school has not received such other benefits by the time of application for assistance under this program, the SEA, LEA, or school may use program funds to supplant such funds until they are received, providing the SEA, LEA, or school agrees to repay all duplicative Federal assistance received. Additionally, ED may waive or modify the supplement/supplant requirements in order to ease fiscal burdens. Any such waiver shall be for fiscal year 2006 (HERA, Sections 102(f) and 105).

## **3. Earmarking**

### *Emergency Impact Aid*

SEAs may not use more than one percent and LEAs may not use more than two percent of their respective allocations for administration of the program (HERA, Section 107 (h)).

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

### **1. *Restart***

Program funds are available until expended (Pub. L. No. 109-148).

### **2. *Homeless Youth***

Under the Tydings amendments, program funds are available for obligation through September 30, 2007 (Pub. L. No. 109-148 and 20 USC 1225(b)).

### **3. *Emergency Impact Aid***

a. Recipients may use these funds for allowable costs incurred during the 2005-2006 school year, including the reimbursement of allowable expenditures incurred prior to the receipt of a grant (HERA, Section 107(g)).

b. SEAs, LEAs, and BIA schools must obligate funds received under this program by September 30, 2006. The SEA must return any funds that are not obligated by any of these entities by this deadline to the ED. Unless extensions were granted, obligations must have been liquidated within 90

days of September 30, 2006 (HERA, Sections 107(f) and 110; 34 CFR section 80.23; Section 2602 of Pub. L. No. 109-234; 71 FR 41210).

**4. *Emergency Assistance for Higher Education to the Louisiana Board of Regents***

Funds are available for obligation through September 30, 2006 (Pub. L. No. 109-148).

**5. *Payments to Institutions of Higher Education to Defray Unexpected Expenses of Displaced Students***

Funds are available for obligation through September 30, 2006 (Pub. L. No. 109-148).

**6. *Assistance for Higher Education to the Mississippi Institutes of Higher Learning***

Funds are available for obligation through September 30, 2006 (Pub. L. No. 109-148).

**7. *Higher Education Recovery Awards***

Funds are available for obligation through September 30, 2006 (Pub. L. No. 109-234).

**8. *Hurricane Educator Assistance Program***

Program funds are available until expended (Pub. L. No. 110-28).

**L. Reporting**

**1. Financial Reporting** - See ED Cross-Cutting Section

**2. Performance Reporting** - Not Applicable

**3. Special Reporting**

*Emergency Impact Aid*

*Quarterly Reports of Displaced Students (OMB No. 1810-1762)* - For the 2005-2006 school year, affected LEAs and BIA-funded schools applied to their SEA. The parents of displaced students enrolled in eligible non-public schools applied to the LEAs in which the schools are located. LEAs submitted counts of displaced children for four quarters and in turn, SEAs submitted quarterly counts to ED. ED identified four suggested quarterly count dates for identifying numbers of eligible displaced students: October 1, 2005, December 1, 2005, February 1, 2006, and April 1, 2006. States may use these dates or select count dates that fall within a 21-day range for each of the quarters, that is, within 10 calendar days before or after these dates. Each State must select four specific

dates for the quarterly counts and use those dates consistently for all applicants within the State.

HERA, Section 107(c)(2) requires that SEAs require LEAs and BIA-funded schools to submit documentation quarterly that indicates the number of displaced students enrolled in each quarter by four categories—public school students reported as displaced students without or with disabilities, and non-public school students reported as displaced students without or with disabilities. The SEA establishes the procedures for this data collection (HERA, Section 107(c)(2)).

An LEA must take a count of the displaced students it has enrolled on each of the count dates, based on the definition of a “displaced student” (See III.E 3.c. above).

## **M. Subrecipient Monitoring**

### **1. *Emergency Impact Aid***

Non-public schools that access accounts for which parents applied on behalf of non-public students are not considered subgrantees of LEAs, as defined in 34 CFR section 80.3. SEAs are responsible for monitoring the non-public schools with respect to applicable requirements, including ensuring that (1) a school’s attestation regarding its enrollment of displaced students as defined in Sections 107(c)(1) and (d) of HERA is adequately documented; (2) the school is an eligible non-public school as defined in section 107(b)(3); and (3) the funds from accessed accounts are used only for allowable goods and services. An SEA is responsible to for taking appropriate enforcement actions if it determines that a non-public school has not met any of these requirements (HERA, Section 107).

### **2. *Assistance for Higher Education to the Mississippi Institutes of Higher Learning***

Under this program and the grant agreement with the Mississippi Institutes of Higher Learning, funds used for the FSEOG and FWS programs are subject to the requirements of those programs. Also, the Mississippi Institutes of Higher Education shall notify schools to which it provides such funds that the rules of these programs apply. See Part 5, SFA Custer, Appendix A for the requirements for these programs (Pub. L. No. 109-148 and Section IV of the grant agreement with the Mississippi Institutes of Higher Education).

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

### **1. **Public Control of Funds - Restart****

**Compliance Requirement** – The control of funds provided for non-public schools must be in a public agency, and title to materials, equipment, and property purchased with such funds must also be retained by a public agency. ED has issued guidance on this requirement, which is available on ED’s Web site for Hurricanes Katrina and Rita victims



at <http://hurricanehelpforschools.gov/proginfo/allowable-uses.doc>. Only a public agency or its contractor can provide services and administer such funds, materials, equipment, and property (HERA, Section 102(h)(3)).

**Audit Objective** – Determine whether the public agency receiving funds has maintained the required control of funds and title property provided to non-public schools.

### **Suggested Audit Procedures**

- a. Verify that the public agency has maintained control of all funds, and maintains title to all material, equipment, and property provide to non-public schools.
- b. Verify that contracts providing services to non-public schools contain provisions that provide for public control of funds, and public title to materials, equipment, and supplies provide to non-public schools.

## **2. Enrollment of Displaced Students – Emergency Impact Aid**

### *LEAs*

**Compliance Requirement** - Before making a quarterly payment to an account established for a displaced student enrolled in a non-public school, the LEA shall verify with the parent or guardian that the student is, or was, enrolled in the non-public school for the quarter (HERA, Section 107(e)(2)).

**Audit Objective** – Determine whether the LEA has performed the enrollment verification prior to making quarterly disbursements to accounts.

### **Suggested Audit Procedures**

- a. Review and the procedures used by the LEA to accomplish the enrollment verification.
- b. Perform testing of selected quarterly payments to accounts established for displaced students to determine that enrollment verifications were performed.

## **3. Documentation of Enrollment Status – Emergency Impact Aid**

### *LEAs and BIA-Funded Schools*

**Compliance Requirement** - LEAs and BIA-funded schools are required to keep records to show compliance with program requirements (34 CFR section 76.731). Therefore LEAs must document that, on August 22, 2005, each such reported displaced student was enrolled, or eligible to be enrolled, in a public or non-public school within the disaster areas covered by the declarations for Hurricane Katrina or Hurricane Rita and resided in that area on that date. Examples of such documentation include, but are not limited to, the following kinds of documentation that establish the displaced student's residence in the disaster area on August 22, 2005: a transcript from the student's former school; a

student registration form with a former address; verification of enrollment from an SEA; a utility bill; or a copy of a parent's driver's license.

For a list of states and counties from which displaced students are eligible, see <http://www.ifap.ed.gov/eannouncements/katrinaDA.html>.

An LEA with an eligible displaced student may identify that student as a student with a disability by determining the student's eligibility for services under the IDEA. This could be done either by the LEA conducting its own evaluation and determining the student's eligibility or obtaining evidence, such as the most recent IDEA eligibility determination for the student or the student's last individualized education program (IEP), as defined in Section 614(d)(2) of the IDEA (20 USC 1414(d)(2)), that the former school or LEA had used to determine the student to be eligible under the IDEA. Any funds received by an LEA on behalf of a displaced student with a disability must be used for special education and related services consistent with the IDEA (HERA, Section 107(e)(4)).

Disbursements are to be based on the number of displaced students reported by each LEA and BIA-funded school per quarter, with 25 percent of the authorized annual payment paid each quarter (HERA Section 107 (d)(2)).

**Audit Objective** - Determine whether displaced students reported in the quarterly reports were properly counted, and that students reported as with disabilities, were properly categorized as without or with disabilities.

### **Suggested Audit Procedures**

#### *LEAs and BIA-Funded Schools*

- a. Review how the LEA/BIA-funded school compiled the numbers of displaced students and categories (with or without disabilities) reported in the quarterly reports to the SEA.
- b. Perform tests of quarterly reports by selecting students included in reported counts to determine that records support that they were displaced students, attended on the applicable count date, and were correctly categorized as being without or with disabilities.

#### **4. Prohibition on Using Funds for Section 8003 Impact Aid Students – Emergency Impact Aid**

**Compliance Requirement** – An LEA cannot include displaced students who generate Emergency Impact Aid payments in its annual Section 8003 Impact Aid application (Section 107(i) of HERA). (See also III.L.3 above, and CFDA 84.041)

**Audit Objective** – Determine if the LEA included displaced students in its application for Emergency Impact Aid funds and in its application for Section 8003 Impact Aid.

### **Suggested Audit Procedures**

- a. Compare supporting documentation for the Section 8003 Impact Aid application with the supporting documentation for the displaced students covered under the Emergency Impact Aid program.
- b. Ascertain that students are not included under both programs.

### **IV. OTHER INFORMATION**

As part of audit planning, the auditor must determine for which of the eight programs grant funds were awarded to the auditee. Some auditees have received grants under two or more of the eight programs. As indicated above, compliance requirements vary among the programs. To help distinguish the individual programs, separate alpha suffixes were added to CFDA 84.938 to distinguish the programs as follows:

- Restart (CFDA 84.938A)
- Homeless Youth (CFDA 84.938B)
- Emergency Impact Aid (CFDA 84.938C)
- Emergency Assistance for Higher Education to the Louisiana Board of Regents (CFDA 84.938D)
- Payments to Institutions of Higher Education to Defray Unexpected Expenses of Displaced Students (CFDA 84.938E)
- Assistance for Higher Education to the Mississippi Institutes of Higher Learning (CFDA 84.938F)
- Higher Education Recovery Awards (CFDA 84.938H)
- Hurricane Educator Assistance Program (CFDA 84.938K)

Where these suffixes are not clearly identified, the auditor will need to determine which program funds were expended through review of grant documents and inquiry of the auditee or grant/subgrant source agency.

For purposes of Major Program Determination, the Schedule of Expenditures of Federal Awards and the Single Audit Data Information Form (Form SF-SAC), if the auditee has received funds under more than one of these seven programs, the combined total of grants expended under the applicable programs should be considered and reported as one Federal program under CFDA 84.938.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

- CFDA 93.044 SPECIAL PROGRAMS FOR THE AGING--TITLE III, PART B—  
GRANTS FOR SUPPORTIVE SERVICES AND SENIOR CENTERS**
- CFDA 93.045 SPECIAL PROGRAMS FOR THE AGING--TITLE III, PART C—  
NUTRITION SERVICES**
- CFDA 93.053 NUTRITION SERVICES INCENTIVE PROGRAM**

**I. PROGRAM OBJECTIVES****Grants for Supportive Services and Senior Centers**

The objective of this program is to assist States and area agencies on aging in facilitating the development and implementation of a comprehensive, coordinated system for providing long-term care in home and community-based settings, in a manner responsive to the needs and preferences of older individuals and their family caregivers, by—

- (A) collaborating, coordinating activities, and consulting with other local public and private agencies and organizations responsible for administering programs, benefits, and services related to providing long-term care;
- (B) conducting analyses and making recommendations with respect to strategies for modifying the local system of long-term care to better—
  - (i) respond to the needs and preferences of older individuals and family caregivers;
  - (ii) facilitate the provision, by service providers, of long-term care in home and community-based settings; and
  - (iii) target services to older individuals at risk for institutional placement, to permit such individuals to remain in home and community-based settings;
- (C) implementing, through the agency or service providers, evidence-based programs to assist older individuals and their family caregivers in learning about and making behavioral changes intended to reduce the risk of injury, disease, and disability among older individuals; and
- (D) providing for the availability and distribution (through public education campaigns, Aging and Disability Resource Centers, the area agency on aging itself, and other appropriate means) of information relating to—
  - (i) the need to plan in advance for long-term care; and
  - (ii) the full range of available public and private long-term care (including integrated long-term care) programs, options, service providers, and resources (Older Americans Act [OAA] Section 305(a)(3)).

The target population for these supportive services is individuals with greatest economic and social need (with particular attention to low-income older individuals, including low-income minority older individuals, older individuals with limited English proficiency, and older individuals residing in rural areas), and older individuals at risk for institutional placement (OAA Section 306(a)(1)); however, proof of age (or income) is not required as a condition of receiving services.

Supportive services may include a full range of economic and social services, including, but not limited to: (1) access services (transportation, health services [including mental health services] outreach, information and assistance); (2) legal assistance and other counseling services; (3) health screening services (including mental health screening); (4) ombudsman services; (5) provision of services and assistive devices (including provision of assistive technology services and assistive technology devices); (6) services designed to support States, area agencies on aging, and local service providers in carrying out and coordinating activities for older individuals with respect to mental health services, including outreach for, education concerning, and screening for such services, and referral to such services for treatment; (7) activities to promote and disseminate information about life-long learning programs, including opportunities for distance learning; and (8) services designed to assist older individuals in avoiding institutionalization and to assist individuals in long-term care institutions who are able to return to their communities any other services necessary for the general welfare of older individuals (OAA Section 321). Nutrition services are provided under a separate authorization as described below.

Organizations funded under this program and the nutrition services program (see below) also receive funds from other Federal sources as well as from non-Federal sources.

### **Grants for Nutrition Services**

The purposes of this grant program are to: (1) reduce hunger and food insecurity; (2) promote socialization of older individuals; and (3) promote the health and well-being of older individuals by helping them gain access to nutrition and other disease prevention and health promotion services to delay the onset of adverse health conditions resulting from poor nutritional health or sedentary behavior (OAA Section 330). Services are provided through this program to individuals aged 60 or older, in a congregate setting or in-home. These services include meals, nutrition education, nutrition counseling, and nutrition screening and assessment, as appropriate (OAA Sections 331, 336, and 339). This program is clustered with the grants for supportive services and senior centers for purposes of this program supplement since these services, although separately earmarked, fall under the overall State planning process and process for allocation of funds.

### **Nutrition Services Incentive Program**

The objective of this grant program is to provide resource incentives to encourage and reward effective and efficient performance in the delivery of nutritious meals to older individuals. The Administration on Aging (AoA) is responsible for this program (previously included in the Supplement as the Department of Agriculture's (USDA) Nutrition Services Incentive Program (CFDA 10.570)) as described in II, "Program Procedures - Administration and Services." This

program is included as part of this cluster because of its direct relationship to the nutrition services program.

## II. PROGRAM PROCEDURES

### Administration and Services

The AoA, a component of the Department of Health and Human Services, administers the supportive services and senior centers program and the nutrition services program in cooperation with States, sub-State agencies, and other service providers. The States receive a formula grant from AoA, which is used by the State Unit on Aging (State Agency) both for its planning, administration, and evaluation of these programs as well as to pass through to other entities.

Planning and Service Areas (PSAs) are designated by the State Agency in accordance with AoA guidelines after considering the geographical distribution of the service populations, location of available services, available resources, other service area boundaries, location of units of general-purpose local government, and other factors. An Area Agency on Aging (Area Agency) is then designated by the State for each PSA after considering the views of affected local governments (States that had a single statewide planning and service area in place prior to fiscal year (FY) 1981 had the option to continue that method of operation; there are currently eight States in this category). A single Area Agency may serve more than one PSA. The Area Agencies, which may be public or private non-profit agencies or organizations, develop and administer counterpart area aging plans, as approved by the State Agency, and, in turn, provide subgrants to or contract with public or private service providers for the provision of services.

With limited exceptions (e.g., ombudsman services, information and assistance, case management<sup>1</sup>), the State Agency and the Area Agencies are precluded from the direct provision of services, unless providing the services is necessary to ensure an adequate supply of services, the services are related to the agency's administrative functions, or where services of comparable quality can be provided more economically by the agency. Federal funds may pay for only a portion of the costs of administration and services with the State and subrecipients required to provide a matching share from other sources.

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<sup>1</sup> The term "case management service" means a service provided to an older individual, at the direction of the older individual or a family member of the individual (i) by an individual who is trained or experienced in the case management skills that are required to deliver the services and coordination described below; and (ii) to assess the needs, and to arrange, coordinate, and monitor an optimum package of services to meet the needs, of the older individual. Case management includes services and coordination such as (i) comprehensive assessment of the older individual (including the physical, psychological, and social needs of the individual); (ii) development and implementation of a service plan with the older individual to mobilize the formal and informal resources and services identified in the assessment to meet the needs of the older individual, including coordination of the resources and services with any other plans that exist for various formal services, such as hospital discharge plans; and with the information and assistance services provided under the OAA; (iii) coordination and monitoring of formal and informal service delivery, including coordination and monitoring to ensure that services specified in the plan are being provided; (iv) periodic reassessment and revision of the status of the older individual with the older individual or, if necessary, a primary caregiver or family member of the older individual; and (v) in accordance with the wishes of the older individual, advocacy on behalf of the older individual for needed services or resources (OAA Section 102(11)).

AoA administers NSIP in cooperation with States, sub-State agencies, and other service providers. Under Section 311(b) (1) and (d) (1) of the OAA, States receive a cash grant from AoA, based on the formula in the OAA. The amount of a State's grant is determined by dividing the number of meals served to eligible persons in the State during the preceding Federal fiscal year by the number of such meals served in all States and Tribes, and applying the resulting ratio to the amount of funds available. Under OAA Section 311(d)(1), a State may choose to use all or any part of its grant to obtain commodities distributed by the USDA through State Distributing Agencies. The amount a State chooses to use in commodities, as well as administrative costs from USDA associated with the purchase of commodities are deducted from the State's grant from AoA. AoA transfers funds to USDA. USDA remains responsible for the overall management of the commodities program, including ordering, purchase, and delivery of the requested commodities. (Also see "IV, Other Information.")

### **State Plan and Area Plans**

A State plan, approved by AoA, is a prerequisite to funding of the supportive services and nutrition programs; however, the State Plan covers the totality of AoA programs for which the State is the recipient under the OAA. The State Plan is developed on the basis of input from the Area Agencies as well as input from the affected populations as a result of public hearings. The State Plan addresses how the State intends to comply with the various requirements of the OAA and, specifically for Title III, its program objectives, designation of Planning and Service Areas (PSAs), and specification of the intrastate allocation formula for distribution of funds to each PSA. The State Plan also contains assurances required by the Act and implementing regulations.

Unless a State is not in compliance with Title III requirements, the State Plan may be submitted on a two-, three-, or four-year cycle, at the option of the State, with annual amendments, as appropriate; however, AoA funding is provided annually. States found to be in noncompliance may be required to submit their State Plans annually until they are determined to be in compliance. Area plans are prepared and submitted to the State for approval for either two, three, or four years, with annual adjustments, as necessary.

### **Source of Governing Requirements**

These programs are authorized under Parts B and C, respectively, of Title III of the OAA, as amended, which is codified at 42 USC 3021-3030. These programs may also be referred to as Part B (supportive services and senior centers) and Part C1 (congregate nutrition services) and C2 (home-delivered nutrition services). Grants to Indian tribes for similar purposes are authorized under another title of the OAA and are not included in this Supplement. Implementing regulations are published at 45 CFR part 1321.

The Nutrition Services Incentive Program (NSIP) is authorized in Title III of the OAA, as amended, which is codified at 42 USC 3030a. There are no implementing regulations.

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

Additional information about nutrition and supportive services as amended in 2006 is available at the AoA web site at [http://aoa.gov/OAA2006/Main\\_Site/](http://aoa.gov/OAA2006/Main_Site/).

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

##### 1. *State Agency*

- a. State Agencies may use any amount of Title III-B (supportive services) funding necessary to conduct an effective ombudsman program (42 USC 3024 (d)(1)(B)).
- b. Grant funds may be used for State plan administration, including State Plan preparation, evaluation of activities carried out under the Plan, the collection of data and the conduct of analyses related to the need for services, dissemination of information, short-term training, and demonstration projects (42 USC 3028 (a)).
- c. No supportive services, nutrition services, or in-home services may be provided directly by the State Agency unless the State Agency determines that direct provision of services is necessary to ensure an adequate supply of services, where such services are related to the agency's administrative functions, or where such services of comparable quality can be provided more economically by the State Agency (42 USC 3027(a)(8)(A)).

##### 2. *Area Agency*

###### *Supportive Services and Senior Centers and Nutrition Services*

- a. Funds may be used for plan administration, operation of an advisory council, activities related to advocacy, planning, information sharing, and other activities leading to development or enhancement within the designated service area(s) of comprehensive and coordinated community-based systems of service delivery to older persons (45 CFR section 1321.53).
- b. If approved by the State Agency, an Area Agency may use service funds for program development and coordination activities (45 CFR section 1321.17(f)(14)(i)).
- c. No supportive services, nutrition services, or in-home services may be provided directly by an Area Agency except if, in the judgment of the State Agency, direct provision of services is necessary to ensure an adequate supply of services, where such services are related to the agency's administrative functions, or where such services of comparable



quality can be provided more economically by the agency (42 USC 3027 (a) (8)).

### *NSIP*

Recipient agencies may use the cash received in lieu of commodities only to purchase domestically produced foods for their nutrition projects (42 USC 3030a(d)(4)).

## 3. ***Service Providers***

### *Supportive Services and Senior Centers and Nutrition Services*

- a. Funds may be used to assist in the operation of multi-purpose senior centers and to meet all or part of the costs of compensating professional and technical personnel required for center operation (42 USC 3030d (b)(2)).
- b. Funds may be used for nutrition services and supportive services consistent with the terms of the agreement between the Area Agency and the service provider (42 USC 3026 (a)(1), 3030d(a), and 3030e).
- c. Funds may be used for services associated with access to supportive services for in-home services, and for legal assistance (42 USC 3026 (a)(2)).
- d. Nutrition services may be provided to older individuals' spouses, who may not be eligible for these services in their own right, on the same basis as they are provided to older individuals, and may be made available to handicapped or disabled individuals who are less than 60 years old but who reside in housing facilities occupied primarily by older individuals at which congregate nutrition services are provided (42 USC 3030g-21(2)(I)).
- e. In accordance with procedures established by the Area Agencies, nutrition project administrators may offer meals to individuals providing volunteer services during the meal hours and to individuals with disabilities who reside at home with eligible individuals (42 USC 3030g-21(2)(H)).
- f. Funds may be used for provision of home-delivered meals to older individuals (42 USC 3030f).
- g. Funds may be used to acquire (in fee simple or by lease for 10 years or more), alter, or renovate existing facilities or to construct new facilities to serve as multi-purpose senior centers for not less than 10 years after acquisition, or 20 years after completion of construction, unless waived by the Assistant Secretary for Aging (42 USC 3030b).

*NSIP*

Cash received in lieu of commodities may be used only to purchase domestically produced foods for their nutrition projects (42 USC 3030a(d)(4)).

**E. Eligibility**

- 1. Eligibility for Individuals - Not Applicable**
- 2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**
- 3. Eligibility for Subrecipients**

Service providers may include profit-making organizations except that providers of case management services must be public or non-profit agencies (42 USC 3026(a)(8)(C)).

**G. Matching, Level of Effort, Earmarking****1. Matching****a. State**

- (1) States must contribute from State or local sources at least 25 percent of the cost of State Plan administration as their matching share. This may include cash or in-kind contributions by the State or third parties (42 USC 3028 (a)(1) and 42 USC 3029 (b); 45 CFR section 1321.47).
- (2) All services, whether provided by the State Agency, an Area Agency or other service provider (including any ombudsman services provided under the authority of 42 USC 3024 (d)(1)(D)) must be funded with a non-Federal match of at least 15 percent. This percentage must be met on a statewide basis. Funds for ombudsman services provided under the authority of 42 USC 3024 (d)(1)(B) are not required to be matched (42 USC 3024 (d)(1)(D); 45 CFR section 1321.47).

**b. State and Area Agencies**

Area Agencies, in the aggregate, must contribute at least 25 percent of the costs of administration of area plans (42 USC 3024 (d)(1)(A); 45 CFR section 1321.47).

- (1) *State* - Since this match is computed based on the aggregate of all Area Agencies in the State, the auditor's testing of the amount of this match is performed at the State Agency.

- (2) *Area Agencies* - The auditor's testing of the allowability of the matching (e.g., from an allowable source and in compliance with the administrative requirements and allowable costs/cost principles requirements) should be performed at the Area Agencies.

## **2.1 Level of Effort - Maintenance of Effort**

*State* - The State Agency must spend for both services and administration at least the average amount of State funds it spent under the State plan for these activities for the three previous fiscal years. If the State Agency spends less than this amount, the Assistant Secretary for Aging reduces the State's allotments for supportive and nutrition services under this part by a percentage equal to the percentage by which the State reduced its expenditures (42 USC 3029 (c); 45 CFR section 1321.49). See III. L.1, "Reporting - Financial Reporting" for the reporting requirement regarding maintenance of effort.

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

## **3. Earmarking**

### *a. State*

- (1) Overall expenditures for administration are limited to the greater of five percent (or \$300,000 or \$500,000 depending on the aggregate amount appropriated or a lesser amount for the U.S. territories) of the overall allotment to a State under Title III unless a waiver is granted by the Assistant Secretary on Aging (42 USC 3028 (b)(1), (2), and (3)).
- (2) After a State determines the amount to be applied to State plan administration under 42 USC 3028 (b), the State may:
  - (a) Make up to (and including) 10 percent of that amount available for the administration of Area Plans. The State may either calculate the 10 percent based on the total allotment from AoA or on the amount remaining after deducting the amount to be applied to State Plan administration (42 USC 3024(d)(1)(A)); and
  - (b) Use any amounts available to the State for State plan administration which the State determines are not needed for that purpose to supplement the amount available for administration of Area Plans (42 USC 3028(a)(2)).
- (3) Any State which has been designated as a single planning and service area may elect to be subject to the State Plan administration limit (five percent) or the Area Plan administration (10 percent) limit (42 USC 3028(a)(3)).

- (4) A State may transfer:
  - (a) Up to 40 percent of a State's separate allotments for congregate and home-delivered nutrition services between those two allotments without AoA approval (42 USC 3028(b)).
  - (b) Not more than 30 percent between programs under Part B and Part C (Parts C1 and/or C2) for use as the State considers appropriate (42 USC 3028(b)).
  - (c) An additional 10 percent may be transferred between C1 and C2 with an AoA waiver (42 USC 3028(b)).
  - (d) A waiver may be requested to transfer an amount which is above the allowable 30 percent between Parts B and C (42 USC 3030c-3(b)(4)).

A State Agency may not delegate to an Area Agency or any other entity the authority to make such transfers (42 USC 3028(b)(6)).

- (5) The State agency will not fund program development and coordinated activities as a cost of supportive services for the administration of area plans until it has first spent 10 percent of the total of its combined allotments under this program on the administration of area plans (45 CFR section 1321.17(f)(14)).

b. *Area Agency*

As provided in agreements with the State Agency, Area Agencies earmark portions of their allotment. The typical earmarks are:

- (1) A maximum amount or percentage for program development and coordination activities by that agency (42 USC 3024(d)(1)(D); 45 CFR section 1321.17(f)(14)(i)).
- (2) A minimum amount or percentage for services related to access, in-home services, and legal assistance (42 USC 3026(a)(2)).

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

Funds are made available to the State annually and must be obligated by the State by the end of the Federal fiscal year in which they were awarded. The State has two years to liquidate all obligations for its administration of the State Plan and for awards to the Area Agencies consistent with its intrastate allocation formula. Therefore, in any given year, multiple years of funding are being used to provide services statewide.

Whenever the Assistant Secretary on Aging determines that any amount allotted to a State under Parts B or C for a fiscal year will not be used to carry out the purpose for which the allotment was made, the funds may be reallocated to one or more other States. Any amount made available to a State as the result of a reallocation shall be regarded as part of the State's allotment for the same fiscal year in which the funds were appropriated, but shall remain available for obligation by the State until the end of the succeeding fiscal year (42 USC 3024 (b)).

## **J. Program Income**

1. Service providers are required to provide an opportunity to individuals being served under all Part B and C services program to make voluntary contributions for services received. These voluntary contributions are to be added to the amounts made available by the State or Area Agency and must be used to expand the service from which they are collected (42 USC 3030c-2(b)).
2. Cost-sharing fees may be collected from Title III-B services except information and assistance, outreach, benefits counseling, or case management services. Cost sharing is not allowed for Title III-C services or Title VII Elder Rights Services (Ombudsman, legal services, elder abuse prevention or other consumer protection services) (42 USC 3030c-2(a)(2)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report*, and *AoA Supplemental Form (OMB No. 0985-0004)* - Applicable (required semi-annually)
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PSC-272 series of reports.

### **2. Performance Reporting** - Not Applicable

### **3. Special Reporting** - Not Applicable

**M. Subrecipient Monitoring**1. *State Agency*

The State Agency is required to develop policies governing all aspects of programs operated under the State Plan and to monitor their implementation, including assessing performance for quality and effectiveness and specifying data system requirements to collect necessary and appropriate data (45 CFR sections 1321.11 and 1321.17(f)(9)).

2. *Area Agencies*

Area Agencies are required to oversee the activities of service providers with respect to provision of services, reporting, voluntary contributions, and coordination of services (45 CFR section 1321.65).

**N. Special Tests and Provisions****1. Distribution of Cash**

**Compliance Requirement** - States are required to promptly and equitably distribute NSIP cash to recipients of grants or contracts under OAA Title C1 and C2 (42 USC 3030a(d)(4)).

**Audit Objective** - Determine whether States are distributing cash promptly and equitably.

**Suggested Audit Procedures**

- a. Review the State's procedures for handling NSIP cash to determine whether there is a documented process for distributing cash, including established time frames.
- b. Review a sample of transactions during the audit period in which the State received NSIP cash and determine whether the State complied with its established process, including time frames.

**IV. OTHER INFORMATION**

The NSIP program may include both cash payments and use of cash to purchase commodities from USDA and for USDA administrative expenses. Assistance in the form of commodities is considered Federal awards expended in accordance with the OMB Circular A-133, §\_\_.105, definition of Federal financial assistance and should be valued in accordance with §\_\_.205(g). Therefore, both cash expenditures for the purchase of food and the value of commodities received from the State Distribution Agencies should be (1) used when determining Type A programs and (2) included in the Schedule of Expenditures of Federal Awards in accordance with §\_\_.310(b).

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.153 GRANTS FOR COORDINATED SERVICES AND ACCESS TO RESEARCH FOR WOMEN, INFANTS, CHILDREN, AND YOUTH (Ryan White CARE Act Title IV Program)

#### I. PROGRAM OBJECTIVES

The objective of this program is to improve access to primary medical care, research, and support services for Human Immunodeficiency Virus (HIV)-infected women, infants, children and youth, and affected family members, through the provision of coordinated, comprehensive, culturally and linguistically competent, family-centered services.

#### II. PROGRAM PROCEDURES

##### Administration and Services

This program is administered at the Federal level by the HIV/Acquired Immunodeficiency Syndrome (AIDS) Bureau, Health Resources and Services Administration (HRSA), a component of the Department of Health and Human Services.

The Coordinated Services for Women, Infants, Children, and Youth (CSWICY) networks of health care and support services programs provide family-centered outpatient ambulatory health care for women, infants, children and youth with HIV/AIDS. Grantees can also provide additional support services to patients and affected family members.

Grants under this program are awarded to public and non-profit private entities, including health facilities operated by or pursuant to a contract with the Indian Health Service (42 USC 300ff-71(a)). Services may be provided directly by the grantee or through contractual agreements with other service providers. Many of these grantees/providers receive other Federal funding, e.g., other Ryan White HIV/AIDS program funding, community and migrant health centers, but this categorical funding allows them to provide adequate funding for these services.

##### Source of Governing Requirements

The CSWICY grant program is authorized under Part D of Title XXVI of the PHS Act as amended by the Ryan White HIV/AIDS Treatment Modernization Act of 2006 (Ryan White Program), and is codified at 42 USC 300ff-71. The program has no specific program regulations.

##### Availability of Other Program Information

Further information about this program is available at <http://www.hab.hrsa.gov/>.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should look first to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

##### 1. *Activities Allowed*

- a. Funds may be used for family-centered care involving outpatient or ambulatory care, directly or through contracts, for women, infants, children and youth with HIV/AIDS. This includes provision of professional, diagnostic and therapeutic services by a primary care provider or a referral to and provision of specialty care; and services that sustain program activity and contribute to or help improve those services (42 USC 300ff-71(a) and (h)(3)).
- b. Funds may be used for support services for patients and affected family members, including: family-centered care including case management; referrals for additional inpatient hospital services, treatment for substance abuse and mental health services and for other social and support services as appropriate; other services as necessary to enable the patient and the family to participate in the program, including services to recruit and retain youth with HIV; and provision of information and education on opportunities to participate in HIV/AIDS-related clinical research (42 USC 300ff-71(b)(1)–(b)4)).
- c. Funds may be used for the establishment of a clinical quality management program to assess the extent to which medical services are consistent with the most recent Public Health Service guidelines for the treatment of HIV/AIDS and related opportunistic infections, to develop strategies for ensuring that such services are consistent with the guidelines and to ensure that improvements in the access to and quality of HIV health services are addressed (42 USC 300ff-71(f)(2)).
- d. Funds may be used for administrative expenses, which are defined as funds used by grantees for grant management and monitoring activities, including costs related to any staff or activity other than provision of services. Indirect costs included in a Federal negotiated indirect rate are not considered part of administrative costs (See III.G.3 for a limitation on expenditures for administrative costs) (42 USC 300ff-71 (f)(1), (h)(1), and (h)(2)).



2. *Activities Unallowed*
  - a. Grant funds may not be used for AIDS programs, or to develop materials, designed to promote or encourage, directly, intravenous drug abuse or sexual activity, homosexual or heterosexual (42 USC 300ff-84).
  - b. None of the funds made available under this Act, or an amendment made by this Act, shall be used to provide individuals with hypodermic needles or syringes so that individuals may use illegal drugs (42 USC 300ff-1).

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

**1. Matching - Not Applicable**

**2.1 Level of Effort - Maintenance of Effort- Not Applicable**

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

**3. Earmarking**

Not more than 10 percent of the amount awarded may be used for administrative expenses. Costs related to provision of services and amounts for indirect costs included in a federally negotiated indirect rate are not considered administrative expenses for purposes of this limitation (42 USC 300ff-71(f)(1), (h)(1), and (h)(2)).

**L. Reporting**

**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Applicable only for grantees on restricted drawdown as described on the Notice of Grant Award.
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PSC-272 series of reports.

**2. Performance Reporting - Not Applicable**

**3. Special Reporting - Not Applicable**

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.210 TRIBAL SELF-GOVERNANCE PROGRAM - PLANNING AND NEGOTIATION COOPERATIVE AGREEMENTS AND IHS COMPACTS/FUNDING AGREEMENTS

#### I. PROGRAM OBJECTIVES

The objective of this program is to make financial assistance awards to Indian tribes to enable them to assume programs, services, and functions of the Indian Health Service (IHS), Department of Health and Human Services (HHS) that are otherwise available to Indian tribes (tribes) or Indians.

#### II. PROGRAM PROCEDURES

Title III of the Indian Self-Determination and Education Assistance Act, as amended (25 USC 450 *et seq.*), authorized a demonstration program for self-governance compacts with tribes. Title V of the Indian Self-Determination and Education Act was signed into law August 18, 2000 (Pub. L. No. 106-260), closing the demonstration project and providing permanent status for this program. Title V allows tribes to retain their Title III Compacts and Annual Funding Agreements (AFA), to the extent that their provisions are not directly contrary to any express provision in Title V, or tribes may negotiate new Compacts and Funding Agreements (FA) under Title V (25 USC 458aaa-3(c) and 458aaa-4(f)).

Planning cooperative grants are made by the IHS to any federally recognized tribe or its designate that meets specific requirements, and are awarded on a one-time basis to allow tribes to prepare for compact awards. This grant allows a tribe to gather information to determine the current types and extent of programs, services, and funding available within its service area and to plan for the types and extent of programs, services, and funding to be made available to the tribe under a Compact and AFA (Title III) or FA (Title V), which identifies the health programs assumed and monies available to the tribe for these programs. The IHS may also award funding for negotiating the Compacts and AFAs or FAs. Upon completion of the planning and negotiation phase, funding awarded under AFAs or FAs may be multi-year agreements. A tribe may compact with the IHS to be responsible for the provision of certain health services, enter into a contract with the IHS to provide other health services, and have other services be directly provided by the IHS. In addition, a tribe may use funds received from IHS to contract with other entities in order to provide specified health services.

Tribal compactors may provide health care services directly at facilities operated by the compactor or by operating a contract health services program as part of the AFA or FA. Contract health services are services provided to IHS-eligible beneficiaries by private sector health-care providers, such as hospitals and physicians, under contract with the tribal compactor.

## Source of Governing Requirements

The Demonstration Program was authorized by Title III of the Indian Self-Determination and Education Assistance Act, as amended, and is codified at 25 USC 450f note. Title V of the Indian Self-Determination and Education Assistance Act (ISDA), as amended, (Pub. L. No. 106-260) which was signed into law on August 18, 2000, is codified at 25 USC 458aaa.

Regulations concerning the general administration of Indian health programs may be found at 42 CFR part 36. These regulations are not codified in the Code of Federal Regulations, but may be found in the October 28, 1999, *Federal Register* (64 FR 58318-58322). The regulations currently codified at 42 CFR part 36 have been under a congressional moratorium since 1988 and have not been implemented, and pursuant to 64 FR 58318 have been designated 42 CFR part 36a. Accordingly, all references referring to regulatory requirements in this Supplement cite those requirements found at 42 CFR part 36 as published on October 28, 1999 in the *Federal Register*, and not those codified in the Code of Federal Regulations.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. *Planning Cooperative Grants* - These one-time funds may be used for determination and planning for the assumption of health services (25 USC 450f note for Title III and 25 USC 458aaa-2 for Title V).
2. *Negotiation Grants* - Funds may be used for the negotiation of the health services program (25 USC 450f note for Title III and 25 USC 458aaa-2 for Title V).
3. *Compacts* - Funds may be used to carry out and deliver the health services program. The specific services allowed will be indicated in the AFA or FA between the tribal organization and the Secretary of Health and Human Services. While latitude in redesigning programs and activities is provided, such redesign is limited to programs covered by the AFA or FA (25 USC 450f note for Title III and 25 USC 458aaa-2 for Title V).

### B. Allowable Costs/Cost Principles

For contract health services, the tribal compactor is the payor of last resort. The contract provider must first seek payment from all alternate resources, such as health care providers and institutions, health care programs including, but not limited to, programs under Social Security Act (i.e., Medicare, Medicaid), State or local health care programs or local health care programs, and, private insurance before seeking payment from the tribal compactor. Where a third-party liability is established after the claim is paid, reimbursement from the third party should be sought (42 CFR section 36.61).

## **E. Eligibility**

### **1. Eligibility for Individuals**

- a. Eligibility for services within facilities operated by the IHS (which are billed by IHS to the tribe) or run by a tribal organization for the Federal Government:
- (1) Individuals of Indian descent belonging to the Indian community served by the local facilities and program are eligible to receive services. An individual may be regarded as within the scope of the Indian health and medical service if he/she is regarded as an Indian by the community in which he/she lives as evidenced by such factors as tribal membership, enrollment, residence on tax-exempt land, ownership of restricted property, active participation in Indian affairs, or other relevant factors in keeping with the general Bureau of Indian Affairs practices in the jurisdiction (42 CFR section 36.12).
  - (2) Non-Indian women pregnant with an eligible Indian's child are eligible for services. In cases where the woman is not married to the eligible Indian under applicable state or tribal law, paternity must be acknowledged in writing by the Indian or determined by order of a court of competent jurisdiction. Services may be provided only during the period of her pregnancy through postpartum (generally six weeks after delivery) (42 CFR section 36.12).
  - (3) Services may be provided to non-Indian members of an eligible Indian's household if a medical officer in charge determines that such services are needed to control an acute infectious disease or a public health hazard (42 CFR section 36.12).
  - (4) Otherwise ineligible individuals may receive temporary care and treatment in case of an emergency, as an act of humanity (42 CFR section 36.14).
  - (5) Services may be provided on a cost basis to otherwise ineligible persons in accordance with the criteria in Section 813 of the Indian Health Care Improvement Act (25 USC 1680c(b)(1)(B)).

- b. Eligibility for services in the Contract Health Services component of the IHS:
- (1) In order to qualify for the Contract Health Services component of IHS:
    - (a) An individual must meet the requirements outlined above (42 CFR section 36.23); and
    - (b) Must either reside in the United States and on a reservation located within a Contract Health Service Delivery Area (CHSDA) as defined under 42 CFR section 36.22; or, if he/she does not reside on a reservation, reside within a CHSDA; and
    - (c) Be a member of the tribe or tribes located on that reservation or of the tribes or tribes for which the reservation was established; or maintain close economic and social ties with said tribe or tribes (42 CFR section 36.23).
  - (2) *Students* - Students continue to be eligible for contract health services during their full-time attendance at programs of vocational, technical, or academic education, including normal school breaks and for a period not to exceed 180 days after the completion of their studies (42 CFR section 36.23).
  - (3) *Transients* - Transient persons, such as those who are in travel or are temporarily employed, remain eligible for contract health services during their absence (42 CFR section 36.23).
  - (4) *Other Persons* - Other persons who leave the CHSDA in which they are eligible and are neither transients nor students remain eligible for contract health services for a period not to exceed 180 days from such departure (42 CFR section 36.23).
  - (5) *Foster Children* - Indian children who are placed in foster care outside a CHSDA by order of a court of competent jurisdiction and who were eligible for contract health services at the time of the court order shall continue to be eligible for contract health services while in foster care (42 CFR section 36.23).
2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients** - Not Applicable

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

For each fiscal year during which a Self-Determination FA or AFA is in effect, the carryover of funds is permitted without a fiscal year limitation. The annual funding continues under the same contract number for the length of the program (Pub. L. No. 106-113, Division B, section 1000(a)(3) (Department of the Interior and Related Agencies Appropriations Act, Title II, Administrative Provisions, Indian Health Service)).

All funds paid to a tribe in accordance with a compact or funding agreement shall remain available until expended. In the event that a tribe elects to carry over funding from one year to the next, such carryover shall not diminish the amount of funds the tribe is authorized to receive under its funding agreement in that or any subsequent fiscal year (25 USC 458 aaa-7(I)).

## **J. Program Income**

1. For direct care services the tribal compactor pursues cost reimbursement from all applicable sources (25 USC 1621e, 42 USC 1395qq, and 42 USC 1396j).
2. All Medicare, Medicaid, or other program income earned by a tribe shall be treated as supplemental funding to that negotiated in the funding agreement. The tribe may retain all such income and expend such funds in the current year or in future years except to the extent that Indian Health Care Improvement Act (25 USC 1601 *et seq.*) provides otherwise for Medicare and Medicaid receipts (25 USC 450j-1 and 25 USC 458 aaa-7(j)).
3. *Use of Funds - Direct Billing Medicare and Medicaid* - Tribes electing to directly bill for Medicare and Medicaid shall first use such income for the purpose of making any improvements in the hospital or clinic that may be necessary to achieve or maintain compliance with the conditions and requirements applicable generally to facilities of such type under Medicare or Medicaid programs. Any funds so reimbursed which are in excess of the amount necessary to achieve or maintain such conditions shall be used solely for improving health resources deficiency level of the tribe (Pub. L. No. 106-417; 25 USC 1645).
4. *Use of Funds Collected through HHS* - Tribes electing to receive Medicare and Medicaid reimbursement through HHS shall use such income for achieving compliance with the applicable conditions and requirements of Medicare and Medicaid (exclusive of planning, design, and construction of new facilities) (Pub. L. No. 106-291 114 Stat. 978, 42 USC 1395qq, and 25 USC 1642).

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.217 FAMILY PLANNING - SERVICES

#### I. PROGRAM OBJECTIVES

The purpose of the Family Planning - Services Project Grant (FPSPG) program is to provide funds for education, counseling, and comprehensive medical and social services necessary to enable individuals to freely determine the number and spacing of their children; and by doing so, to help reduce maternal and infant mortality and promote the health of mothers and children.

#### II. PROGRAM PROCEDURES

The FPSPG program is administered by the Office of the Secretary (OS), a component of the Department of Health and Human Services (HHS). Within the OS, the Office of Family Planning is responsible for the program. The program has no statutory funds allocation formula; HHS makes discretionary grant awards whose amounts are based on estimates of the amounts necessary for successful project performance.

Any public or non-profit private entity in a State currently providing family planning services—with priority given to low income families—may apply for a project grant under the program. The entity applying for the grant must follow Public Health System Reporting Requirements and submit to the State a plan for a coordinated and comprehensive program of family planning services.

Family planning services under the FPSPG program must be made available without coercion and with respect for the privacy, dignity, and social and religious beliefs of the individuals being served. To the extent possible, entities that receive grants shall encourage family participation in projects assisted under this program.

#### Source of Governing Requirements

The FPSPG is authorized under Title X of the Public Health Service Act, as amended (42 USC 300 *et seq.*). The implementing regulations are 42 CFR part 59.

#### Availability of Other Program Information

Additional information is available on the HHS Office of Population Affairs web site at <http://opa.osophs.dhhs.gov/>.

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

**A. Activities Allowed or Unallowed****1. *Activities Allowed***

a. *Provision of services* - A project supported by the FPSPG must provide a broad range of family planning methods and services, including infertility services and services to adolescents. Services that may be funded for a particular project are identified in the grant agreement. They may include:

- (1) *Medical services* - These include providing information on all medically approved methods of contraception (including natural family planning methods); counseling services; physical examinations, including cancer detection and laboratory tests; issuance of contraceptive supplies; periodic follow-up examinations; and referral to other medical facilities when medically indicated.
- (2) *Social services* - These include counseling, referral to and from other social and medical service agencies, and such ancillary services as are necessary to facilitate clinic attendance.
- (3) *Information and education* - These activities are designed to achieve community understanding of the program's objectives, inform the community of the availability of program services, and promote continued participation in the project by persons likely to benefit from its services (42 CFR sections 59.5(a)(1) and (b)).

b. *Purchase of services* - If the grantee obtains services for its clients by contract or other arrangements with service providers, it must do so according to agreements with the providers that specify payment rates and procedures (42 CFR section 59.5(b)(9)).

2. ***Activities Unallowed*** - No FPSGP funds shall be used in programs where abortion is a method of family planning (42 CFR section 59.5(a)(5)).

**G. Matching, Level of Effort, Earmarking****1. Matching**

The Federal share of a FPSPG project's cost may never equal 100 percent nor be less than 90 percent (with certain exceptions). The Federal and non-Federal shares are stated in the Notice of Grant Award issued to the grantee (42 CFR sections 59.7(b) and (c)).

2. **Level of Effort** - Not Applicable

3. **Earmarking** - Not Applicable



## J. Program Income

A grantee must charge for family planning services according to the client's ability to pay. A person's inability to pay according to the prescribed fee schedule must not be a deterrent to receiving services. A person from a low-income family may not be charged, except to the extent that payment will be made by a third party (such as an insurer or a government agency) which is authorized or is under legal obligation to pay such charge. Individuals from other than low-income families are charged according to an established fee schedule. For individuals from families with incomes between 101 and 250 percent of the published Income Poverty Guidelines, such a schedule must provide discounts based on ability to pay. Fees for individuals from families with higher incomes are set to recover the reasonable cost of providing the services (42 CFR sections 59.5(a)(7) and (8)).

A "low-income family" is one whose total annual income does not exceed 100 percent of the most recent Income Poverty Guidelines published by HHS in the *Federal Register*. These guidelines may be found on the HHS web site at <http://aspe.hhs.gov/poverty/>. "Low-income family" also includes members of families whose annual family income exceeds the poverty level, but who the project director has determined are unable, for good reasons, to pay for family planning services. For example, unemancipated minors who wish to receive services on a confidential basis must be considered on the basis of their own resources (42 CFR sections 59.2 and 59.5(a)(6)).

The Notice of Grant Award provides guidance on the use of program income. Generally the addition method is used for this program.

## L. Reporting

### 1. Financial Reporting

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PSC-272 series of reports.

### 2. Performance Reporting - Not Applicable

### 3. Special Reporting - Not Applicable

**DEPARTMENT OF HEALTH AND HUMAN SERVICES****CFDA 93.224 CONSOLIDATED HEALTH CENTERS (Community Health Centers, Migrant Health Centers, Health Care For The Homeless, Public Housing Primary Care, And School Based Health Centers)****I. PROGRAM OBJECTIVES**

In general, the objective of the Consolidated Health Centers program (CHCP) is to provide to populations that would ordinarily not have access to health care (1) primary and preventive health services, (2) referrals to other services, such as hospital and substance abuse services, and (3) case management and other services designed to assist health center patients in establishing eligibility and gaining access to Federal, State, and local programs that provide additional medical, social, or educational support or enabling services, such as transportation, translation and outreach services, and patient education services.

The CHCP typically provides family-oriented primary and preventive health care services for people living in rural and urban medically underserved communities, e.g., those where economic, geographic or cultural barriers limit access to such services for a substantial portion of the population. Some health center delivery sites serve vulnerable populations, including homeless individuals, migrant farm workers, residents of public housing, and school children at risk of poor health outcomes.

Required health services for health centers include services related to family medicine, internal medicine, pediatrics, ob/gyn, lab and radiology services, and prenatal and perinatal services; cancer screening; well-child services; immunizations; screenings for elevated blood lead, communicable diseases, and cholesterol; pediatric eye, ear, and dental screenings; voluntary family planning services; preventive dental services; emergency medical services; referrals to providers of medical services; and, as appropriate, pharmaceutical services.

Some exceptions and special provisions for certain components of the CHCP are:

*Health Care for the Homeless (HCH)* - In addition to services required of all consolidated health centers, recipients of HCH funding must provide substance abuse services, including detoxification, risk reduction, outpatient treatment, residential treatment, and rehabilitation for substance abuse provided in settings other than hospitals.

Specific provisions of governance requirements for HCH funding can be waived by the Health Resources and Services Administration (HRSA) under a delegation from the Secretary, Department of Health and Human Services (HHS) (see II, "Program Procedures - Administration and Services"). These requirements also may be waived under Public Housing Primary Care (PHPC) and Migrant Health Centers (MHC) components (42 USC 254b(k)(3)(H)(iii)).

*Migrant Health Centers* - The requirement for an MHC to provide all the primary care services can be waived, and an MHC also may receive approval to provide certain required primary health care services during certain periods of the year only. An MHC may provide health services other than primary care services due to the health needs of the population it serves. These services may include environmental health services, screening for and control of infectious diseases, and injury prevention programs.

## **II. PROGRAM PROCEDURES**

### **Planning Grants**

The purpose of these grants is to assess the health care needs of the population to be served and to plan and develop a health center program that will serve medically underserved populations. This includes efforts to obtain financial and professional support, develop linkages with other health-care providers, and involve the community. Planning grants also may be awarded to health centers to plan or develop a managed care network.

### **Operational Grants**

The purpose of these grants is to support the costs of operating health centers that serve medically underserved populations. Operational grants also may include the operation of managed care and practice management networks and plans.

### **Administration and Services**

CHCP grants are awarded and administered at the Federal level by the Bureau of Primary Health Care (BPHC), HRSA, HHS. Based on applications submitted to and approved by HRSA, grants are provided to public and private non-profit organizations. Factors considered include the population to be served and the current availability of services in the geographical area to be served.

Unless the requirement is waived, grantees are required to have a governing board that is composed of individuals, a majority of whom are being served by the center, and, who, as a group, represent the individuals being served by the center. The responsibilities of the governing board include, among other things, selecting the services to be provided, determining the center's hours of operation, and approving the selection of the center director. Grantees may enter into service and care arrangements with vendors to expand their service networks.

The annual level of HRSA funding for the operation of a health center is determined on the basis of the center's approved scope of services, projected total costs of operation, and expected revenues from program income and funding from non-Federal sources. This includes all State, local, and other operational funding received by or allocated to the approved project, and all premiums, fees, and third-party reimbursements received (adjusted for uncollectible amounts). The Federal dollars awarded are intended to make up the expected difference between the projected costs and revenues.

## Source of Governing Requirements

The CHCP is authorized under Section 330 of the Public Health Service Act, as amended. The statutory provisions are codified at 42 USC 254b. The implementing program regulations for Community Health centers (CHC) and MHCs are 42 CFR parts 51c and 56, respectively. The HCH and PHPC components do not have program-specific regulations.

## Availability of Other Program Information

Additional program information is available from the BPHC web site at <http://www.bphc.hrsa.gov/>.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. *Operational Grants for Other than Managed Care and Practice Management Networks and Plans*
  - a. Required primary health services include:
    - (1) Basic health services related to family medicine, internal medicine, pediatrics, obstetrics, or gynecology that are furnished by physicians and, where appropriate, by physician assistants, nurse practitioners, and nurse midwives (42 USC 254b(b)(1)(A)(i)(I)).
    - (2) Diagnostic laboratory and radiological services (42 USC 254b(b)(1)(A)(i)(II)).
    - (3) Preventive health services, including prenatal and perinatal services; appropriate cancer screening; well-child services; immunizations against vaccine-preventable diseases; screenings for elevated blood lead levels, communicable diseases and cholesterol; pediatric eye, ear, and dental screenings; voluntary family planning services; and preventive dental services (42 USC 254b(b)(1)(A)(i)(III)).
    - (4) Emergency medical services (42 USC 254b(b)(1)(A)(i)(IV)).
    - (5) Pharmaceutical services, as may be appropriate for particular centers (42 USC 254b(b)(1)(A)(i)(V)).

- (6) Referrals to providers of medical services, (including specialty referral when medically indicated) and other health-related services (including substance abuse and mental health services) (42 USC 254b(b)(1)(A)(ii)).
  - (7) Patient case management services (including counseling, referral, and follow-up services) and other services designed to assist health center patients in establishing eligibility for and gaining access to Federal, State, and local programs that provide or financially support the provision of medical, social, educational, housing, or other related services (42 USC 254b(b)(1)(A)(iii)).
  - (8) Services that enable individuals to use the services of the health center (including outreach and transportation services and, if a substantial number of the individuals in the population served by the center are of limited English-speaking ability, the services of appropriate personnel fluent in the language spoken by a predominant number of such individuals) (42 USC 254b(b)(1)(A)(iv)).
  - (9) Education of patients and the general population served by the health center regarding the availability and proper use of health services (42 USC 254b(b)(1)(A)(v)).
- b. Additional health services that may be provided as appropriate to meet the health needs of the population to be served include:
- (1) Behavioral and mental health and substance abuse services 42 USC 254b(2)(A); however, substance abuse services are required under HCH grants (42 USC 254b(h)(2)).
  - (2) Recuperative care services (42 USC 254b(b)(2)(B)).
  - (3) Environmental health services, including the detection and alleviation of unhealthful conditions associated with water supply, chemical and pesticide exposures, air quality, or exposure to lead; sewage treatment; solid waste disposal; rodent and parasitic infestation; field sanitation; housing; and other environmental factors related to health (42 USC 254b(b)(2)(C)).
  - (4) For MHCs, special occupation-related health services for migratory and seasonal agricultural workers, including screening for and control of infectious diseases (including parasitic diseases) and injury prevention programs (including prevention of exposure to unsafe levels of agricultural chemicals including pesticides) (42 USC 254b(b)(2)(D)).

- c. Funds may be used for the reimbursement of members of the grantee's governing board, if any, for reasonable expenses incurred by reason of their participation in board activities (42 CFR sections 51c.107(b)(3) and 56.108(b)(3)).
- d. Funds may be used for the cost of insurance for medical emergency and out-of-area coverage (42 CFR section 51c.107(b)(6)).
- e. Funds may be used for the acquisition and lease of buildings and equipment (including the costs of amortizing the principal of, and paying the interest on, loans for equipment) (42 USC 254b(e)(2)).
- f. Funds may be used for the costs of providing training related to the provision of required primary health care services and additional health services and to the management of health center programs (42 USC 254b(e)(2)).

2. *Planning Grants for Health Centers*

Funds may be used for the acquisition and lease of buildings and equipment (including the costs of amortizing the principal of, and paying the interest on, loans) (42 USC 254b(c)(1)(A)).

3. *Planning Grants for Managed Care or Practice Management Networks or Plans*

- a. Funds may be used for the acquisition and lease of buildings and equipment, which may include data and information systems (including the costs of amortizing the principal of, and paying the interest on, loans for equipment) (42 USC 254b(c)(1)(D)).
- b. Funds may be used to provide training and technical assistance related to the provision of health services on a prepaid basis or other managed care arrangement, and for other purposes that promote the development of managed care networks and plans (42 USC 254b(c)(1)(D)).

**B. Allowable Costs/Cost Principles**

Program income, including, but not limited to, fees, premiums and third-party reimbursements may be used for allowable activities (see III.A.1, "Activities Allowed or Unallowed - Operational Grants for Other Than Managed Care and Practice Management Networks and Plans") and for such other purposes as are not specifically prohibited if such use furthers the objectives of the project. As such, program income is subject to the unallowable cost provisions of the program rather than the OMB cost principles circulars (42 USC 254b(e)(5)(D)).

**E. Eligibility****1. Eligibility for Individuals**

Under HCH funding, if a grantee has provided services to a previously homeless individual and the individual is no longer homeless as a result of becoming a resident in permanent housing, the grantee may continue to provide services for not more than 12 months (42 USC 254b(h)(4)).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable****3. Eligibility for Subrecipients - Not Applicable****J. Program Income**

1. Health centers must have a schedule of fees or payments for the provision of their health services consistent with locally prevailing rates or charges and designed to cover their reasonable costs of operation. They are also required to have a corresponding schedule of discounts applied and adjusted on the basis of the patient's ability to pay (42 USC 254b(k)(3)(G)(i)). The patient's ability to pay is determined on the basis of the official poverty guideline, as revised annually by HHS (42 CFR sections 51c.107(b)(5), 56.108(b)(5), and 56.303(f)). The poverty guidelines are issued each year in the *Federal Register* and HHS maintains a page on the Internet that provides the poverty guidelines (<http://aspe.hhs.gov/poverty/>).
2. Health centers are required to collect (or make every reasonable effort to collect) appropriate reimbursement for their costs in providing health services to persons eligible for medical assistance under Title XIX of the Social Security Act (Medicaid), entitled to insurance benefits under Title XVIII of the Social Security Act (Medicare) or entitled to assistance for medical expenses under any other public assistance program or private health insurance program. Reimbursement for health services to such persons should be collected on the basis of the full amount of fees and payments for those services without application of any discount (42 USC 254b(k)(3)(F) and (G)(ii)(II)).
3. Program income, including, but not limited to, fees, premiums and third-party reimbursements may be used for allowable activities (see III.A.1. above) and for such other purposes as are not specifically prohibited if such use furthers the objectives of the project (42 USC 254b(e)(5)(D)).

**L. Reporting****1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable

- b. SF-270, *Request for Advance or Reimbursement* - Applicable, if specified in the terms and conditions of award.
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC-272 series of reports.

**2. Performance Reporting** - Not Applicable

**3. Special Reporting** - *Uniform Data System (OMB No. 0915-0193)* - This system is comprised of two separate sets of reports, the Universal Report and Grant Reports. The conditions for their use are:

- Grantees that receive a single grant under the consolidated health centers program or that receive CHC and/or MHC funding only are required to complete the *Universal Report* only.
- Grantees that receive multiple awards (in addition to or other than CHC and MHC funding) must complete a *Universal Report* for the combined grants and individual *Grant Reports* for their HCH and PHPC funding, if applicable.

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

- a. Table 5 - Staffing and Utilization
  - (1) Line 8 - *Total Physicians*
  - (2) Line 15 - *Total Medical Care Services*
  - (3) Line 19 - *Total Dental Services*
  - (4) Line 29 - *Total Enabling Services*
  - (5) Line 33 - *Total Administration and Facility*
- b. Table 8 Part A - Financial Costs
  - (1) Line 4(c) - *Total Medical Care Services*
  - (2) Line 10(c) - *Total Other Clinical Services*
  - (3) Line 13(c) - *Total Enabling and Other Services*
  - (4) Line 16 - *Total Overhead*



- (5) Line 18 - *Value of Donated Facilities, Services, and Supplies*
- c. Table 9 Part D - Patient Related Revenue
  - (1) Line 1 - *Medicaid Non-managed Care*
  - (2) Line 2a - *Medicaid Managed Care (capitated)*
  - (3) Line 2b - *Medicaid Managed Care (fee-for-service)*
  - (4) Line 7 - *Other Public including Non-Medicaid CHIP (non-managed care)*
  - (5) Line 10 - *Private Non-Managed Care*
  - (6) Line 11a - *Private Managed Care (capitated)*
  - (7) Line 11b - *Private Managed Care (fee-for-service)*
  - (8) Line 13 - *Self Pay*

## N. Special Tests and Provisions

### Governing Board

**Compliance Requirement** - Unless the requirement for a governing board is waived by HRSA or the center is operated by an Indian tribe or tribal or Indian organization under the Indian Self-Determination Act or an urban Indian organization under the Indian Health Care Improvement Act, the health center must have a governing board that (1) is composed of individuals, a majority of whom are being served by the center and who, as a group, represent the individuals being served by the center; (2) meets at least once a month; (3) selects the services to be provided by the center; (4) schedules the hours during which services will be provided by the center; (5) approves the center's annual budget; (6) approves the selection of a director for the center; and (7) except in the case of a public center, establishes general policies for the center (42 USC 254b(k)(3)(H)).

**Audit Objectives** - Determine whether (1) the center has adopted and periodically reviews and updates, as necessary, by-laws or other internal policies for governing board selection and operation; (2) the board meets at least monthly and approves the annual budget; and (3) for actions occurring during the audit period that, by statute, require governing board decision or approval, the center complied with the statute and its by-laws/internal operating procedures.

### Suggested Audit Procedures

- a. Ascertain if the center has by-laws or other internal policies addressing the required elements of the board and its operation.
- b. Review meeting minutes to ascertain if the board approved the annual budget.

- c. As of the end of the year preceding the audit, determine the board membership, services provided, operating hours, and center director. Ascertain if changes occurred in any of these areas during the audit period and, if so, whether the governing board had the type of involvement required by the statute and acted in compliance with the center's by-laws/internal operating procedures.

#### **IV. OTHER INFORMATION**

Subsequent to enactment of the Health Centers Consolidation Act of 1996 (Pub. L. No. 104-299) and related technical amendments, including the Health Care Safety Net Amendments (Pub. L. No. 107-251), the health centers programs, i.e., HCH, CHC, MHC, and PHPC, were consolidated under CFDA 93.224. Grantees were notified of the consolidation through the Program Assistance Letter 2001-22 - Web-enabled Single Grant Application for Continuation Funding under the Consolidated Health Centers Program. Program consolidation was completed in fiscal year 2002. Since that time awards have cited only CFDA 93.224. Grantees should be reporting their expenditures on the Schedule of Expenditures of Federal Awards using CFDA 93.224.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.268 IMMUNIZATION GRANTS

#### I. PROGRAM OBJECTIVES

The objective of the immunization grant program is to reduce and ultimately eliminate vaccine preventable diseases (VPDs) by increasing and maintaining high immunization coverage. Emphasis is placed on populations at highest risk for under-immunization and disease, including children eligible under the Vaccines for Children (VFC) program.

#### II. PROGRAM PROCEDURES

The Immunization Grants program consists of two parts: discretionary Section 317 immunization grants and VFC financed with mandatory Medicaid (CFDA 93.778) funding.

The objective of the discretionary Section 317 immunization grant program is to reduce and ultimately eliminate VPDs by increasing and maintaining high immunization coverage. Emphasis is placed on populations at highest risk for under-immunization and disease, which includes VFC-eligible children. The statute refers to development of programs for all individuals for whom vaccines are recommended, including infants, children, adolescents and adults. The intent of the discretionary Section 317 immunization grant program is to supplement, not supplant, each grantee's immunization effort at the State/local level. The Centers for Disease Control and Prevention (CDC), through its grant guidance, has identified the following areas of activity for programmatic emphasis and funding prioritization: reduce the number of indigenous cases of vaccine-preventable diseases; ensure that two-year olds are appropriately vaccinated; improve vaccine safety surveillance; increase routine vaccination coverage levels for adolescents; and increase the proportion of adults who are vaccinated annually against influenza and who have ever been vaccinated against pneumococcal disease.

VFC, which is authorized by and financed through Title XIX of the Social Security Act (Medicaid), is activity-based financial assistance and direct assistance in the form of vaccine-purchase funds and program operations funds to support implementation of the VFC program. VFC is administered by CDC and is funded entirely by the Federal government. VFC funds are provided to eligible grantees to develop and operate programs designed to ensure effective delivery of vaccination services to eligible children through enrolled providers of medical care. Grantees are required to encourage a variety of providers to participate in the VFC program and to administer vaccines in an appropriate cultural context. Other criteria, detailed in annual grant application guidance documents, may also apply.

Under VFC, children from birth through 18 years of age are eligible for VFC-purchased vaccine if they are Medicaid-eligible, American Indian/Alaskan Native, or without health insurance. Children who are insured but whose insurance does not cover vaccination also are eligible to receive VFC vaccine at Federally Qualified Health Centers or Rural Health Clinics. The intent of the VFC program is to ensure adequate funding for vaccine purchases and to promote comprehensive health care in a medical setting for all eligible children and reduce the number of children that are referred to the public sector because they cannot afford the vaccine costs. The VFC program authorizes participating immunization providers in all States to receive publicly

purchased vaccine for administration to VFC-eligible children. The goal is to ensure that no child contracts a VPD because his or her parent cannot afford to pay for the vaccine or its administration.

VFC and Section 317 financial assistance (FA) is provided/obligated directly to immunization grantees for administrative and operations costs. Similarly, Section 317 FA is obligated to grantees for the purchase of vaccines not available through federal contracts. Funds for direct assistance (DA) vaccines are maintained at CDC, and are periodically obligated to manufacturer contracts. Grantees are given estimated target budgets for their DA vaccine purchase needs. CDC uses these budgets as a control mechanism for vaccine orders.

Vaccines will be maintained by a federally contracted third-party distributor that receives orders from and ships vaccine to providers. Periodically, when the federal distributors' inventory reaches certain minimum thresholds, the distributor makes a request to CDC for replenishment vaccines. CDC reviews these requests and assigns funding sources to them (VFC or 317) based on the aggregate of grantee submitted spend plans. Orders for the vaccines are processed and sent to the appropriate manufacturer(s), referencing funds that were previously obligated to the manufacturer contracts. The manufacturer fulfills the order and ships the vaccines to the federally contracted distributor.

### **Source of Governing Requirements**

These programs are authorized under 42 USC 247b, 42 USC 243, 42 USC 300aa-3, 300aa-25 and 300aa-26 and 42 USC 1396s. Regulations specific to discretionary Section 317 grants may be found at 42 CFR part 51b.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

1. Discretionary Section 317 grant funds may be used to establish and maintain a preventive health service program, including:
  - a. Research into the prevention and control of diseases that may be prevented through vaccination;
  - b. Demonstration projects for the prevention and control of such diseases;
  - c. Public information and education programs for the prevention and control of such diseases;
  - d. Education, training, and clinical skills improvement activities in the prevention and control of such diseases for health professionals; and

- e. Operational activities associated with the conduct of a successful immunization program (42 USC 247b(k)(1)).
2. The VFC program is intended primarily as a vaccine purchase and supply program for eligible children. VFC funds may be expended to support costs associated with:
    - a. VFC vaccine ordering;
    - b. VFC vaccine distribution for grantees that have not transitioned to a federally contracted vaccine distributor; and
    - c. Direct VFC program operations, such as provider recruitment and enrollment, overall VFC program coordination, vaccine management and accountability, VFC provider accountability and site visit assessments, and VFC program evaluation (42 USC 1396s).

## **E. Eligibility**

### **1. Eligibility for Individuals**

- a. Discretionary Section 317 Grants - Not Applicable.
- b. VFC program-eligible child is defined as any of the following:
  - (1) Medicaid-eligible child (42 USC 1396s(b)(2)(A)(i));
  - (2) An American Indian/Alaskan Native child (as defined in section 4 of the Indian Health Care Improvement Act) (42 USC 1396s(b)(2)(A)(iv));
  - (3) A child who is not insured (42 USC 1396s(b)(2)(A)(ii)); or
  - (4) A child who (a) is administered a vaccine by a Federally Qualified Health Center or Rural Health Clinic and (b) is not insured with respect to the vaccine (42 USC 1396s(b)(2)(A)(iii)).
- c. Providers administering discretionary Section 317 grants or VFC-purchased vaccine may not deny administration of a vaccine to a 317 or VFC-eligible child due to the inability of the child's parent to pay an administration fee (42 USC 247b (j) and 42 USC 1396s(c)(2)(C)(iii)).

### **2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

### **3. Eligibility for Subrecipients - Not Applicable**

## J. Program Income

Grantees providing direct immunization services may generate program income from fees or donations. Fees charged under VFC, however, may not exceed the maximum reimbursement schedule established by the Centers for Medicare and Medicaid Services, the delegated authority. This cap does not apply to discretionary Section 317 grants. However, no one may be denied immunization services due to the inability to pay a fee or donation (42 USC 1396s(c)(2)(C)).

## L. Reporting

### 1. Financial Reporting

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC-272 series of reports-.

### 2. Performance Reporting - Not Applicable

### 3. Special Reporting - Not Applicable

## N. Special Tests and Provisions

### 1. Control, Accountability, and Safeguarding of Vaccine

**Compliance Requirement** - Effective control and accountability must be maintained for all vaccine. Vaccine must be adequately safeguarded and used solely for authorized purposes (A-102 Common Rule § \_\_.20).

**Audit Objective** - Determine whether the grantee provides oversight of vaccinating providers to ensure that proper control and accountability was maintained for vaccine and whether vaccine was properly safeguarded (based on guidance provided by CDC).

#### Suggested Audit Procedures

- a. Determine if the grantee has a written procedure for overseeing vaccinating providers that provides for sampling of provider's inventory records and assessment of storage procedures.
- b. Determine if the grantee sampled the provider's inventory records to ensure proper recording of receipt, transfer, and usage of vaccine.

- c. Determine if the grantee reviewed the provider's storage of vaccine for proper safeguarding, including risks of loss from theft, expiration, or improper storage temperature.
- d. Determine if necessary follow-up procedures were followed if any deficiencies were identified.

## **2. Record of Immunization**

**Compliance Requirement** - A record of vaccine administered shall be made in each person's permanent medical record (or in a permanent office log or file to which a legal representative shall have access upon request) (42 USC 300aa-25) which includes:

- a. Date of administration of the vaccine;
- b. Vaccine manufacturer and lot number of the vaccine; and
- c. Name and address and, if appropriate, the title of the health care provider administering the vaccine.

**Audit Objective** - Determine whether the grantee provides oversight of vaccinating providers to ensure that the required information has been recorded for vaccine recipients.

### **Suggested Audit Procedures**

- a. Determine if the grantee has a written procedure for ensuring that the required information has been recorded for vaccine recipients.
- b. Determine if the grantee tested a sample of vaccination records to ascertain if the required information was maintained
- c. Determine if the grantee took any follow-up action if the required records and information were not maintained.

## **IV. OTHER INFORMATION**

After the end of each month and after the end of each Federal fiscal year, CDC advises each grantee of the value of all federally funded vaccine that was distributed, in lieu of cash, directly to the grantee and/or on behalf of the grantee to vaccinating providers located in the grantee's geographical area. The annual dollar value of federally funded vaccine should be treated by the grantee as a grant expenditure for purposes of determining audit coverage and reporting on the Schedule of Expenditures of Federal Awards. Vaccinating providers and vaccinated individuals are not considered subrecipients; therefore, the value of vaccine received is not a grant expenditure for purposes of determining audit coverage and reporting for those entities.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.556 PROMOTING SAFE AND STABLE FAMILIES

#### I. PROGRAM OBJECTIVES

The Promoting Safe and Stable Families (PSSF) program provides funds to States and Indian tribes (tribes and tribal consortia) to prevent the unnecessary separation of children from their families, improve the quality of care and services to children and their families, and ensure permanency for children by reuniting them with their parents, by adoption or by another permanent living arrangement. The program includes: family support, family preservation, time-limited family reunification, and adoption promotion and support services.

#### II. PROGRAM PROCEDURES

##### Administration and Services

The Children's Bureau, Administration on Children, Youth and Families, Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS), administers the PSSF. To be eligible for funds, each State and tribe must submit a five-year comprehensive plan, the Child and Family Services Plan (CFSP). This plan encompasses planning and service delivery for the full child welfare services spectrum. This includes: child welfare services under Title IV-B, Subparts 1 and 2; a child welfare staff development and training plan; a diligent recruitment of foster and adoptive families plan that reflects the ethnic and racial diversity of children in the State for whom foster and adoptive homes are needed; and child abuse and neglect prevention, foster care, adoption, and foster care independence services, including an education and training voucher program for foster care youth.

The ACF Regional Offices have approval authority for the plans. Following ACF approval, allotments are based on the number of children in the States who received food stamps in the previous three years. Grants may also be made to tribes that qualify under the allotment formula; no tribe may be funded if its allotment is less than \$10,000. PSSF services are based on several key principles. The welfare and safety of children and of all family members should be maintained while strengthening and preserving the family. It is advantageous for the family as a whole to receive services, which identify and enhance its strengths while meeting individual and family needs. Services should be easily accessible, often delivered in the home or in community-based settings, and they should respect cultural and community differences. In addition, they should be flexible, responsive to real family needs, and linked to other supports and services outside the child welfare system. Services should involve community organizations and residents, including parents, in their design and delivery. They should be intensive enough to keep children safe and meet family needs, varying between preventive and crisis services.

##### Source of Governing Requirements

PSSF is authorized under Title IV-B, Subpart 2 of the Social Security Act, as amended, and is codified at 42 USC 629a through 629e. Implementing program regulations are published at 45 CFR parts 1355 and 1357.



### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. *Community-based Services* - Programs delivered in accessible settings in the community and responsive to the needs of the community and the individuals and families residing therein. These services may be provided under public or private non-profit auspices (45 CFR section 1357.10(c)).
2. *Family Preservation Services* - Services for children and families designed to protect children from harm and help families (including foster, adoptive, and extended families) at risk or in crisis, including (42 USC 629a(a)(1)):
  - a. Pre-placement preventive services programs, such as intensive family preservation programs, designed to help children at risk of foster care placement remain with their families, where possible;
  - b. Service programs designed to help children, where appropriate, return to families from which they have been removed; or be placed for adoption, with a legal guardian, or, if adoption or legal guardianship is determined not to be appropriate for a child, in some other planned, permanent living arrangement;
  - c. Service programs designed to provide follow-up care to families to whom a child has been returned after a foster care placement;
  - d. Respite care of children to provide temporary relief for parents and other caregivers (including foster parents);
  - e. Services designed to improve parenting skills (by reinforcing parents' confidence in their strengths, and helping them to identify where improvement is needed and to obtain assistance in improving those skills) with respect to matters such as child development, family budgeting, coping with stress, health, and nutrition; and
  - f. Case management services designed to stabilize families in crisis such as transportation, assistance with housing and utility payments, and access to adequate health care.

3. *Family Support Services* - Community-based services to promote the well-being of children and families designed to increase the strength and stability of families (including adoptive, foster, and extended families), to increase parents' confidence and competence in their parenting abilities, to afford children a stable and supportive family environment, to strengthen parental relationships and promote healthy marriages, and otherwise to enhance child development. Family support services may include (42 USC 629a(a)(2); 45 CFR section 1357.10(c)):
  - a. Services, including in-home visits, parent support groups, and other programs designed to improve parenting skills (by reinforcing parents' confidence in their strengths, and helping them to identify where improvement is needed and to obtain assistance in improving those skills) with respect to matters such as child development, family budgeting, coping with stress, health, and nutrition;
  - b. Respite care of children to provide temporary relief for parents and other caregivers;
  - c. Structured activities involving parents and children to strengthen the parent-child relationship;
  - d. Drop-in centers to afford families opportunities for informal interaction with other families and with program staff;
  - e. Transportation, information and referral services to afford families access to other community services, including child care, health care, nutrition programs, adult education literacy programs, legal services, and counseling and mentoring services; and
  - f. Early developmental screening of children to assess the needs of such children, and assistance to families in securing specific services to meet these needs.
  
4. *Time-Limited Family Reunification Services* - Services and activities that are provided to a child who is removed from his/her home and placed in a foster family home or a child care institution and to the parents or primary caregiver of such a child, in order to facilitate the reunification of the child safely and appropriately within a timely fashion. These services are provided only during the 15-month period that begins on the date that the child, pursuant to 42 USC 675(5)(F), is considered to have entered foster care. The services and activities are the following (42 USC 629a(a)(7)):
  - a. Individual, group, and family counseling;
  - b. Inpatient, residential, or outpatient substance abuse treatment services;
  - c. Mental health services;

- d. Assistance to address domestic violence;
  - e. Services designed to provide temporary child care and therapeutic services for families, including crisis nurseries; and
  - f. Transportation to or from any of the services and activities described above.
5. *Adoption Promotion and Support Service* - Services and activities designed to encourage more adoptions out of the foster care system, when adoption promotes the best interest of the child, including such activities as pre- and post-adoptive services and activities designed to expedite the adoption process and support adoptive families (42 USC 629a(a)(8)).
  6. *Administrative Costs*- Administrative costs (defined as costs of auxiliary functions as identified through an agency's accounting system that are allocable, in accordance with the agency's approved cost allocation plan, to the title IV-B, subpart 2 program cost centers; necessary to sustain the direct effort involved in administering the State plan or an activity providing service to the programs: and centralized in the grantee department or in some other agency) are allowable. Administrative costs include, but are not limited to, the following: procurement; payroll; personnel functions; management; maintenance and operation of space and property; data processing and computer services; accounting; budgeting; and auditing (45 CFR sections 1357.32(h)(1) and (2)). See III.G.3 for a limitation on the amount of administrative costs.
  7. *Program Costs* - Program costs are costs, other than administrative costs, incurred in connection with developing and implementing the CFSP (e.g., delivery of services, planning, consultation, coordination, training, quality assurance measures, data collection, evaluations, and supervision) (45 CFR section 1357.32(h)(3)).
  8. Funds awarded under Title IV-B, Subpart 2, may not be used for the purchase or construction of facilities (45 CFR section 1357.32(e)).

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

### **1. Matching**

Funds are federally reimbursed at 75 percent of allowable expenditures. The State's contribution may be in cash, donated funds, and non-public third party in-kind contributions (45 CFR section 1357.32(d)).

### **2.1 Level of Effort - *Maintenance of Effort* – Not Applicable**

## 2.2 Level of Effort – *Supplement Not Supplant*

- a. States may not use Federal funds under title IV-B, Subpart 2, to supplant Federal or non-Federal funds for existing services.
  - (1) “Non-Federal” funds are defined at 42 USC 629a(a)(9) as “State funds, or at the option of a State, State and local funds.” Although State matching may be in the form of cash, donated funds, or non-public third party in-kind contributions, the “supplement not supplant” requirement is limited to non-Federal funds as defined in 42 USC 629a(a)(9).
  - (2) The base year for determining compliance with this requirement is the amount of funds that the State expended for services in the State’s fiscal year 1992 (42 USC 629b(a)(7); 45 CFR section 1357.32(f)). The regulations have not been updated to reflect the amendments to the Social Security Act made by the Adoption and Safe Families Act (ASFA) that added two new service categories (i.e., time-limited family and reunification services and adoption promotion and support services) to those specified in 45 CFR section 1357.32(f); however, the base year (1992) remains the same for all four service areas under title IV-B, subpart 2 (42 USC 629b(a) and (b)(1); ACYF-CB-PI-99-07).
- b. The State may not use the amount specified in III.G.3.c. below to supplant any Federal funds paid to the State under part E that could be used for monthly caseworker visitation with children who are in foster care and activities designed to improve caseworker retention, recruitment, training, and ability to access the benefits of technology (Pub. L. No. 109-288, section 3(c)(2)(B)).

## 3. Earmarking

- a. States may not expend more than 10 percent of Federal funds for administrative costs (42 USC 629b(a)(4)). There is no limitation on the percentage of administrative costs that may be reported as State match.
- b. Of the remaining Federal funds, unless approved by ACF, States must expend a significant portion, defined as 20 percent, on each of the following: programs of family preservation services, community-based family support services, time-limited family reunification services, and adoption promotion and support services (42 USC 629b(a)(4); 45 CFR section 1357.15(s); ACYF-CB-PI-03-05 (found at [http://www.acf.hhs.gov/programs/cb/laws\\_policies/policy/pi/pi0305.htm](http://www.acf.hhs.gov/programs/cb/laws_policies/policy/pi/pi0305.htm))).

- c. A State shall use the special allocation provided pursuant to Pub. L. No. 109-288 to support monthly caseworker visits with children who are in foster care with a primary emphasis on activities designed to improve caseworker retention, recruitment, training, and ability to access the benefits of technology (42 USC 629f(b)(4)).

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

Funds must be expended by September 30 of the fiscal year following the fiscal year in which the funds were awarded (45 CFR section 1357.32(g)), with the exception of those funds provided by the special allocation pursuant to Pub. L. No. 109-288. These latter funds must be expended by September 30, 2009 (Pub. L. No. 109-288, section 3(c)(2)(A)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC-272 series of reports.

### **2. Performance Reporting** - Not Applicable

### **3. Special Reporting** - Not Applicable

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.558 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)

#### I. PROGRAM OBJECTIVES

The objectives of the State and Tribal TANF programs are to provide time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives; end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and encourage the formation and maintenance of two-parent families. This program replaced the Aid to Families with Dependent Children (AFDC), Job Opportunities and Basic Skills Training (JOBS), and Emergency Assistance (EA) programs.

#### II. PROGRAM PROCEDURES

##### Administration and Services

The Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS), administers the TANF program on behalf of the Federal Government. To be eligible for the TANF block grant, a State (including the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, and American Samoa) must periodically submit a State plan containing specified information and assurances.

Following ACF review of the State Plan and determination that it is complete, ACF awards the basic "State Family Assistance Grant" (SFAG) to the State using a formula allocation derived from funding levels under the superseded programs. The SFAG is a fixed amount to the State subject to reductions based on any penalties assessed. In addition, amounts may be adjusted on the basis of separate Federal funding of counterpart Indian Tribal programs within the State. States meeting the qualifying criteria may also receive supplemental grants, loans, and payments from a contingency fund. As long as the minimum requirements are met, States have significant flexibility in designing programs and determining eligibility requirements. For example, States may use grant funds to provide cash or non-cash assistance, including direct services, but may not use more than 15 percent of Federal TANF funds for administrative activities. While States have flexibility and discretion, there are provisions to ensure accountability for results, including requirements for data about expenditures and individuals receiving benefits under the program, and monetary penalties for failure to meet programmatic requirements such as work participation.

The Federal TANF block grant program also has an annual cost-sharing requirement, known as maintenance-of-effort (MOE). If a State fails to meet the required minimum all-family or two-parent work participation rate for a fiscal year (FY), then the State must spend at least 80 percent of its FY historic State expenditures to provide benefits and services to eligible clientele. If the State meets both minimum work participation rate requirements, then the required spending level decreases to 75 percent of its FY 1994 historic State expenditures. "Historic State expenditures" means the State's FY 1994 share of expenditures in the former Aid to Families with Dependent

Children (AFDC), AFDC-EA (Emergency Assistance), AFDC-Related Child Care, Transitional Child Care, At-Risk Child Care and Job Opportunities and Basic Skills (JOBS) programs. States may not use more than 15 percent of the total amount of countable expenditures for the FY for administrative activities.

### ***Tribes***

Tribal Family Assistance Plans (TFAP) are developed for a three-year period and submitted to ACF for review and approval. The Tribal Family Assistance Grant (TFAG) is derived from an amount equal to the Federal share of expenditures, other than child care costs, by the State or States under the former AFDC, EA, and JOBS programs for fiscal year 1994 for all American Indian families residing in the service area identified in the Tribal TANF plan. The TFAG is a fixed amount, subject to reductions based on any penalties assessed. As long as the minimum requirements are met, Indian tribes (tribes) have significant flexibility in designing programs and determining eligibility requirements and may use grant funds to provide cash or non-cash assistance, including direct services, and for administrative activities.

Tribal TANF grantees may operate the program under a consolidated Pub. L. No. 102-477 program. Pub. L. No. 102-477 refers to the Indian Employment, Training and Related Services Demonstration Act of 1992, the purpose of which is to provide for the integration of employment, training and related services to improve the effectiveness of those services. Tribes operating a consolidated Pub. L. No. 102-477 program must still submit a TFAP to the Secretary of HHS for review and approval prior to consolidation of the Tribal TANF program into a Pub. L. No. 102-477 plan. Tribal TANF data collection and performance reporting requirements identified and referenced elsewhere in this document apply and all applicable statutory and regulatory requirements remain in effect for the duration of the grant. Therefore, Tribes that integrate their Tribal TANF program into the Pub. L. No. 102-477 program are subject to all TANF statutory, administrative, and programmatic requirements with the exception of the Tribal TANF financial reporting requirements. These Tribes may submit TANF financial reports annually as an attachment to their Pub. L. No. 102-477 financial report.

The provisions of Pub. L. No. 93-638, including pertinent regulations, do not apply to Tribal TANF, its administration, or the expenditure of TANF funds, and none of the provisions of Pub. L. No. 102-477 or the 477 plan supersede the TANF statutes, regulations, or provisions of the approved TANF plan, even when the TANF program has been consolidated into a 102-477 project and the funds are provided to the Tribe through the Department of the Interior/Bureau of Indian Affairs 638 contract or Self-Governance Compact process.

### **Other Considerations**

#### ***Funding Methods - States***

States have different funding options to expend Federal grant funds and State maintenance-of-effort (MOE) funds. This includes the following:

1. *Federal Only* - Under this option, Federal grant funds are segregated from MOE funds that are expended in the TANF program operated by the State.

2. *Commingled Federal/State* - Under this option, States commingle their MOE funds with Federal grant funds expended in the TANF program operated by the State. A commingled funding structure means that all expenditures are subject to all Federal funding restrictions, TANF requirements, and MOE limitations.
3. *Segregated State* - Under this option, MOE funds are segregated from the Federal grant funds and expended in the TANF program operated by the State.
4. *Separate State Program* - Under this option, States spend their MOE funds in separate State programs, operated outside of the TANF program operated by the State.

Federal grant funds and MOE funds must both be used for “expenditures.” A definition of the term “expenditure” is found in 45 CFR section 260.30. In addition, section 260.33 explains the circumstances under which certain State tax relief provisions would count as expenditures.

### ***Funding Methods - Tribes***

Tribes have different funding options under which to expend Federal grant funds and, where applicable, State MOE funds as follows.

1. *Federal Only* - Under this option, Federal grant funds are segregated from any State-donated MOE funds or tribal funds that are expended in the TANF program operated by the tribe.
2. *Commingled Federal/State-donated MOE* - Under this option, tribes commingle their State-donated MOE funds with Federal grant funds expended in the TANF program operated by the tribe. A commingled funding structure means that all expenditures are subject to all Federal funding restrictions and MOE limitations.
3. *Segregated Tribal* - Under this option, MOE funds are segregated from the Federal grant funds and expended separately in the TANF program operated by the tribe.

See IV, “Other Information,” for guidance on State MOE expended by tribes.

### **Source of Governing Requirements**

This program is authorized under Title IV-A of the Social Security Act, as amended by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (Pub. L. No. 104-193), and subsequent amendments thereto, and codified at 42 USC 601-619. PRWORA was signed into law on August 22, 1996, and required State implementation no later than July 1, 1997.

On April 12, 1999, ACF published final regulations for the TANF program. These final rules took effect October 1, 1999 (April 12, 1999, *Federal Register* (64 FR 17720 *et seq.*)). ACF also published technical and correcting amendments to the final rule on July 26, 1999, which were also effective on October 1, 1999 (July 26, 1999, *Federal Register* (64 FR 40290 *et seq.*)). Thus, the obligations and expenditures of Federal TANF funds on or after October 1, 1999, and any State actions occurring on or after October 1, 1999, are subject to the provisions in the final



rules, as amended. See 45 CFR Parts 260 – 265 for the TANF regulations applicable to States. The Deficit Reduction Act (DRA) of 2005 (Pub. L. No. 109-171), enacted February 8, 2006, included provisions to reauthorize the TANF program. On June 29, 2006, ACF published interim final regulations implementing the changes to the TANF program required by the DRA (June 29, 2006, *Federal Register* (71 FR 37454 *et seq.*), which is available at <http://www.acf.hhs.gov/programs/ofa/tanfregs/tfinrule.pdf>). On February 5, 2008, ACF published the final regulations implementing the changes to the TANF program required by the DRA of 2005 (February 5, 2008, *Federal Register* (73 FR 6772 *et seq.*), which is available at <http://www.acf.hhs.gov/programs/ofa/>. The final rule is effective October 1, 2008. Only DRA changes that are effective prior to October 1, 2008 have been included in this issuance.

PRWORA also authorized any federally recognized tribe in the lower 48 states, 13 specified Alaskan Native entities, and consortia of eligible tribes to apply for funding under section 412 of the Act to administer a Tribal TANF program beginning July 1, 1997. The Foster Care Independence Act of 1999 (Pub. L. No. 106-169, December 14, 1999) also included technical amendments to the Act, which affected program regulations. Implementing regulations for Tribal TANF are in 45 CFR part 286 and were published in the *Federal Register* on February 18, 2000 (65 FR 8477 *et seq.*).

TANF is subject to the HHS implementation of the A-102 Common Rule and to OMB Circular A-87. This is in contrast to AFDC, which was excluded from the A-102 Common Rule.

The TANF Emergency Response and Recovery Act of 2005, Pub. L. No. 109-68, was enacted on September 21, 2005. Sections 4, and 5 are the key provisions of this statute that are still in effect for purposes of the Supplement, and are described below.

Section 4 of Pub. L. No. 109-68 makes additional Federal TANF funds available for the hurricane-damaged States of Louisiana, Mississippi and Alabama. Beginning on September 21, 2005 and ending on September 30, 2006, these three States are eligible for loans under Section 406 of the Social Security Act. The Federal TANF loan funds must be used for, or on behalf of, victims of Hurricane Katrina or Hurricane Rita. The cumulative dollar amount of all loans that a State could receive under this section may not exceed 20 percent of the amount of the State's family assistance grant for fiscal year 2006. The law prohibits the imposition of a penalty against these loan-eligible States for failure to make interest payments or repay the loan before October 1, 2007. States that received loans under this authority must obligate the loan funds no later than September 30, 2007. All loan funds must be expended by December 31, 2007. These loan funds are not available until spent. Any funds not obligated by September 30, 2007 and any obligated funds that have not been liquidated by December 31, 2007 must be returned to the Federal government.

Section 5 of Pub. L. No. 109-68 authorizes a State or tribe to use any TANF grant for any fiscal year to support needy families affected by Hurricane Katrina. Thus, both prior-year, unspent funds and current year grants may be used for any TANF benefit or service (not just "assistance") for these families.

## Availability of Other Program Information

ACF Program Instruction TANF-ACF-PI-2005-07 (AMENDED), dated October 20, 2005, addresses the provisions in Pub. L. No. 109-68, TANF Emergency Response and Recovery Act of 2005 (<http://www.acf.dhhs.gov/programs/ofa/tanf-pi.htm>). Also see Appendix VI.

Other general program information is available from the Office of Family Assistance (OFA) web site at <http://www.acf.dhhs.gov/programs/ofa> and the Division of Tribal Services web site at <http://www.acf.dhhs.gov/programs/dts>. Questions related to the TANF program may be directed to Robert Shelbourne at 202-401-5150 (direct) or by e-mail at [robert.shelbourne@acf.dhhs.gov](mailto:robert.shelbourne@acf.dhhs.gov).

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

This program makes references to States, however, in some cases subrecipients of States, (e.g., local governments) may be responsible for compliance requirements that are referred to in this Supplement as “State.” The auditor should adjust accordingly for the entity being audited.

### A. Activities Allowed or Unallowed

#### 1. *Federal Only*

- a. Funds may be used for expenditures for activities that are not permissible under 42 USC 601, but for which the State was authorized to use IV-A or IV-F funds under prior law. The previously authorized activities must have been included in a State’s approved State AFDC plan, JOBS plan, or Supportive Services Plan, as in effect on September 30, 1995, or at the State’s option, on August 21, 1996. Examples of such activities are authorized juvenile justice and foster care activities (42 USC 604(a)(2); 45 CFR section 263.11(a)(2)).
- b. A State may transfer up to 30 percent of the combined total of funds received under the State family assistance grant, and supplemental grant for population increases for a given fiscal year to carry out programs under the Social Services Block Grant (Title XX) (CFDA 93.667) and/or the Child Care and Development Block Grant (CFDA 93.575). However, no more than 10 percent may be transferred to Title XX, and 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. Contingency funds under 42 USC 603(b) cannot be transferred under this authority (Pub. L. No. 109-171, Sec. 7101(a) and Pub. L. No. 108-199, Title II, Social Services Block Grant); 42 USC 604(d); 45 CFR section 264.72(e)). The poverty guidelines are issued each year in the *Federal Register* and

HHS maintains a web site that provides the poverty guidelines (<http://aspe.hhs.gov/poverty/index.shtml>).

2. *Federal Only and Commingled Federal/State* - Funds may not be used to provide medical services other than pre-pregnancy family planning services (42 USC 608(a)(6)).
3. *Federal Only, Commingled Federal/State, Segregated State, Separate State Program*
  - a. Funds may be used in any manner reasonably calculated to achieve the purposes of the program, including providing low-income households with assistance in meeting home heating and cooling costs (42 USC 604(a)(1) and 45 CFR section 263.11(a)(1)). As specified in 42 USC 601 and 45 CFR section 260.20, the TANF program has the following purposes:
    - (1) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
    - (2) End dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
    - (3) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
    - (4) Encourage the formation and maintenance of two-parent families.
  - b. A State may use funds for programs to prevent and reduce the number of out-of-wedlock pregnancies, including programs targeted to law enforcement officials, the educational system and counseling services, that provide education and training of women and men on the problem of statutory rape (42 USC 602(a)(1)(A)(v) and (vi)).
  - c. Funds may be used to make payments or provide job placement vouchers to State-approved public and private job placement agencies providing employment placement services to individuals receiving assistance under TANF (42 USC 604(f)).
  - d. Funds may be used to implement an electronic benefits transfer system (42 USC 604(g)).
  - e. Funds may be used to carry out a program to fund individual development accounts (42 USC 604(h)(2); 45 CFR sections 263.20 through 263.23) established by individuals eligible to receive assistance under TANF (42 USC 604(h); 45 CFR part 263, subpart C).

- f. A State may contract with charitable, religious and private organizations to provide administrative and programmatic services and may provide beneficiaries of assistance with certificates, vouchers, or other forms of disbursement which are redeemable with such organization (42 USC 604a(b), 42 USC 604a(k), and 45 CFR section 260.34). However, funds provided directly to participating organizations may not be used for inherently religious activities, such as worship, religious instruction, or proselytization (42 USC 604a(j); 45 CFR section 260.34(c)).
4. *Tribes: Federal Only*
  - a. Funds may be used for expenditures for activities that are not permissible under 42 USC 601, but for which the State or tribe was authorized to use IV-A or IV-F funds under prior law. The previously authorized activities must have been included in a State's approved State AFDC plan, JOBS plan, or Supportive Services Plan, as in effect on September 30, 1995, or at the State's option, on August 21, 1996. Examples of such activities are authorized juvenile justice and foster care activities (42 USC 604(a)(2); 45 CFR section 263.11(a)(2)). Use of such funds in the Tribal TANF program is allowed if the geographic area of the Tribal TANF program is within the State(s) having had an approved AFDC State plan(s) under Title IV-A that included these activities. If the tribe plans to exercise this option, these activities must be included in the approved Tribal TFAP.
  - b. Funds may not be used to contribute to or subsidize non-TANF programs (45 CFR section 286.45 (b)).
5. *Tribes: Federal Only, Commingled Federal/State-donated MOE, Segregated Tribal*
  - a. Funds may be used in any manner reasonably calculated to achieve the purposes of the Tribal TANF program, including providing low-income households with assistance in meeting home heating and cooling costs (42 USC 604(a)(1) and 45 CFR section 286.35(a)(1)). As specified in 42 USC 601 and 45 CFR section 286.35, the Tribal TANF program has the following purposes:
    - (1) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
    - (2) End dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
    - (3) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
    - (4) Encourage the formation and maintenance of two-parent families.

- b. A tribe may use funds for programs to prevent and reduce the number of out-of-wedlock pregnancies, including programs targeted to law enforcement officials, the educational system and counseling services, that provide education and training of women and men on the problem of statutory rape (42 USC 602(a)(1)(A)(v) and (vi)).
- c. Funds may be used to make payments or provide job placement vouchers to tribe-approved public and private job placement agencies providing employment placement services to individuals receiving assistance under TANF (42 USC 604(f)).
- d. Funds may be used to implement an electronic benefits transfer system (42 USC 604(g)).
- e. Funds may be used to carry out a program to fund individual development accounts (42 USC 604(h)(2)) established by individuals eligible to receive assistance under Tribal TANF (42 USC 604(h); 45 CFR section 286.40).
- f. A tribe may contract with charitable, religious and private organizations to provide administrative and programmatic services and may provide beneficiaries of assistance with certificates, vouchers, or other forms of disbursement which are redeemable with such organization (42 USC 604a(b) and 42 USC 604a(k)). However, tribes that operate their own TANF program under section 412 of the Social Security Act are not required to follow the Charitable Choice rules because the statutory provisions on Charitable Choice apply only to State and local governments (42 USC 604a(j); September 30, 2003, *Federal Register*, (68 FR 56450 and 56463)).

## **E. Eligibility**

### **1. Eligibility for Individuals**

The State or Tribal Plan provides the specifics on how eligibility is determined in each State or tribal service area. Plan and eligibility requirements must comply with the following Federal requirements:

- a. *Federal Only, Commingled Federal/State, Segregated State, and Separate State Program*

To be eligible for TANF “assistance” as defined in 45 CFR section 260.31(a) or any MOE-funded benefits, services, or “assistance,” a family must include a minor child who lives with a parent or other adult caretaker relative. The child must be less than 18 years old, or, if a full-time student in a secondary school (or the equivalent level of vocational or technical training), less than 19 years old. (With respect to segregated or separate State MOE funds, the State could use the definition for minor child given in section 419(2) of the Act or some other definition applicable in State

law provided the State can articulate a rationale basis for the age they choose.) A family must also be “needy,” i.e., financially eligible according to the State’s applicable income and resource criteria (42 USC 602, 602(a)(1)(B)(iii), 42 USC 609(a)(7)(B)(IV), 608(a)(1), 619(2) and 45 CFR section 263.2(b)(2)). See III.G.2.1, “Matching, Level of Effort, Earmarking – Level of Effort” - Maintenance of Effort,” for the MOE pro-family exception to this requirement.

Note: A State may continue to provide federally funded (*Federal Only*) TANF “assistance” pursuant to 42 USC 604(a)(2) using the financial eligibility criteria contained in the State’s approved AFDC, EA, JOBS, or Supportive Services plan as of September 30, 1995 (or at State option, as of August 21, 1996). A State may also continue this assistance notwithstanding the family composition requirement described above. (See III A.1.a, “Activities Allowed or Unallowed.”)

Only the “needy” are eligible for services, benefits, or “assistance” pursuant to TANF purpose 1 or 2 (see III.A.3.a, “Activities Allowed or Unallowed – Federal Only, Commingled Federal/State, Segregated State, Separate State Program”) (42 USC 601(a)(1) and (2); 45 CFR sections 260.20(a) and (b)). “Needy” for TANF and MOE purposes means financial deprivation, i.e., lacking adequate income and resources. For example, a needy family or a needy parent is one who is financially eligible according to the State’s financial eligibility criteria (income and resource (if applicable) standards, April 12, 1999, *Federal Register* (64 FR 17825)).

b. *Federal Only and Commingled Federal/State*

- (1) Any family that includes an adult or minor child head of household or a spouse of the head of household who has received assistance under any State program funded by Federal TANF funds for 60 months (whether or not consecutive) is ineligible for additional federally funded TANF assistance. However, the State may extend assistance to a family on the basis of hardship, as defined by the State, or if a family member has been battered or subjected to extreme cruelty. In determining the number of months for which the head of household or the spouse of the head of household has received assistance, the State must not count any month during which the adult received the assistance while living in Indian country or in an Alaskan Native Village and the most reliable data available with respect to that month (or a period including that month) indicate at least 50 percent of the adults living in Indian country or in the village were not employed (42 USC 608(a)(7); 45 CFR sections 264.1(a), (b), and (c)).

(See III.G.3, “Matching, Earmarking, Level of Effort - Earmarking,” for testing the limits related to the number of exemptions.)

- (2) A State may not provide assistance to an individual who is under age 18, is unmarried, has a minor child at least 12 weeks old, and has not successfully completed high school or its equivalent unless the individual either participates in education activities directed toward attainment of a high school diploma or its equivalent, or participates in an alternative education or training program approved by the State (42 USC 608(a)(4); 45 CFR section 263.11(b)).
- (3) A State may not provide assistance to an unmarried individual under 18 caring for a child, if the minor parent and child are not residing with a parent, legal guardian, or other adult relative, unless one of the statutory exceptions applies (42 USC 608(a)(5)).
- (4) A State may not provide assistance for a minor child who has been or is expected to be absent from the home for a period of 45 consecutive days or, at the option of the State, such period of not less than 30 and not more than 180 consecutive days unless the State grants a good cause exception, as provided in its State Plan (42 USC 608(a)(10)).
- (5) A State may not provide assistance for an individual who is a parent (or other caretaker relative) of a minor child who fails to notify the State agency of the absence of the minor child from the home, as in paragraph e. immediately above, within five days of the date that it becomes clear to that individual that the child will be absent for the specified period of time (42 USC 608(a)(10)(C)).
- (6) A State may not use funds to provide cash assistance to an individual during the 10-year period that begins on the date the individual is convicted in Federal or State court of having made a fraudulent statement or representation with respect to place of residence in order to simultaneously receive assistance from two or more States under TANF, Title XIX, or the Food Stamp Act of 1977, or benefits in two or more States under the Supplemental Security Income program under Title XVI of the Social Security Act. If the President of the United States grants a pardon with respect to the conduct that was the subject of the conviction, this prohibition will not apply for any month beginning after the date of the pardon (42 USC 608(a)(8)).

- (7) A State may not provide assistance to any individual who is fleeing to avoid prosecution, or custody or confinement after conviction, for a felony or attempt to commit a felony (or in the State of New Jersey, a high misdemeanor), or who is violating a condition of probation or parole imposed under Federal or State law (42 USC 608(a)(9)(A)).
- (8) Qualified aliens, as defined at 8 USC 1641b, entering the United States on or after August 22, 1996, are not eligible for Federal public benefits, as defined in 8 USC 1611(c), for a period of five years beginning on the date of the alien's entry into the United States, unless they meet an exception at 8 USC 1612(b)(2) or 1613. If the Federal public benefit meets the specifications in the Attorney General's Final Order (Order No. 2353-2001 published January 16, 2001 at 66 FR 3613), then the State may provide the benefit regardless of immigration status (8 USC 1611 (b)(1)(D)). A State may, at its option, provide Federal public benefits to qualified aliens who entered the United States before August 22, 1996, and, for aliens entering the United States on or after August 22, 1996, after the expiration of the five-year time bar. Non-qualified aliens may not receive Federal public benefits unless one of the exceptions at 8 USC 1612(b)(2) applies (8 USC 1612 and 1613).

c. *Federal Only, Commingled Federal/State, Segregated State*

- (1) A State shall require, as a condition of providing assistance, that a member of the family assign to the State the rights the family member may have for support from any other person. This assignment does not exceed the amount of assistance provided (42 USC 608(a)(3)).
- (2) An individual convicted under Federal or State law of any offense which is classified as a felony and which involves the possession, use, or distribution of a controlled substance (as defined the Controlled Substances Act (21 USC 802(6)) is ineligible for assistance if the conviction was based on conduct occurring after August 22, 1996. A State shall require each individual applying for assistance under TANF to state in writing whether the individual or any member of their household has been convicted of such a felony involving a controlled substance. However, a State may by law exempt individuals or limit the time period of this prohibition (21 USC 862a).



- (3) If an individual refuses to engage in required work, a State must reduce assistance to the family, at least pro rata, with respect to any period during the month in which the individual so refuses, or may terminate assistance. Any reduction or termination is subject to good cause or other exceptions as the State may establish (42 USC 607(e)(1); 45 CFR sections 261.13 and 261.14(a) and (b)). However, a State may not reduce or terminate assistance based on a refusal to work if the individual is a single custodial parent caring for a child who is less than 6 years of age if the individual can demonstrate the inability (as determined by the State) to obtain child care for one or more of the following reasons: (a) the unavailability of appropriate care within a reasonable distance of the individual's work or home; (b) unavailability or unsuitability of informal child care; or (c) unavailability of appropriate and affordable formal child care (42 USC 607(e)(2); 45 CFR sections 261.15(a), 261.56, and 261.57).

d. *Tribes: Federal Only, Commingled Federal/State-Donated MOE*

Eligibility for Tribal TANF is defined in the approved TFAP. See IV, "Other Information," for guidance on State MOE expended by tribes.

The approved TFAP includes the tribe's proposal for time limits for the receipt of TANF assistance (45 CFR section 286.115), as well as the percentage of the caseload to be exempted from the time limit. These proposed time limits must be approved by ACF (45 CFR section 286.115).

2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients** - Not Applicable

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

1. **Matching** - Not Applicable
- 2.1 **Level of Effort** - *Maintenance of Effort*

See IV, "Other Information," for guidance on State MOE expended by tribes.

The following MOE provisions apply to any State funds that are counted towards the maintenance of effort requirements for TANF, whether such State funds are expended under the *Commingled Federal/State*, *Segregated State*, or *Separate State Program* funding options.

- a. *State Basic MOE* - Every fiscal year, a State must maintain an amount of "qualified State expenditures" (as defined in 42 USC 609(a)(7)(B) and 45 CFR section 263.2) for eligible families (as defined in 42 USC

609(a)(7)(B)(i)(IV) and 45 CFR section 263.2(b)) at least at the applicable percentage of the State's historic State expenditures. Therefore, all amounts claimed for or on behalf of eligible families, including amounts that result from State tax provisions, must be the result of expenditure (42 USC 609(a)(7)(A) and (B)(i)(I); 45 CFR sections 260.30 ("expenditure") and 260.33; 45 CFR section 92.3, and 45 CFR section 92.24). States may claim qualified expenditures for eligible family members who are citizens or aliens. However, the particular aliens for whom a State may claim qualified expenditures will depend on the State funds used to provide the benefit or service (*Commingled Federal/State, Segregated State, or Separate State Program*) and whether the benefit or service is a Federal, State, or local public benefit (8 USC 1611, 1612(b), 1613, 1621-1622, and 1641(b)).

Effective October 1, 2005, for their FY 2006 awards, States may also claim expenditures on pro-family activities if the expenditure is reasonably calculated to prevent and reduce the incidence of out-of-wedlock births (TANF purpose 3—see III.A.3.a, "Activities Allowed or Unallowed – Federal Only, Commingled Federal/State, Segregated State, Separate State Program"), or encourage the formation and maintenance of two parent families (TANF purpose 4—see III.A.3.a, "Activities Allowed or Unallowed – Federal Only, Commingled Federal/State, Segregated State, Separate State Program"). This new provision allows States to claim for MOE purposes all qualified pro-family expenditures for *non-assistance* benefits and services provided to or on behalf an individual or family, regardless of financial need or family composition, as long as the activity is reasonably calculated to accomplish TANF purpose 3 or TANF purpose 4. Non-assistance benefits and services refers to activities that do not constitute "assistance," as defined in 45 CFR section 260.31(a) (45 CFR section 263.2(a)(4)(ii) and 45 CFR section 263.2(b)).

The applicable percentage for each fiscal year is 80 percent of the amount of non-Federal funds the State spent in fiscal year (FY) 1994 on AFDC or 75 percent if the State meets the Act's work participation rate requirements (42 USC 607(a)) for the fiscal year. This is termed "basic MOE" and the requirement is based on the Federal fiscal year. Qualified expenditures with respect to eligible families may come from all programs, i.e., the State's TANF program as well as programs separate from the State's TANF program. This requirement may be met through allowable State or local cash expenditures for goods and services, expenditures for allowable costs incurred by other non-Federal third parties (e.g., a non-profit organization, corporation, or other private party), cash donations by non-Federal third parties or the value of third party in-kind contributions (42 USC 609(a)(7)(A) and 609(a)(7)(B)(i)(I); 45 CFR sections 263.1, 263.2(e), 92.3, and 92.24).

Section 409(a)(7)(B)(iv)(IV) of the Social Security Act allows States to count expenditures made as a condition of receiving Federal funds under Title IV, part A of the Social Security Act toward their MOE requirement. The DRA of 2005 (Pub. L. No. 109-171), enacted February 8, 2006, added the Healthy Marriage Promotion and Responsible Fatherhood Grants and placed these provisions under Title IV, part A of the Social Security Act. If grantees are required to contribute a matching share of the total approved costs of Health Marriage Promotion and Responsible Fatherhood projects (discretionary grants awarded for 5-year project period beginning in FY 2007 under CFDA No. 93.086) under subsections 403(a)(2)(A)(iii) and 403(a)(2)(C)(ii) of the Social Security Act, then State expenditures made to meet any required non-Federal share may count toward the State's MOE requirement, provided the expenditure also meets all applicable MOE requirements, restrictions, and limitations (45 CFR section 263.2(g)).

If a State does not meet the basic MOE requirement, a penalty results. The penalty consists of a reduction of the State's Federal TANF grant for the following fiscal year in the amount of the difference between the State's qualified expenditures and the State's basic MOE (42 USC 609(a)(7)(A) and 45 CFR section 263.8). If application of a penalty results in a reduction of Federal TANF funding, a State is required in the immediately succeeding fiscal year to spend from State funds an amount equal to the total amount of the reduction, in addition to the otherwise required basic MOE. The additional funds must be spent in the TANF program, not under "separate State programs." Such expenditures may not be claimed toward the basic MOE (42 USC 609(a)(12); 45 CFR sections 263.6(f) and 264.50).

- b. *Limitations on "Qualified State Expenditures"* - Expenditures under pre-existing programs, other than those that would have been previously authorized and allowable under the former AFDC, JOBS, Emergency Assistance, Child Care for AFDC recipients, At-Risk Child Care, or Transitional Child Programs may not count toward the State's MOE requirement for the current year except to the extent that the current year's expenditures with respect to eligible families exceed the expenditures made under the State or local program in FY 1995. Exception: If the expenditures are for non-assistance pro-family activities within TANF purpose three or TANF purpose 4 (see III.A.3.a, "Activities Allowed or Unallowed – Federal Only, Commingled Federal/State, Segregated State, Separate State Program"), then current year expenditures are not limited to those made with respect to eligible families. If total current fiscal year expenditures for pro-family activities within TANF purpose three or TANF purpose 4 exceed total State expenditures in the program during FY 1995, then the State may claim the excess toward the State's MOE requirement. Thus, to be considered as "exceeding" the FY 1995 level,

the expenditures must be new or additional expenditures. (42 USC 609(a)(7)(B)(i)(II)(aa) and 45 CFR section 263.5).

In addition, expenditures by the State from amounts that originated from Federal funds may not count toward meeting a MOE requirement even if the expenditures “qualify” (42 USC 609(a)(7)(B)(iv)(I)).

Except for child-care expenditures, double counting of expenditures to meet the basic MOE requirement is prohibited (42 USC 609(a)(7)(B)(iv)(II-IV); 45 CFR section 263.6). States may count State funds expended to meet the requirements of the Child Care Development Fund Matching Fund (CFDA 93.596) as basic MOE expenditures as long as such expenditures meet the requirements of 42 USC 609(a)(7). The maximum amount of child-care expenditures that a State may double-count under this provision is the State’s Matching Fund MOE amount under CFDA 93.596 (42 USC 609(a)(7)(B)(iv); 45 CFR sections 263.3 and 263.6).

Expenditures for educational services/activities for eligible families to increase self-sufficiency, job training, and work count if the activities or services are not generally available to other State residents without cost and without regard to their income (42 USC 609(a)(7)(B)(i)(I)(cc); 45 CFR section 263.4).

Administrative costs in connection with the activities that correspond to the qualified expenditures may not exceed 15 percent of the total amount of countable expenditures for the fiscal year (42 USC 609(a)(7)(B)(i)(I)(dd); 45 CFR section 263.2(a)(5)).

The basic MOE requirement expressly does not count expenditures for services or activities that only fall under 42 USC 604 (a)(2) (see III.A.1.a, “Activities Allowed or Unallowed”). Such expenditures are not considered “qualified expenditures” (42 USC 609(a)(7)(B)(i)(I); 45 CFR section 263.2(a)(4)).

- c. *Contingency Fund MOE* - A State must spend more than 100 percent of its historic State expenditures for FY 1994 to qualify for contingency funds (42 USC 603(b) and 45 CFR sections 264.70 through 77). This is termed “Contingency Fund MOE.” The Contingency Fund MOE requirement may be met only through qualified expenditures under the State’s TANF program with respect to eligible families. Qualified expenditures consist of those defined under 42 USC 609(a)(7)(B)(i)(I), but excludes those expenditures described in subclause (I)(bb) (42 USC 603(b)(6)(B)(ii) and 609(a)(10)).

- d. *1108(b) Territorial Matching Fund MOE Requirement* - See IV, “Other Information,” for guidance on the spending requirements applicable to the receipt of Matching Grant funds under section 1108(b) of the Social Security Act (section 1108(b)) (42 USC 1308(b)).

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

### **3. Earmarking**

- a. *Federal Only and Commingled Federal/State*

A State may not spend more than 15 percent for administrative purposes, excluding expenditures for information technology and computerization needed for required tracking and monitoring, of the total combined amounts available under the State family assistance grant, supplemental grant for population increases, and contingency funds (42 USC 604(b)(1) and (2); 45 CFR sections 263.0 and 263.13).

- b. *Federal Only and Commingled Federal/State*

The average monthly number of families that include an adult or minor child head of household, or the spouse of the head of household, who has received assistance under any State program funded by Federal TANF funds for more than 60 countable months (whether or not consecutive) may not exceed 20 percent of the average monthly number of all families to which the State provided assistance during the fiscal year or the immediately preceding fiscal year (but not both), as the State may elect. To make this determination for a fiscal year, the average monthly number of families with a head of household or spouse of a head of household who received assistance for more than 60 months would be divided by the average monthly number of families that received assistance in that fiscal year, or, if the State chooses, in the previous fiscal year (42 USC 608(a)(7)(C)(ii); 45 CFR sections 264.1(c) and (e)).

(See III.E.1, “Eligibility - Eligibility for Individuals” for related eligibility testing.)

- c. *Tribes: Federal Only and Commingled Federal/State-donated MOE*

The approved TFAP includes a negotiated administrative cost rate for that tribe for that particular year. As approved in the TFAP, no Tribal TANF grantee may expend more than 35 percent of its TFAG for administrative costs during the first year, 30 percent during the second year, and 25 percent for the third and all subsequent grant periods. The approved tribal administrative cost rate may be found in a letter of approval issued by the ACF/Division of Tribal services. The Tribal administrative cost cap is determined by multiplying the TFAG by the negotiated administrative rate for the fiscal year being tested (45 CFR section 286.50).

In calculating Tribal TANF administrative costs under the Pub. L. No. 102-477 demonstration project, the definitions at 45 CFR section 286.5 will be used in determining what constitutes an administrative cost, and the regulatory limitations on administrative costs, i.e. the administrative cap limits, prescribed under 45 CFR section 286.50 will be adhered to. As specified at 45 CFR section 285.55(d), indirect costs applied to TANF funding are subject to and included within the administrative cap limits.

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

### *1. States*

Funds, other than contingency funds, are available to the State until expended for the purpose of providing assistance under the TANF Program; contingency funds may be used for qualified expenditures only in the fiscal year for which the funding is provided (42 USC 603(b) and 604(e); 45 CFR sections 263.11 and 265.3(c)). Current year TANF funds may be expended on assistance or non-assistance activities during the current fiscal year. However, the following restrictions to unobligated balances and current year obligations on non-assistance apply to the TANF program.

- a. *Unobligated Balances Reported on a State Fourth Quarter Financial Report For the Immediately Preceding Fiscal Year* - Pursuant to section 404(e) of PRWORA of 1996, a State may reserve amounts awarded to the State under section 403 (excluding Contingency Funds), without fiscal year limitation, to provide assistance under the State TANF program. Any Federal unobligated balances carried forward into a fiscal year from a prior fiscal year may only be expended on benefits that meet the definition of assistance at 45 CFR section 260.31(a) and related administrative costs associated with providing such assistance. See Appendix VI for a special provision related to use of prior-year funds.

States have several options for claiming administrative costs when providing assistance with prior year unobligated balances. The State may charge administrative costs related to providing the assistance to the prior year grant if the State has not expended 15 percent of the prior year's Adjusted SFAG on administrative costs previously. If the State has an unobligated balance and has expended the maximum 15 percent on administrative cost previously, the State may charge the administrative costs associated with providing the assistance to current year administrative costs. If the State chooses this option the administrative costs associated with providing assistance with prior year unobligated balances will be included within the 15 percent administrative cost cap for the current fiscal year.

The TANF 15 percent administrative cost cap is based on the Adjusted SFAG (reported on Line 4 (A) of the ACF-196, *TANF Financial Report*) divided by the amount the State expends on administration. The administrative cost cap is tracked by the fiscal year for which the funds were awarded and not by the total the State expends on administrative costs in a given fiscal year. States may only charge administrative costs to a prior year grant when it is administering assistance with a prior year unobligated balance.

- b. *Current Fiscal Year Federal Expenditures on Non-Assistance* – Unless the special provision in Appendix VI of this Supplement applies, the State must obligate by September 30 of the current fiscal year any funds for expenditures on non-assistance. Non-assistance expenditures are reported on Line 6 categories of the *ACF-196 TANF Financial Report*. The State must liquidate these obligations by September 30 of the immediately succeeding Federal fiscal year for which the funds were awarded. If the final liquidation amounts are lower than the original amount obligated, this difference must be included in the Unobligated Balance Line Item for the year in which they were awarded. Unobligated balances from previous fiscal years may only be expended on benefits that meet the definition of assistance at 45 CFR section 260.31(a) and related administrative costs associated with providing such assistance.

## 2. Tribes

A tribe may reserve amounts awarded to it, without fiscal year limitation, to provide assistance under the Tribal TANF program. However, a tribe may only expend funds beyond the fiscal year in which awarded on benefits that meet the definition of assistance at 45 CFR section 286.10 or on the administrative costs directly associated with providing that assistance (45 CFR section 286.60). Exception: This limitation on the use of prior-year funds to the provision of “assistance” does not apply if the tribe is using the money to help needy families affected by Hurricane Katrina. Tribes may use previous fiscal year funds to provide any benefit or service to help needy families affected by Hurricane Katrina (Pub. L. No. 109-68, Section 5).

- a. *Unobligated Balances Reported on a Tribal Annual SF-269 Financial Report For the Immediately Preceding Fiscal Year* - Pursuant to section 404(e) of the Act (as amended by Pub. L. No. 106-169, the Foster Care Independence Act of 1999), a tribe may reserve amounts awarded to the tribe under section 412, without fiscal year limitation, to provide assistance under the Tribal TANF program. Tribes have several options for claiming administrative costs when providing assistance with prior year unobligated balances. The tribe may charge administrative costs related to providing the assistance to the prior year grant if the tribe has not exceeded its negotiated administrative cap for that fiscal year, on administrative costs previously. If the tribe has an unobligated balance

and has exceeded the negotiated administrative cap for the previous fiscal year, the tribe may charge the administrative costs associated with providing the assistance to current year administrative costs. If the tribe chooses this option, the administrative costs associated with providing assistance with prior year unobligated balances will be included within the negotiated administrative cost cap for the current fiscal year.

- b. *Current Fiscal Year Federal Expenditures on Non-Assistance* – Unless the exception in Appendix VI applies, the tribe must obligate by September 30 of the current fiscal year any funds for expenditures on non-assistance. The tribe must liquidate these obligations by September 30 of the immediately succeeding Federal fiscal year for which the funds were awarded. If the final liquidation amounts are lower than the original amount obligated, this difference must be included in the Unobligated Balance Line Item for the year in which they were awarded, on the SF-269 report.

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable for tribes. Not Applicable for States (see L.1.f) or territories (see L.1.g).
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request from Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC-272 series of reports.
- e. ACF-196, *TANF Financial Report (OMB No. 0970-0247)* - States are required to submit this report quarterly in lieu of the SF-269, Financial Status Report. Each State files quarterly expenditure data on the State's use of Federal TANF funds, State TANF MOE expenditures, and State expenditures of MOE funds in separate State programs. If a State is expending Federal TANF funds received in prior fiscal years, it must file a separate quarterly TANF Financial Report for each fiscal year that provides information on the expenditures of that year's TANF funds. States that received Federal Contingency Funds under section 3 of Pub. L. No. 109-68 will report expenditures on line g of the current TANF ACF-196 Financial Report form.



- f. ACF-196-TR, *Territorial Financial Report* - Territories report their expenditures and other fiscal data in this report (45 CFR section 265.3(c)). The territories must report quarterly on their use of Federal TANF funds, Territorial TANF MOE expenditures, expenditures of MOE funds in separate “State” programs, expenditures made as a result of receiving matching grant funds under 42 USC 1308(b), and expenditures made under the Federal Adult Assistance Programs (Titles I, X, XIV, and XVI of the Social Security Act) (42 USC subchapters I, X, XIV, and XVI and 42 USC 1308(a))

See III.G.2.1, “Matching, Level of Effort, Earmarking - Level of Effort – Maintenance of Effort,” and IV, “Other Information,” for additional guidance on territories’ spending levels.

- g. ACF-196-KL, *TANF Financial Report*, is a special loan report for the three States eligible for and receiving loans under section 4 of Pub .L. No. 109-68—Louisiana, Mississippi, and Alabama. Final reports must be submitted to ACF by December 31, 2007.

## 2. Performance Reporting

- a. ACF-199, *TANF Data Report (OMB No. 0970-0309)* and ACF-343, *Tribal TANF Data Report (OMB No. 0970-0215)*.

One of the critical areas of this reporting is the work participation data, which serves as the basis for ACF to determine whether States and Tribes have met the required work participation rate(s). A penalty may apply for failure to meet the required rate(s).

### *States Work Participation Rates*

State agencies must meet or exceed their minimum annual work participation rate standards. The minimum work participation rate standards are 50 percent for the all-families rate and 90 percent for the two-parent families’ rate. A State’s minimum work participation rate standard may be reduced by its caseload reduction credit. HHS may penalize the State by an amount of up to 21 percent of the SFAG for violation of this provision (42 USC 609(a)(4); 45 CFR section 262.1(a)(4)).

### *Tribal Work Participation Rates*

Tribal TANF agencies must meet or exceed their minimum annual work participation rate standards. The minimum work participation rate standards are contained in the respective Tribal TANF plans. Tribal TANF agencies have the option to negotiate and choose from among a number of work participation rates (e.g., separate rates for one- and two-parent families or an “all-families with parents” rate where one- and two-

parent families are combined). HHS may penalize the Tribe by a maximum of five percent of the TFAG for the first violation of this provision. The penalty increases by an additional two percent for each subsequent violation up to a maximum of 21 percent (42 USC 612(c) and 612(g)(2); 45 CFR sections 286.195(a)(3) and 286.205).

*Key Line Items* - The following line items contain critical information for making the preceding determinations and for other program purposes:

Section One - Family-Level Data

Item 12 *Type of Family for Work Participation*

Item 17 *Receives Subsidized Child Care*

Item 28 *Is the TANF family exempt from the Federal time limit provisions*

Section One - Person-Level Data

Item 30 *Family Affiliation Code*

Item 32 *Date of Birth*

Item 38 *Relationship to Head-of-Household*

Item 39 *Parents with a Minor Child*

Item 44 *Number of months countable toward the Federal time limit*

Item 48 *Work-Eligible Individual Indicator*

Item 49 *Work Participation Status*

Section One - Adult Work Participation Activities

Items 50 - 62 *Work Participation Activities*

Section Three - Active Cases

Item 8 *Total Number of Families*

- b. ACF 209, *SSP-MOE Data Report (OMB No. 0970-0309)* - This report is submitted quarterly beginning with the first quarter of FY 2000.

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

Section One - Family-Level Data

Item 9 *Type of Family for Work Participation*

Item 15 *Receives Subsidized Child Care*

Section One - Person-Level Data

Item 28 *Date of Birth*

Item 34 *Relationship to Head-of-Household*

Item 41 *Work-Eligible Individual Indicator*

Item 42 *Work Participation Status*

Section One - Adult Work Participation Activities  
Items 43 - 55 *Work Participation Activities*

Section Three - Active Cases  
Item 3 *Total Number of SSP-MOE Families*

### 3. Special Reporting

- a. ACF-204, *Annual Report including the Annual Report on State Maintenance-of-Effort Programs (OMB No. 0970-0248)* - Each State must file an annual report containing information on the TANF program and the State's MOE program(s) for that year, including strategies to implement the Family Violence Option, State diversion programs, and other program characteristics. Each State must complete the ACF-204 for each program for which the State has claimed basic MOE expenditures for the fiscal year. States may submit this report as a freestanding report or as an addendum to the fourth quarter TANF Data Report.

*Key Line Items* - The following ACF-204 line items contain critical information:

- (1) *Program Name*
- (2) *Description of Major Program Activities*
- (3) *Program Purpose(s)*
- (4) *Program Type*
- (5) *Total State MOE Expenditures*
- (6) *Number of Families Served with MOE Funds*
- (7) *Eligibility Criteria*
- (8) *Prior Program Authorization*
- (9) *Total Program Expenditures in FY 1995*

The total MOE expenditures reported in item 5 of the ACF-204 should equal the total MOE expenditures reported in line 7, columns (B) plus (C) of the 4<sup>th</sup> quarter ACF-196 *TANF Financial Report*; or line 17, column (B) of the ACF-196-TR, *Territorial Financial Report*.

### N. Special Tests and Provisions

All of the following Special Tests and Provisions apply to a State's TANF program, not to a Tribal TANF program.

#### 1. Child Support Non-Cooperation

**Compliance Requirement** - If the State agency responsible for administering the State plan approved under Title IV-D of the Social Security Act determines that an individual is not cooperating with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, and reports that information to the State agency responsible for TANF, the State TANF agency must

(1) deduct an amount equal to not less than 25 percent from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance. HHS may penalize a State for up to five percent of the SFAG for failure to substantially comply with this required State child support program (42 USC 608(a)(2) and 609(a)(8); 45 CFR sections 264.30 and 264.31).

**Audit Objective** - Determine whether, after notification by the State IV-D agency, the TANF agency has taken necessary action to reduce or deny TANF assistance.

### **Suggested Audit Procedures**

- a. Review the State's TANF policies and operating procedures concerning this requirement.
- b. Test a sample of cases referred by the IV-D agency to the TANF agency to ascertain if benefits were reduced or denied as required.

## **2. Income Eligibility and Verification System**

**Compliance Requirements** - Each State shall participate in the Income Eligibility and Verification System (IEVS) required by section 1137 of the Social Security Act as amended. Under the State Plan the State is required to coordinate data exchanges with other federally assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies. Specifically, the State is required to request and obtain information as follows (42 USC 1320b-7; 45 CFR section 205.55):

- a. Wage information from the State Wage Information Collection Agency (SWICA) should be obtained for all applicants at the first opportunity following receipt of the application, and for all recipients on a quarterly basis.
- b. Unemployment Compensation (UC) information should be obtained for all applicants at the first opportunity, and in each of the first three months in which the individual is receiving aid. This information should also be obtained in each of the first three months following any recipient-reported loss of employment. If an individual is found to be receiving UC, the information should be requested until benefits are exhausted.
- c. All available information from the Social Security Administration for all applicants at the first opportunity (See *Federal Tax Return Information* below).
- d. Information from the Immigration and Naturalization Service and any other information from other agencies in the State or in other States that might provide income or other useful information.
- e. Unearned income from the Internal Revenue Service (IRS) (See *Federal Tax Return Information* below).

*Federal Tax Return Information* - Information from the IRS and some information from the Social Security Administration (SSA) is Federal tax return information and subject to use and disclosure restrictions by 26 USC 6103. Individual data received from the SSA's Beneficiary Earnings Exchange Record (BEER), consisting of wage, self-employment, and certain other income information is considered Federal tax return information. However, benefits payments such as Supplemental Security Income (SSI) are SSA data and not Federal tax return information. Under 26 USC 6103, disclosure of Federal tax return information from IEVS is restricted to officers and employees of the receiving agency. Outside (non-agency) personnel (including auditors) are not authorized to access this information either directly or by disclosure from receiving agency personnel.

The State is required to review and compare the information obtained from each data exchange against information contained in the case record to determine whether it affects the individual's eligibility or level of assistance, benefits or services under the TANF program, with the following exceptions:

- a. The State is permitted to exclude categories of information items from follow-up if it has received approval from ACF after having demonstrated that follow-up is not cost effective.
- b. The State is permitted, with ACF approval, to exclude information items from certain data sources without written justification if it followed up previously through another source of information. However, information from these data sources that is not duplicative and provides new leads may not be excluded without written justification.

The State shall verify that the information is accurate and applicable to the case circumstances either through the applicant or recipient, or through a third party, if such determination is appropriate based on agency experience or is required before taking adverse action based on information from a Federal computer matching program subject to the Computer Matching and Privacy Protection Act (45 CFR section 205.56).

For applicants, if the information is received during the application process, the State must use the information, to the extent possible, to determine eligibility. For recipients or individuals for whom a decision could not be made prior to authorization of benefits, the State must initiate a notice of case action or an entry in the case record that no case action is necessary within 45 days of its receipt of the information. Under certain circumstances, action may be delayed beyond 45 days for no more than 20 percent of the information items targeted for follow-up (45 CFR section 205.56).

HHS may penalize a State for up to two percent of the SFAG for failure to participate in IEVS (42 USC 609(a)(4) and 1320b-7; 45 CFR sections 264.10 and 264.11).

**Audit Objective** - Determine whether the State has established and implemented the required IEVS system for data matching, and verification and use of such data. (This audit objective does not include Federal tax return information as discussed in the compliance requirements.)

### **Suggested Audit Procedures**

- a. Review State operating manuals and other instructions to gain an understanding of the State's implementation of the IEVS system.
- b. Test a sample of TANF cases subject to IEVS to ascertain if the State:
  - (1) Used the IEVS to determine eligibility in accordance with the State Plan.
  - (2) Requested and obtained the data from the State Wage Information Collection Agency, the State unemployment agency, the Social Security Administration (excluding Federal tax return information as discussed in the compliance requirements), the Immigration and Naturalization Service, and other agencies, as appropriate, and performed the required data matching.
  - (3) Properly considered the information obtained from the data matching in determining eligibility and the amount of TANF benefits.

### **3. Penalty for Refusal to Work**

**Compliance Requirement** - State agency must reduce or terminate the assistance payable to the family for refusal to work subject to any good cause or other exemptions established by the State. HHS may penalize the State by an amount not less than one percent and not more than five percent of the SFAG for violation of this provision (42 USC 609(a)(14); 45 CFR sections 261.14, 261.16, and 261.54).

**Audit Objective** - Determine whether the State agency is reducing or terminating the assistance grant of those individuals who refuse to engage in work and are not subject to good cause or other exceptions established by the State.

### **Suggested Audit Procedures**

- a. Review the State's TANF policies and operating procedures concerning this requirement.
- b. Test a sample of TANF cases where the individual is not working, and ascertain if benefits were reduced or denied to individuals who are not exempt under State rules or do not meet State good cause criteria.

### **4. Adult Custodial Parent of Child under Six When Child Care Not Available**

**Compliance Requirement** - If an individual is an adult single custodial parent caring for a child under the age of six, the State may not reduce or terminate assistance for the individual's refusal to engage in required work if the individual demonstrates to the State an inability to obtain needed child care based upon the following reasons: (a) unavailability of appropriate child care within a reasonable distance from the individual's home or work site; (b) unavailability or unsuitability of informal child care by a relative

or under other arrangements; and (c) unavailability of appropriate and affordable formal child care arrangements. The determination of inability to find child care is made by the State. HHS may penalize a State for up to five percent of the SFAG for violation of this provision (42 USC 607(e)(2) and 609(a)(11); 45 CFR sections 261.15, 261.56, and 261.57).

**Audit Objective** - Determine whether the State has improperly reduced or terminated assistance to adult single custodial parents who refused to work because of inability to obtain child care for a child under the age of six.

#### **Suggested Audit Procedures**

- a. Gain an understanding of the criteria established by the State to determine benefits for an adult single custodial parent who refused to work because of inability to obtain child care for a child who is under the age of six.
- b. Select a sample of adult single custodial parents caring for a child who is under six years of age whose benefits have been reduced or terminated.
- c. Ascertain if the benefits were improperly reduced or terminated because of inability to obtain child care.

#### **5. Penalty for Failure to Comply with Work Verification Plan**

**Compliance Requirement** – The State agency must maintain adequate documentation, verification, and internal control procedures to ensure the accuracy of the data used in calculating work participation rates. Each State agency must comply with its HHS-approved Work Verification Plan in effect for the period that is audited. HHS may penalize the State by an amount not less than one percent and not more than five percent of the SFAG for violation of this provision (42 USC 601, 602, 607, and 609); 45 CFR sections 261.60, 261.61, 261.62, 261.63, 261.64, and 261.65).

**Audit Objective** - Determine whether the State agency is complying with its Work Verification Plan, including adequate documentation, verification, and internal control procedures.

#### **Suggested Audit Procedures**

- a. Review the State's Work Verification Plan and operating procedures concerning this requirement.
- b. Test a sample of TANF cases that have been reported to HHS under 45 CFR section 265.3(b)(1) and ascertain if the work participation rate data have been documented, verified, and reported in accordance with the State's Work Verification Plan.

#### IV. OTHER INFORMATION

##### *Transfers out of TANF*

As described in III.A.1.b, “Activities Allowed or Unallowed,” funds may be transferred out of TANF into the Social Services Block Grant (Title XX) (CFDA 93.667) and the Child Care and Development Block Grant (CFDA 93.575). These transfers are reflected in lines 2 and 3 of both the quarterly *TANF Financial Report* ACF-196, and the quarterly *Territorial Financial Report* ACF-196-TR. The amounts transferred out of TANF 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 TANF when determining Type A programs. The amount transferred out should not be shown as TANF expenditures on the Schedule of Expenditures of Federal Awards, but should be shown as expenditures for the program into which they are transferred.

##### *State MOE Expended by Tribes*

A State may provide a tribe State-donated MOE funds that are expended by the tribe. For the tribe, State-donated MOE funds are not Federal awards expended, shall not be considered in determining Type A programs, and shall not be shown as expenditures on the Schedule of Expenditures of Federal Awards. However, State-donated MOE funds expended by a tribe shall be included by the auditor of the State when testing III.G.2.1, “Matching, Level of Effort, Earmarking - Level of Effort - Maintenance of Effort”.

Under the Commingled Federal/State-donated MOE option, tribes may commingle their State-donated MOE funds with Federal grant funds. Because of the commingling, the audit of the tribe will include testing of the State-donated MOE and the auditor of the State should consider relying on this testing in accordance with auditing standards and OMB Circular A-133. However, the State-donated MOE is not considered Federal awards expended by the tribe.

##### *Spending Levels of the Territories*

A funding ceiling applies to Guam, the Virgin Islands, American Samoa and Puerto Rico. The programs subject to the funding ceiling are the Adult Assistance programs under Titles I, X, XIV, and XVI of the Social Security Act; TANF; Foster Care (CFDA 93.658); Adoption Assistance (CFDA 93.659) and Independent Living (CFDA 93.674) programs under Title IV-E of the Social Security Act; and the matching grant under section 1108(b). Total payments to each territory may not exceed the following: Guam - \$4,686,000; Virgin Islands - \$3,554,000; Puerto Rico - \$107,255,000; and American Samoa - \$1,000,000. However, the TANF Family Assistance Grant cannot exceed the territory’s fixed annual amount (42 USC 1308(a) and (c)).

##### *Territorial Matching Grant Funding Stream*

The Matching Grant under section 1108(b) of the Social Security Act (42 USC 1308(b)) is an optional funding stream for the territories. Each fiscal year, Puerto Rico, the Virgin Islands, and Guam may receive a Matching Grant in an amount that equals 75 percent of the amount, if any, by which the territory’s total expenditures during the fiscal year under the TANF program (including transfers to the CCDF (CFDA 93.575 and 93.596) and SSBG (CFDA 93.667) programs) and the Foster Care program exceed the total of: (1) the amount that equals the



territory's Federal TANF grant payable (without regard to any applicable penalties; and (2) the amount that equals the sum expended by the territory during FY 1995 in the AFDC and JOBS programs (other than for child care).

Thus, each territory receiving a Matching Grant has two expenditure requirements: (1) expend an amount that equals the territory's Federal TANF block grant amount; and (2) expend an amount that equals the territory's share of expenditures in the AFDC and JOBS programs (other than for child care) during FY 1995. This latter requirement is the territory's Matching Grant MOE expenditure requirement. Territorial expenditures used to receive section 1108(b) Federal Matching Grant funds are expenditures that exceed the sum of these two expenditure requirements. Territorial expenditures in the TANF program in excess of the total spending requirement that are used to receive section 1108(b) Federal Matching Grant funds may be reported in either column (C) or column (D) of the ACF-196-TR, but not in both (45 CFR section 264.80(a)(1)).

The amounts of the two expenditure requirements are as follows:

<b>Territory</b>	<b>Federal TANF Block Grant Spending Amount (FGA)<sup>2</sup></b>	<b>Matching Grant MOE Spending Amount<sup>3</sup></b>	<b>Total Spending Requirement</b>
Puerto Rico	\$71,562,501	\$28,182,864	\$99,745,365
Guam	\$3,465,478	\$974,517	\$4,439,995
Virgin Islands	\$2,846,564	\$820,380	\$3,666,944
American Samoa	\$0	\$0	\$0

See 45 CFR section 264.82 for the types of expenditures using Federal and Territorial funds that may count toward meeting the required block grant spending amount. 45 CFR section 264.81 specifies the types of expenditures that may count toward meeting the Matching Grant MOE requirement. Territorial expenditures may count only once, i.e., to meet either expenditure requirement or as an excess expenditure to receive Federal Matching Grant funds under 1108(b). (45 CFR sections 264.80 through 264.85 include the requirements pertinent to receipt of matching funds under section 1108(b)).

#### *Information Pertinent to Hurricane Katrina*

See Appendix VI for program waivers and special provisions related to Hurricane Katrina. (See also II, "Program Procedures – Source of Governing Requirements" and "Availability of Other Program Information").

<sup>2</sup> Amount reported in Column (C) of the ACF-196-TR.

<sup>3</sup> Amount reported in Column (D) of the ACF-196-TR.

The loan-eligible States of Louisiana, Mississippi, and Alabama may use the Federal Loan funds received under Section 4 of Pub. L. No. 109-68 for or on behalf of victims of Hurricane Katrina and Hurricane Rita, in any manner that is reasonably calculated to accomplish a TANF purpose and in any way Federal State Family Assistance Grants may be used. Therefore, loan amounts should be reviewed as part of the TANF program. This authority ends October 1, 2007. Therefore, States that received loans under this authority must obligate the loan funds no later than September 30, 2007. All loan funds must be expended by December 31, 2007. These loan funds are not available until spent. Any funds not obligated by September 30, 2007 and any obligated funds that have not been liquidated by December 31, 2007 must be returned to the Federal government.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.563 CHILD SUPPORT ENFORCEMENT

#### I. PROGRAM OBJECTIVES

The objectives of the Child Support Enforcement programs are to: (1) enforce support obligations owed by non-custodial parents, (2) locate absent parents, (3) establish paternity, and (4) obtain child and spousal support.

#### II. PROGRAM PROCEDURES

##### Administration and Services

The Child Support Enforcement programs are administered at the Federal level by the Office of Child Support Enforcement (OCSE), Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS). Under the State Child Support Enforcement program (State program), funding is provided to the 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam, based on a State plan and amendments, as required by changes in statutes, rules, regulations, interpretations, and court decisions, submitted to and approved by OCSE. Under the Tribal Child Support Enforcement program (tribal program), funding is provided to federally recognized tribes and tribal organizations based on applications, plans, and amendments, as required by changes in statutes, rules, regulations, and interpretations, submitted to and approved by the ACF Central Office.

The State program is an open-ended entitlement program that allows the State to be funded at a specified percentage, Federal financial participation (FFP), for eligible program costs. Under the tribal program, tribes receive funding for a specified percentage of program costs.

State child support agencies are required to conduct self-reviews of their programs. The first round of self-assessments was required to be completed by March 31, 1999 (42 USC 654(15) and 45 CFR part 308).

##### Source of Governing Requirements

The Child Support Enforcement programs are authorized under Title IV-D of the Social Security Act, as amended. This includes amendments as the result of the Deficit Reduction Act of 2005 (DRA) (Pub. L. No. 109-171). The State program is codified at 42 USC 651 through 669. Implementing program regulations for the State program are published at 45 CFR parts 301 through 308. In addition, with regard to eligibility and other provisions, these programs are closely related to programs authorized under other titles of the Social Security Act, including the Temporary Assistance for Needy Families (TANF) program (CFDA 93.558), the Medicaid program (CFDA 93.778), and the Foster Care (Title IV-E) program (CFDA 93.658).

The tribal program is authorized under Title IV-D of the Social Security Act, as amended, at 42 USC 655. Implementing program regulations are published at 45 CFR part 309 (*Federal Register*, March 30, 2004, 69 FR 16639). These regulations are available at <http://www.acf.hhs.gov/programs/cse/pol/AT/2004/at-04-01a.pdf>.

Awards made under the State program with funding periods beginning on or after October 1, 2003, are subject to the HHS implementation of the A-102 Common Rule, 45 CFR part 92 (*Federal Register*, September 8, 2003, 68 FR 52843-52844). The State program also is subject to 45 CFR part 95. The tribal program is subject to the administrative requirements of 45 CFR part 92 (45 CFR part 309). Both programs are subject to the cost principles under Office of Management and Budget Circular A-87 (as provided in *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government*, HHS Publication ASMB C-10, available on the Internet at <http://rates.psc.gov/fms/dca/asmb%20c-10.pdf>).

States and tribes are required to adopt and adhere to their own statutes and regulations for program implementation, consistent with the requirements of Title IV-D and the approved State plan/tribal plan and application.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should look first to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

##### 1. *Activities Allowed*

Consistent with the approved Title IV-D plan, allowable activities include the following. A more complete listing of allowable types of activities, with examples, as appropriate, is included at 45 CFR sections 304.20 through 304.22 for the State program and 45 CFR sections 309.145(a) through (o) for the tribal program.

##### a. *State and tribal programs*

- (1) Parent locator services for eligible individuals (45 CFR sections 304.20(a)(2), 304.20(b), and 302.35(c); 45 CFR section 309.145).
- (2) Paternity and support services for eligible individuals (45 CFR section 304.20(a)(3); 45 CFR sections 309.145(b) and (c)).
- (3) Program administration, including establishment and administration of the State plan/tribal plan, purchase of equipment, and development of a cost allocation system and other systems necessary for fiscal and program accountability (45 CFR sections 304.20(b)(1) and 304.24; 45 CFR sections 309.145(a)(1) and (a)(2), 309.145(h), 309.145(i), and 309.145(o)).

- (4) Establishment of agreements with other State, tribal, and local agencies and private providers, including the costs of cooperative arrangements with appropriate courts and law enforcement officials in accordance with the requirements of 45 CFR section 302.34 , including associated administration and short-term training of staff (45 CFR section 304.21(a); 45 CFR sections 309.145(a)(3)(iii) and 309.145(m)).

b. *State programs only*

Necessary expenditures for support enforcement services and activities provided to individuals from whom an assignment of support rights (as defined in 45 CFR section 301.1) is obtained (45 CFR sections 304.20, 304.21, and 304.22).

c. *Tribal programs*

- (1) The portion of salaries and expenses of a tribe's chief executive and staff that is directly attributable to managing and operating a tribal IV-D program (45 CFR section 309.145(j)).
- (2) The portion of salaries and expenses of tribunals and staff that is directly related to required Tribal IV-D program activities (45 CFR section 309.145(k)).
- (3) Service of process (45 CFR section 309.145(l)).
- (4) Costs associated with obtaining technical assistance from non-Federal third-party sources, including other Tribes Tribal organizations, State agencies, and private organizations, that are directly related to operating a IV-D program, and costs associated with providing such technical assistance to public entities (45 CFR section 309.145(n)).

2. ***Activities Unallowed***

a. *State and tribal programs*

The following costs and activities are unallowable pursuant to 45 CFR section 304.23 and 45 CFR section 309.155:

- (1) Activities related to administering other titles of the Social Security Act.
- (2) Construction and major renovations.
- (3) Any expenditures that have been reimbursed by fees or costs collected.

- (4) Any expenditures for jailing of parents in child support enforcement cases.
- (5) Costs of counsel for indigent defendants in IV-D actions.
- (6) Costs of guardians *ad litem* in IV-D actions.

b. *State programs*

The following costs and activities are unallowable pursuant to 45 CFR section 304.23:

- (1) Education and training programs other than those for Title IV-D agency staff or as described in 45 CFR section 304.20(b)(2)(viii).
- (2) Any expenditures related to carrying out an agreement under 45 CFR section 303.15.
- (3) Any costs of caseworkers (45 CFR section 303.20(e)).
- (4) Medical support enforcement activities performed under cooperative arrangements/agreements (45 CFR sections 303.30 and 303.31).
- (5) The following costs associated with cooperative arrangements with courts and law enforcement officials are unallowable: service of process and court filing fees unless the court or law enforcement agency would normally be required to pay the costs of such fees; costs of compensation (salary and fringe benefits) of judges; costs of training and travel related to the judicial determination process incurred by judges; office-related costs, such as space, equipment, furnishings and supplies incurred by judges; compensation (salary and fringe benefits), travel and training, and office-related costs incurred by administrative and support staffs of judges; and costs of cooperative agreements that do not meet the requirements of 45 CFR section 303.107 (45 CFR section 304.21(b)).

**E. Eligibility**

**1. Eligibility for Individuals**

Eligible recipients are: (a) individuals applying for or receiving TANF benefits for whom an assignment of child support rights has been made to the State; (b) non-TANF Medicaid recipients; (c) former Aid to Families with Dependent Children/TANF, Title IV-E, or Medicaid recipients who continue to receive child support enforcement services without filing an application; (d) individuals needing such services who have applied to a State child support enforcement agency; and (e) for tribal programs, anyone who applies for IV-D services

(42 USC 608(a)(3); 45 CFR sections 302.32(a) and 302.33(a); 45 CFR section 309.65(a)(2)).

2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients** - Not Applicable

#### **F. Equipment and Real Property Management**

Under State programs, equipment that is capitalized or depreciated or is claimed in the period acquired and charged to more than one program is subject to 45 CFR section 95.707(b) in lieu of the requirements of the A-102 Common Rule (45 CFR section 95.707(b)).

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

##### **1. Matching**

###### *State programs*

The Federal share of program costs related to determining paternity, including those related to the planning, design, development, installation and enhancement of the statewide computerized support enforcement system is 66 percent. For costs incurred on or before September 30, 2006, the Federal share of laboratory costs for determining paternity was 90 percent (42 USC 655(a)(1)(C) and (a)(2)(C); 45 CFR sections 304.20(c) and 304.30). Effective October 1, 2006, the Federal share of laboratory costs for determining paternity is 66 percent (DRA, Section 7308).

###### *Tribal programs*

The Federal share of program costs is 90 percent for the first 3 years and 80 percent thereafter. Unless waived by the Secretary, the tribe or tribal organization must provide the 10 percent and 20 percent share, respectively (45 CFR sections 309.130(c), (d), and (e)).

2. **Level of Effort** - Not Applicable
3. **Earmarking** - Not Applicable

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

- a. *State programs* - This program operates on a cash accounting basis and each year's funding and accounting is discrete; i.e., there is no carry-forward of unobligated funds. To be eligible for Federal funding, claims must be submitted to ACF within two years after the calendar quarter in which the State made the expenditure. This limitation does not apply to any claim for an adjustment to

prior year costs or resulting from a court-ordered retroactive adjustment (45 CFR sections 95.7, 95.13, and 95.19).

- b. *Tribal programs* – A tribe or tribal organization must obligate its Federal Title IV-D grant funds no later than the last day of the funding period (equivalent to the Federal fiscal year) for which they were awarded (“obligation period”) or the funds must be returned to ACF. Unless an extension is granted by ACF, valid obligations must be liquidated no later than the last day of the 12-month period immediately following the obligation period or the funds must be returned to ACF (45 CFR sections 309.135(b), (c), and (e)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable for tribal programs; not applicable for State programs.
- b. SF-270, *Request for Advance or Reimbursement* - Applicable for tribal programs; not applicable for State programs.
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable.
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC-272 series of reports.
- e. OCSE 34A, *Child Support Enforcement Program Quarterly Report of Collections (State programs - OMB No. 0970-0181; tribal programs - OMB No. 0970-0218)*.
- f. OCSE 396A, *Child Support Enforcement Program Quarterly Report of Expenditures and Estimates (OMB No. 0970-0181)* - Applicable for State programs only.

### **2. Performance Reporting** - Not Applicable

### **3. Special Reporting** - Not Applicable



## N. Special Tests and Provisions

### 1. Establishment of Paternity and Support Obligations

**Compliance Requirement** - The IV-D agency must attempt to establish paternity and a support obligation for children born out of wedlock. The agency must establish a support obligation when paternity is not an issue. These services must be provided for any child in cases referred to the IV-D agency or to individuals applying for services under 45 CFR section 302.33 or 45 CFR section 309.65(a)(2) for whom paternity or a support obligation had not been established (45 CFR sections 303.4 and 303.5, 45 CFR sections 309.100 and 309.105). For State IV-D agencies, these services must be provided within the time frames specified in 45 CFR sections 303.3(b)(3) and (b)(5), 303.3(c) and, 303.4(d).

**Audit Objective** - Determine whether the IV-D agency attempted to establish, or established, paternity and a support obligation. For State IV-D agencies, determine whether these actions were within the required time frames.

#### Suggested Audit Procedures

- a. Review the agency's procedures for tracking case referrals for the provision of paternity and support obligation services and the type of documentation maintained that these services were provided or attempted.
- b. Test a sample of cases referred to the agency during the audit period to ascertain if:
  - (1) For cases involving a child born out of wedlock, the agency established or attempted to establish paternity.
  - (2) For all cases reviewed, the agency established or attempted to establish a support obligation.
  - (3) For State IV-D cases,
    - (a) The State achieved a successful outcome (i.e., an order was established within the review period). If so, the case was eligible for closure and time frames need not be evaluated, as provided in 45 CFR section 308.2(b)(1).
    - (b) Paternity and support obligation services were provided within the required time frames.

## 2. Enforcement of Support Obligations

**Compliance Requirements** - For all cases referred to the IV-D agency or applying for services under 45 CFR section 302.33 or 45 CFR section 309.65(a)(2) in which an obligation to support and the amount of the obligation has been established, the agency must maintain a system for (a) monitoring compliance with the support obligation; (b) identifying on the date the parent fails to make payments in an amount equal to support payable for one month, or an earlier date in accordance with State or tribal law, those cases in which there is a failure to comply with the support obligation; and (c) enforcing the obligation. To enforce the obligation the agency must initiate income withholding, if required by and in accordance with 45 CFR section 303.100 or 45 CFR section 309.110. State IV-D agencies must initiate any other enforcement action, unless service of process is necessary, within 30 calendar days of identification of the delinquency or other support-related noncompliance, or location of the absent parent, whichever occurs later. If service of process is necessary, service must be completed and enforcement action taken within 60 calendar days of identification of the delinquency or other noncompliance, or the location of the absent parent whichever occurs later. If service of process is unsuccessful, unsuccessful attempts must be documented and meet the State's guidelines defining diligent efforts. If enforcement attempts are unsuccessful, the State IV-D agency should determine when it would be appropriate to take an enforcement action in the future and take it at that time (45 CFR section 303.6). Optional enforcement techniques available for use by the State's are found at 45 CFR sections 303.71, 303.73, and 303.104.

**Audit Objectives** - Determine whether the IV-D agency monitored and, when necessary, enforced cases with support obligations. For State IV-D agencies, determine if actions were taken within required time frames.

### Suggested Audit Procedures

- a. Review the agency's procedures for tracking case referrals and identifying those cases where an obligation to support has been ordered and the amount of the support obligation has been established.
- b. Test a sample of cases where an obligation to support had been ordered to ascertain that the agency monitored such cases, and, for State IV-D agencies, identified those cases requiring enforcement within the required time frame.
- c. For selected cases identified as requiring enforcement by a State IV-D agency, verify that enforcement action was initiated within the required time frame. Ascertain if a collection resulting from an enforcement action was received. If so, no further audit procedures are necessary. If a collection was not received:
  - (1) Ascertain if use of income withholding was appropriate. If so, verify that it was initiated within required time frame.
  - (2) If income withholding was not appropriate and/or was not successful, ascertain if the agency scheduled and took another enforcement action.

- d. If a service of process was necessary, but unsuccessful, verify that unsuccessful attempts were documented and met the diligent effort standard under the agency's diligent effort definition.

### **3. Securing and Enforcing Medical Support Obligations – State Programs**

**Compliance Requirements** - The State IV-D agency must attempt to secure medical support information, and establish and enforce medical support obligations for all individuals eligible for services under 45 CFR section 302.33. Specifically, the State IV-D agency must determine whether the custodial parent and child have satisfactory health insurance other than Medicaid. If not, the agency must petition the court or administrative authority to include medical support in the form of health insurance coverage and/or cash medical support in all new or modified orders for support be provided by either or both parents. The agency is also required to establish written criteria to identify cases not included above, where there is a high potential for obtaining medical support based on: (a) available evidence that health insurance may be available to either or both parents at reasonable cost, and (b) facts (as defined by the State) which are sufficient to warrant modification of an existing support order to include health insurance coverage for a dependent child(ren). For cases meeting the established criteria, the agency shall petition the court or administrative authority to modify support orders to include medical support in the form of health insurance coverage and/or payment for medical expenses incurred on behalf of the child (45 CFR sections 303.31(b)(1)-(4) and DRA, Section 7307).

For non-TANF cases, the agency shall petition for medical support when the eligible individual is a Medicaid recipient or with consent of the individual if not a Medicaid recipient (45 CFR section 303.31(c)).

In cases where medical support is ordered, the agency is required to verify that it was obtained. If it was not obtained, the agency should take steps to enforce the health insurance coverage required by the support order, unless it determines that health insurance was not available to either or both parents at reasonable cost (45 CFR section 303.31(b)(7) and DRA, Section 7307).

The agency shall inform the Medicaid agency when a new or modified order for child support includes medical support and shall provide information to the custodial parent concerning the health insurance policy secured under any order (45 CFR sections 303.31(b)(5) and (6)).

The medical support provisions outlined in DRA, Section 7307 have an effective date of October 1, 2006. In the case where the Secretary of HHS determines that State legislation is required to meet any of the requirements imposed by Subtitle C of Title VII of the DRA, the effective date shall be 3 months after the first day of the first calendar quarter beginning after the close of the first regular session of the State legislature that began after the date of the enactment of the DRA (February 8, 2006). For purposes of the preceding sentence, in the case of a State that has a 2-year legislative session, each year of the session shall be considered to be a separate regular session of the State legislature.

**Audit Objective** - Determine whether the State IV-D agency petitioned for and secured or pursued enforcement of medical support in the form of health insurance and/or cash medical support as part of support orders and informed the Medicaid agency and custodial parent as required.

**Suggested Audit Procedures**

- a. Test a sample of cases determined eligible during the audit period for services under 45 CFR section 302.33 to ascertain if the agency determined whether the custodial parent had satisfactory health insurance other than Medicaid.
- b. For those selected cases where the custodial parent and child do not have satisfactory health insurance other than Medicaid, verify that the agency petitioned the court or administrative authority for health insurance coverage and/or cash medical support when required.
- c. For selected cases where medical support was ordered, ascertain that the agency verified that medical support was obtained by the obligated parent. If medical support was not obtained by the obligated parent, ascertain if the agency either made a determination that health insurance was not available at a reasonable cost or took action to enforce and obtain the medical support.
- d. For selected cases where the obligated parent had health insurance or when health insurance was obtained by the agency, ascertain if there is documentation that the Medicaid agency and the custodial parent were informed.

**4. Provision of Child Support Services for Interstate Cases – State Programs**

**Compliance Requirements** - The State IV-D agency must provide the appropriate child support services needed for interstate cases (cases in which the child and custodial parent live in one State and the responsible relative lives in another State), establish an interstate central registry responsible for receiving, distributing and responding to inquiries on all incoming interstate IV-D cases, and meet required time frames pertaining to provision of interstate services. The case requiring action may be an initiating interstate case (a case sent to another State to take action on the initiating State's behalf) or a responding interstate case (a request by another State to provide child support services or information only). Specific time frame requirements for responding and initiating interstate cases are at 45 CFR sections 303.7(a) and 303.7(b)(2), (4), (5) and (6), respectively (45 CFR sections 302.36 and 303.7).

**Audit Objective** - Determine whether the State IV-D agency provided required child support services to interstate cases within the required time frames.

**Suggested Audit Procedures**

- a. Review the agency's interstate central registry and ascertain the procedures for receiving, distributing, and responding to all incoming interstate claim cases.

- b. Test a sample of initiating interstate cases to verify that required information was provided to the responding State within required time frames.
- c. Test a sample of responding interstate cases to verify that required child support enforcement services were provided within the time frames for providing information.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES****CFDA 93.566 REFUGEE AND ENTRANT ASSISTANCE—STATE-ADMINISTERED PROGRAMS****I. PROGRAM OBJECTIVES**

The objective of the Refugee and Entrant Assistance Program is to provide States with funds to assist refugees and Cuban/Haitian entrants in attaining economic and social self-sufficiency as soon as possible after their initial placement in U.S. communities. (The term “refugee” is used to mean an individual who meets the immigration status requirements under 45 CFR section 400.43.)

**II. PROGRAM PROCEDURES****Administration and Services**

The Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Office of Refugee Resettlement (ORR), administers the Refugee and Entrant Assistance Program on behalf of the Federal Government. ORR provides funds to States through two grant programs: (1) Cash/Medical/Administration (CMA) and (2) Refugee Social Services (RSS).

**CMA Grants**

CMA grants are made to States upon submittal of an approved State plan and Annual State estimate. CMA grants reimburse States for the costs of providing:

1. *Refugee Cash Assistance (RCA)* – monthly cash benefits for refugees who do not meet the eligibility requirements of the Temporary Assistance for Needy Families (TANF) or Supplemental Security Income (SSI) programs;
2. *Refugee Medical Assistance (RMA)* – medical assistance to refugees who do not meet all eligibility requirements for Medicaid and the State Children’s Health Insurance Program (SCHIP) and medical screening to all refugees if done within the refugees’ first 90 days upon arrival to the U.S.;
3. *Refugee Unaccompanied Minor (RUM) Assistance* – Child welfare services and foster care to unaccompanied refugee minors (until age 18 or higher age as the State’s Title IV-B plan prescribes); and
4. Administrative costs associated with providing RCA, RMA, and RUM, and costs incurred for the overall management of the State’s refugee program.

## Refugee Social Service Grants

Refugee Social Services grants are made to States upon submittal of an approved State plan and an Annual Services Plan. RSS grants are allocated to States by formula according to each State's percentage of the national refugee and entrant population for the most recent three years. States are required to use these funds to help refugees become economically self-sufficient as quickly as possible, primarily through the provision of employment services.

A State may administer the program as a publicly State-administered program, or may form a public/private partnership by engaging non-profit organizations to deliver program services and benefits. A State administered program must follow the TANF rules on financial eligibility and payment levels unless the State receives an approved waiver under 45 CFR section 400.300 to continue administering RCA according to the rules of the former Aid to Families With Dependent Children (AFDC) Program. Subject to certain limitations, a public/private program may operate according to its own rules.

## Source of Governing Requirements

The Refugee and Entrant Assistance Program is governed under the following authority:

The Refugee Act of 1980 (Pub. L. No. 96-212); Refugee Education Assistance Act of 1980 (Pub. L. No. 96-422); Refugee Assistance Amendments of 1982 (Pub. L. No. 97-363); Refugee Assistance Extension Act of 1986 (Pub. L. No. 99-605); Section 584(c) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act (as included in the fiscal year (FY) 1988 Continuing Resolution (Pub. L. No. 100-202)), insofar as it incorporates by reference with respect to certain Amerasians from Viet Nam the authorities pertaining to assistance for refugees established by section 412(c)(2) of the Immigration and Nationality Act, as amended, including certain Amerasians from Viet Nam who are United States citizens; and, as provided under Title II of the Foreign Operations, Export Financing, and Related Programs Appropriations Acts, 1989 (Pub. L. No. 100-461), 1990 (Pub. L. No. 101-167), and 1991 (Pub. L. No. 101-513); section 107(b)(1)(A) of the Trafficking Victims Protection Act of 2000 (Pub. L. No. 106-386), as amended by the Trafficking Victims Protection Reauthorization Act of 2003 (Pub. L. No. 108-193) and 2005 (Pub. L. No. 109-164), insofar as it states that a victim of a severe form of trafficking and certain other specified family members shall be eligible for federally funded or administered benefits and services to the same extent as a refugee. A "victim of a severe form of trafficking" is defined as a person who is induced by force, fraud or coercion to perform commercial sex acts, or a person who is subjected to involuntary servitude, peonage, debt bondage or slavery through the use of force, fraud or coercion.

Program regulations are at 45 CFR part 400.

Awards under the Refugee and Entrant Assistance Program are subject to the HHS implementation of the A-102 Common Rule. This program also is subject to (1) 45 CFR part 95, subparts E (Cost Allocation Plans) and F (Automatic Data Processing Equipment and Services Conditions for Federal Financial Participation (FFP)), and (2) the cost principles under Office of Management and Budget Circular A-87 (as provided in *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal*

Government, HHS Publication ASMB C-10, available on the Internet at <http://rates.psc.gov/fms/dca/asmb%20c-10.pdf>).

### Availability of Other Program Information

Additional information is available on the ORR web site at <http://www.acf.dhhs.gov/programs/orr>.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

Program funds are to be used to pay for:

1. *Refugee Cash Assistance* (45 CFR section 400.53) (see III.E.1, “Eligibility - Eligibility for Individuals”).
2. *Refugee Medical Assistance* (45 CFR section 400.100) (see III.E.1, “Eligibility - Eligibility for Individuals”).
3. *Refugee Unaccompanied Minor Assistance* (45 CFR section 400.116) (see III.E.1, “Eligibility - Eligibility for Individuals”).
4. *Refugee Medical Screening*

A State may charge refugee medical screening costs to RMA upon submission of a medical screening plan which the State Director or designee and the Director of ORR have approved in writing 45 CFR section 400.107. If such screening is done during the first 90 days after a refugee's initial date of entry into the United States, it may be provided without prior determination of the refugee's eligibility under 45 CFR sections 400.94 or 400.100 and may be charged to RMA with the written approval of the Director of ORR. States may charge to RMA the cost of medical screenings done later than 90 days after the refugees' arrival only if the refugees had been determined ineligible for Medicaid or SCHIP (CFDA 93.767) under 45 CFR sections 400.94 and 400.100 (45 CFR section 400.107).

5. *Program Administration* – A State may claim against its CMA grant the reasonable and necessary identifiable administrative costs:
  - a. Associated with providing RCA, RMA, and assistance and services to unaccompanied refugee minors (45 CFR section 400.207).



- b. Incurred by the local resettlement agencies for providing cash assistance under the public/private RCA program (45 CFR section 400.13(e)).
  - c. Incurred for the overall management of the State's refugee program. Such costs may include: development of the State Plan, overall program coordination, and salary and the travel costs of the State Refugee Coordinator (45 section CFR 400.13(c)).
6. *Employability Services* – A State may provide the following employability services:
- a. Employment services, including development of a family self-sufficiency plan and individual employment plan, job development, job search, and job placement (45 CFR section 400.154(a));
  - b. Aptitude and skills testing, employability assessment (45 CFR section 400.154(b));
  - c. On-the job training at the employment site (45 CFR section 400.154(c));
  - d. English language training with emphasis on job-related language skills (45 CFR section 400.154(d));
  - e. Vocational training when part of an employability plan (45 CFR section 400.154(e));
  - f. Skills recertification (45 CFR section 400.154(f));
  - g. Child care when necessary for job retention/acceptance or participation in an employability service (45 CFR section 400.154(g));
  - h. Transportation when necessary for job retention/acceptance or participation in an employability service (45 CFR section 400.154(h));
  - i. Translation and interpreter services when necessary for job retention/acceptance or participation in an employability service (45 CFR section 400.154(i));
  - j. Case management services directed toward a refugee's attainment of employment as soon as possible after arrival in the U.S. (45 CFR section 400.154(j)). All case management services must be charged to RSS; and
  - k. Assistance in obtaining employment authorization documents (45 CFR section 400.154(j)).

7. *Non-Employability Social Services* – A State may provide non-employability social services, which may include:
  - a. Information and referral services (45 CFR section 400.155(a));
  - b. Outreach services designed to familiarize refugees with available services and facilitate access to them (45 CFR section 400.155(b));
  - c. Social adjustment services including emergency services, health-related services, and home management services (45 CFR section 400.155(c));
  - d. Child care, transportation, translation and interpreter services, and case management services which are not directly related to employment or an employability service, when necessary for purposes other than employment or participation in employability services (45 CFR sections 400.155d through 155g);
  - e. Any other service approved by the ORR Director which is aimed at helping the refugee attain economic self-sufficiency, family stability, or community integration (45 CFR section 400.155(h)); and
  - f. Citizenship and naturalization preparation services (45 CFR section 400.155(i)).

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

The following costs may be charged to the State's CMA grant: (1) certain administrative costs incurred for the overall management of the State's refugee program (such as development of the State plan, salary and travel costs of the State Refugee Coordinator, etc.); and (2) costs incurred by local resettlement agencies to provide cash assistance under public/private RCA programs. All other costs must be allocated among the State's CMA grant, its RSS grant, and any other Refugee Resettlement Program grants it may have received. However, no portion of the cost of case management services (as defined at 7 CFR section 400.2) may be allocated to the State's CMA grant; and administrative costs of managing the services component of the RCA program must be charged to the RSS grant (45 CFR section 400.13).

## **E. Eligibility**

### **1. Eligibility for Individuals**

#### *a. General Eligibility*

- (1) Clients must have either refugee, asylee, entrant, or Amerasian documented status (45 CFR section 400.43) or, if trafficking victims, must have received a certification or eligibility letter from ORR. Those meeting this status will be collectively referred to as "refugees." (See definition of "victim of severe form of

trafficking” under II, “Program Procedures – Source of Governing Requirements.”)

- (2) A client’s eligibility period generally begins on the date he/she arrived in the U.S. (45 CFR sections 400.203(a) and 400.204(a)). On June 15, 2000, however, HHS adopted a policy of setting the eligibility period for asylees (but not refugees) from the date the person receives a final grant of asylum. Additional information on this matter is available on the ORR web site at <http://www.acf.dhhs.gov/programs/orr> (See State Letter 00-12 (June 15, 2000)).

b. *Refugee Cash Assistance*

(1) *Eligibility Criteria*

Eligibility for RCA is limited to newly arrived refugees who meet all the following criteria:

- (a) They have resided in the U.S. less than the RCA eligibility period (currently 8 months) determined by the ORR Director in accordance with 45 CFR section 400.211 (45 CFR section 400.53).
- (b) They have been determined ineligible for other federally funded cash assistance programs, such as the following programs authorized by the Social Security Act: TANF, SSI, Old Age Assistance (OAA)(Title I), Aid to the Blind (AB)(Title X), Aid to the Permanently and Totally Disabled (APTD)(Title XIV), and Aid to the Aged, Blind, and Disabled (AABD)(Title XVI)(45 CFR sections 400.51 and 400.53).
- (c) They meet the financial eligibility requirements of the applicable type of RCA program: AFDC-type (45 CFR section 400.45), public/private (45 CFR section 400.59), or State-administered (45 CFR section 400.66). In all three types, the administering agency may not treat the following as income or resources available to the applicant: resources remaining in the applicant’s country of origin, income earned by the applicant’s sponsor, or cash assistance the applicant may have received under reception and placement programs administered by the Department of State or Justice (45 CFR sections 400.45(f)(2), 400.59(b) through (d), and 400.66(b) through (d)).
- (d) They are not full-time students in institutions of higher education (45 CFR section 400.53).

- (e) If they are mandatory work registrants, they have not, without good cause, failed or refused to meet the work requirements of 45 CFR section 400.75(a), or voluntarily quit a job or refused an offer of appropriate employment within 30 consecutive calendar days immediately prior to the application for assistance. The payment of RCA assistance to an otherwise eligible client must be terminated if the client fails to meet this requirement (45 CFR sections 400.77 and 400.82(a)).
  - (2) *Benefit Level* – Benefit payments in a State-administered AFDC-type RCA program must be based on the AFDC rate (45 CFR section 400.45(f)(2)). Benefit payments in a State-administered TANF-type RCA program must be based on the TANF rate (45 CFR section 400.66(a)). Benefit payments in a public/private RCA program may neither exceed the rate described in 45 CFR section 400.60(a), nor be less than the State’s TANF payment rate (45 CFR section 400.60(b)).
- c. *Refugee Medical Assistance*
- (1) *Eligibility Criteria*

Eligibility for RMA is limited to newly arrived refugees who meet one of the following sets of conditions:

    - (a) They are not eligible for Medicaid or SCHIP but currently receive RCA (45 CFR section 400.100(d)); or
    - (b) They meet all of the following criteria:
      - (i) They have met the same time eligibility requirement stated above for RCA (45 CFR section 400.100(b)).
      - (ii) They are determined ineligible for Medicaid or SCHIP (45 CFR section 400.100(a)(1)).
      - (iii) They meet one of the following financial eligibility requirements:
        - (A) In a State with a Medicaid medically needy program, they meet the State’s Medicaid medically needy financial eligibility standards or a financial eligibility standard established at 200 percent of the national poverty level (45 CFR section 400.101(a)).

- (B) In a State without a Medicaid medically needy program, they meet the State's AFDC payment standards and methodologies in effect as of July 16, 1996, or a financial eligibility standard established at 200 percent of the national poverty level (45 CFR section 400.101(b)).
    - (C) They did not meet either of these standards, but spent their resources down to the applicable standard using an appropriate method for deducting incurred medical expenses. States must allow applicants for RMA to do this (45 CFR section 400.103).
  - (c) They are not full-time students in institutions of higher education, unless the State has approved their enrollment as part of the refugee's employability plan under 45 CFR section 400.79 or a plan for an unaccompanied minor in accordance with 45 section CFR 400.100(a).
- (2) Earnings from employment do not affect refugees' eligibility for RMA. They remain eligible for RMA through the remainder of the time eligibility period after receiving earnings from employment. Refugees who become ineligible for Medicaid due to employment earnings and have resided in the U.S. less than the time eligibility period will become eligible for RMA for the remainder of the time eligibility period (45 CFR section 400.104) without an additional eligibility determination.

States may not require that a refugee actually receive or apply for RCA as a condition of eligibility for RMA (45 CFR section 400.100(d)).
- (3) *Benefit Level* – In providing medical assistance services to eligible refugees, a State must provide at least the same services in the same manner and to the same extent as under the State's Medicaid program (45 CFR section 400.105). A State may provide additional services beyond the scope of the State's Medicaid program to eligible refugees if the State provides these services through public facilities to its indigent residents (45 CFR section 400.106).

d. *Refugee Unaccompanied Minor (RUM) Assistance*

- (1) A person must meet the definition of an unaccompanied minor listed in 45 CFR section 400.111.
- (2) A RUM remains eligible for assistance until he/she: (1) is reunited with a parent; (2) is united with a non-parental adult to whom legal custody or guardianship has been granted; or (3) has reached the age of 18, or older if the State's Title IV-B plan so prescribes (45 CFR section 400.116).

e. *Refugee Social Services*

- (1) In providing social services, the State must serve refugees in the following order of priority listed under 45 CFR section 400.147:
  - (a) All refugees who have resided in the U.S. less than a year and who apply for services;
  - (b) Refugees receiving cash assistance;
  - (c) Unemployed refugees who are not receiving cash assistance; and
  - (d) Employed refugees in need of services to retain employment.
- (2) A State may limit eligibility for services to refugees who are 16 or older who are not full-time students in secondary school, except that such a student may be provided services in order to obtain part-time or temporary (summer) employment while a student or permanent, full-time employment upon completion of schooling (45 CFR section 400.152 (a)).
- (3) Except for citizenship and naturalization services and referral and interpreter services, a State may not provide refugee social services to refugees who have been in the U.S. for more than 60 months (45 CFR section 400.152(b)).

**2. Eligibility for Group of Individuals or Area of Service Delivery – Not Applicable**

**3. Eligibility for Subrecipients – Not Applicable**

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

### **1. CMA Funds**

A State must obligate its CMA funds awarded for costs attributable to RCA, RMA and administration during the Federal fiscal year (FFY) in which the grant was awarded. Funds awarded for RUM assistance remain available for obligation in the FFY following the FFY in which the grant was awarded. However, all CMA funds, including funds awarded for RUM services, must be expended by the end of the FFY following the FFY in which the grant was awarded (45 CFR section 400.210(a)).

### **2. Social Services Funds**

A State must obligate its Social Services funds within one year after the end of the FFY in which the grant was awarded, and must expend these funds within two years after the end of the FFY in which the grant was awarded (45 CFR 400.210(b)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* – Applicable
- b. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- c. SF-271 – *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- d. SF-272, *Federal Cash Transactions Report* – Payments under this program are made by the HHS Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PSC-272 series of reports.

### **2. Performance Reporting**

ORR-6, *Quarterly Performance Report (QPR) (OMB No. 0970-0036)* – A State is required to submit a QPR which contains a narrative and statistical information on program performance for cash assistance, medical assistance, social services, medical screening, and the provision of services to unaccompanied minors.

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

- a. Schedule B – *Cash and Medical Assistance*
- b. Schedule C – *Services Report*

### **3. Special Reporting**

ORR-11, *State-of-Origin Report (OMB No. 0970-0043)* – A State is required to submit this report to account for refugee in-migration from other States (secondary migrants) during the prior FFY.



## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.568 LOW-INCOME HOME ENERGY ASSISTANCE

#### I. PROGRAM OBJECTIVES

The Low-Income Home Energy Assistance Program (LIHEAP) is a block grant program in which States (including territories and Indian tribes) design their own programs, within very broad Federal guidelines. There are four components of LIHEAP: (1) block grants, (2) energy emergency contingency funds, (3) leveraging incentive awards, and (4) the Residential Energy Assistance Challenge Option Program (REACH). The objectives of LIHEAP are to help low-income people meet the costs of home energy (defined as heating and cooling of residences) increase their energy self-sufficiency, and reduce their vulnerability resulting from energy needs. A primary purpose is meeting immediate home energy needs. The target population is low-income households, especially those with the lowest incomes and the highest home energy costs or needs in relation to income, taking into account family size. Additional targets are low-income households with members who are especially vulnerable, including the elderly, persons with disabilities, and young children.

#### II. PROGRAM PROCEDURES

##### LIHEAP Block Grants

The Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Office of Community Services, administers the LIHEAP program at the Federal level. LIHEAP block grant funds are distributed by formula to the States, the District of Columbia, and the territories. In addition, federally or State-recognized Indian tribes (including tribal consortia) have the option of requesting direct funding from ACF, rather than being served by the State in which they are located. Tribes that are directly funded by HHS statutorily receive a share of the funds that would otherwise be allotted to the States in which they are located, based on the number of eligible households in the tribal service area as a percentage of the eligible households in the State, or a larger amount agreed upon in a State/tribe agreement. Over half the States agree to give the tribes located within their State a larger amount than required by the statute.

Each grantee is required to submit a plan/application annually in order to receive block grant funding. State grantees are required to hold a public hearing each year. All grantees must allow for public participation in the development of their annual plans. A separate application is required for those LIHEAP grantees that wish to apply for a leveraging incentive award or a REACH grant.

##### Energy Emergency Contingency Funds

In addition to appropriations for the LIHEAP block grant program, funds may be awarded to meet the additional home energy assistance needs of States for a natural disaster or other emergency. Contingency funds that are awarded generally must be used under the normal statutory and regulatory requirements that apply to the LIHEAP block grants, unless special conditions are placed upon their use at the time of the award.

## **Leveraging Incentive Awards**

Of the funds appropriated for LIHEAP each year, HHS is required to earmark a portion to reward those LIHEAP grantees that have acquired non-Federal resources to help low-income persons meet their home heating and cooling needs, as an incentive to augment the Federal dollars. This could involve the grantee or private organizations putting some of their own funds into LIHEAP or similar State or private programs, buying fuel at reduced or discount prices through bulk purchases or negotiated agreements, obtaining donations of weatherization materials or fuels, waiving utility fees, or any number of other activities. Awards in the current year are based on leveraging activities carried out during the previous year.

## **Residential Energy Assistance Challenge Option Program**

Up to 25 percent of the funds earmarked for leveraging incentive awards each year may be set aside for the REACH program to make competitive grants to LIHEAP grantees to help LIHEAP-eligible households reduce their energy vulnerability. The purposes of REACH are: (1) to minimize health and safety risks that result from high energy burdens on low-income households; (2) to prevent homelessness as a result of inability to pay energy bills; (3) to increase efficiency of energy usage by low-income families; and (4) to target energy assistance to individuals who are most in need. REACH grants are to be administered through community-based organizations. REACH grants are subject to special terms and conditions, which are specified in the grant awards.

## **Source of Governing Requirements**

The LIHEAP program is authorized under Title XXVI of the Omnibus Budget Reconciliation Act of 1981, as amended (Pub. L. No. 97-35, as amended, also known as OBRA 1981), which is codified at 42 USC 8621-8629. Implementing regulations for this and other HHS block grant programs authorized by OBRA 1981 are published at 45 CFR part 96. Those regulations include general administrative requirements for the covered block grant programs in lieu of CFR part 92 (the HHS implementation of the A-102 Common Rule)). Requirements specific to LIHEAP are in 45 CFR sections 96.80 through 96.89. In addition, grantees are to administer their LIHEAP programs according to the plans that they have submitted to HHS.

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

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 LIHEAP. Procedures must be adequate to assure the proper disbursement and accounting for Federal funds paid to the grantee, including procedures for monitoring the assistance provided (42 USC 8624(b)(10); 45 CFR section 96.30).

## Availability of Other Program Information

The ACF LIHEAP page on the Internet (<http://www.acf.hhs.gov/programs/liheap>) provides general information about this program.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

The following guidelines apply to LIHEAP block grants and leveraging incentive award funds, unless noted otherwise. Energy emergency contingency funds generally are subject to the LIHEAP block grant requirements, but the contingency grant award letter should be reviewed to see if different requirements apply. REACH grants are subject to special rules described in the award.

1. LIHEAP funds may be used to assist eligible households to meet the costs of home energy, i.e., heating or cooling their residences (42 USC 8621(a) and 8624(b)(1)).
2. LIHEAP funds may be used to intervene in energy-related crisis situations, as defined by the grantee (42 USC 8623(c) and 8624(b)(1)).
3. LIHEAP funds may be used to conduct outreach activities (42 USC 8624(b)(1)).
4. Leveraging incentive awards must be used to increase or maintain heating, cooling, energy crisis, and weatherization benefits for low-income persons (45 CFR section 96.87(j)).
5. Leveraging incentive award funds may not be used for planning, developing, or administering the LIHEAP program (45 CFR section 96.87(j)).
6. LIHEAP funds may be used to provide low-cost residential weatherization and other cost-effective energy-related home repair (42 USC 8624(b)(1)).
7. LIHEAP grantees may use some or all of the rules applicable to the Department of Energy's Weatherization Assistance for Low-Income Persons program (CFDA 81.042) for their LIHEAP funds spent on weatherization (42 USC 8624(c)(1)(D)).
8. LIHEAP funds may be used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance, including needs assessments, counseling, and assistance with energy vendors (42 USC 8624 (b)(16)).

9. LIHEAP funds (other than leveraging incentive award funds) may be used to identify, develop, and demonstrate leveraging programs (45 CFR section 96.87(c)).
10. No LIHEAP funds may be used for the purchase or improvement of land, or the purchase, construction, or permanent improvement (other than low-cost residential weatherization or other energy-related home repairs) of any building or other facility (42 USC 8628).

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

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

## **E. Eligibility**

### **1. Eligibility for Individuals**

Grantees may provide assistance to: (a) households in which one or more individuals are receiving Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), Food Stamps, or certain needs-tested veterans benefits; or (b) households with incomes which do not exceed the greater of 150 percent of the State's established poverty level, or 60 percent of the State median income. Grantees may establish lower income eligibility criteria, but no household may be excluded solely on the basis of income if the household income is less than 110 percent of the State's poverty level. Grantees may give priority to those households with the highest home energy costs or needs in relation to income (42 USC 8624(b)(2)).

### **2. Eligibility for Group of Individuals or Area of Service Delivery- Not Applicable**

### **3. Eligibility for Subrecipients**

To the extent it is necessary to designate local administrative agencies, the grantee is to give special consideration to local public or private non-profit agencies (or their successor agencies) which were receiving energy assistance or weatherization funds under the Economic Opportunity Act of 1964 or other laws, provided that the grantee finds that they meet program and fiscal requirements set by the grantee (42 USC 8624(b)(6)).

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

1. **Matching** - Not Applicable
2. **Level of Effort** - Not Applicable

### 3. Earmarking

The following limitations apply to LIHEAP block grants and leveraging incentive award funds, as noted. Energy emergency contingency funds generally are subject to the requirements applicable to LIHEAP block grant funds, but the contingency grant award letter should be reviewed to see if different requirements were applied. REACH grants are subject to special rules described in the award.

#### a. *Planning and Administrative Costs*

- (1) No more than 10 percent of the LIHEAP funds payable to the State for a Federal fiscal year may be used for planning and administrative costs, including both direct and indirect costs. This limitation applies, in the aggregate, to planning and administrative costs at both the State and subrecipient levels (42 USC 8624(b)(9)(A); 45 CFR section 96.88(a)).
- (2) A tribal or territorial grantee may spend up to 20 percent of the first \$20,000 and 10 percent of the amount above \$20,000 for administration and planning (45 CFR section 96.88(b)).
- (3) Leveraging incentive award funds may not be used for planning and administrative costs. However, either in the award year or the following fiscal year, they may be added to the base on which the maximum amount allowed for planning and administration is calculated (45 CFR section 96.87(j)).

#### b. *Weatherization*

- (1) No more than 15 percent of the greater of the funds allotted or the funds available to the grantee for a Federal fiscal year may be used for low-cost residential weatherization or other energy-related home repairs. The Secretary may grant a waiver, and the grantee may then spend up to 25 percent for residential weatherization or energy-related home repairs (42 USC 8624(k)).
- (2) Leveraging incentive award funds may be used for weatherization without regard to the weatherization maximum in the statute. However, they cannot be added to the base on which the weatherization maximum is calculated (45 CFR section 96.87(j)).

- #### c. *Energy Need Reduction Services* - No more than five percent of the LIHEAP funds payable to the grantee may be used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance. Such services may include needs assessments, counseling, and assistance with energy vendors (42 USC 8624(b)(16)).

- d. *Identifying and Developing Leveraging Programs*
- (1) The greater of 0.08 percent of a State's LIHEAP funds (other than leveraging incentive award funds) or \$35,000 may be spent to identify, develop, and demonstrate leveraging programs, without regard to the limit on planning and administering LIHEAP (42 USC 8626a(c)(2); 45 CFR section 96.87(c)(2)).
  - (2) Indian tribes/tribal organizations and territories may spend up to the greater of two percent or \$100 on such activities (45 CFR section 96.87(c)(1)).

## H. Period of Availability of Federal Funds

At least 90 percent of the LIHEAP block grant funds payable to the grantee must be obligated in the fiscal year in which they are appropriated. Up to 10 percent of the funds payable may be held available (or "carried over") for obligation no later than the end of the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned to ACF. There are no limits on the time period for expenditure of funds (42 USC 8626).

Leveraging incentive award funds must be obligated in the year in which they are awarded or the following fiscal year, without regard to the carryover limit. However, they may not be added to the base on which the carryover limit is calculated (45 CFR sections 96.87(j)(1) and (k)). Funds not obligated within these time periods must be returned to ACF (45 CFR section 96.87(k)).

LIHEAP emergency contingency funds are generally subject to the same obligation and expenditure requirements applicable to the LIHEAP block grant funds, but the contingency award letter should be reviewed to see if different requirements were imposed.

## L. Reporting

### 1. Financial Reporting

- a. SF-269A, *Financial Status Report* (Short Form) - Applicable beginning with Federal fiscal years ending on or after September 30, 2000.
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

### 2. Performance Reporting - Not Applicable

### **3. Special Reporting**

*LIHEAP Carryover and Reallotment Report (OMB No. 0970-0106)* - Grantees must submit a report no later than August 1 indicating the amount expected to be carried forward for obligation in the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year, and must also be reported (42 USC 8626).

## **IV. OTHER INFORMATION**

As described in Part 4, Social Services Block Grant (SSBG) program (CFDA 93.667), III.A, "Activities Allowed or Unallowed," a State may transfer up to 10 percent of its annual allotment under SSBG to this and other specified block grant programs.

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.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.569 COMMUNITY SERVICES BLOCK GRANT

#### I. PROGRAM OBJECTIVES

The objective of the Community Services Block Grant (CSBG) program is to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. CSBG can be used to fund programs and other activities that assist low-income individuals and families attain self-sufficiency; provide emergency assistance; support positive youth development; promote civic engagement; and improve the organization infrastructure for planning and coordination among multiple resources that address poverty conditions in the community.

#### II. PROGRAM PROCEDURES

##### Administration and Services

The CSBG program is administered at the Federal level by the Office of Community Services (OCS), Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS). CSBG funds are awarded to States, territories, and federally and State-recognized Indian tribes and tribal organizations. Funds are distributed in accordance with a pre-established formula after submission of an application to OCS and acceptance of that application as complete in accordance with statutory requirements. In turn, States subgrant the CSBG funds according to statewide formulae to designated community-based non-profit organizations (and, in special circumstances, public organizations) that plan, develop and implement, and evaluate local programs.

##### Source of Governing Requirements

The CSBG program was reauthorized under the Community Services Block Grant Act of 1998 (Pub. L. No. 105-285), and is codified at 42 USC 9901-9920. The implementing regulations for this and other block grant programs are published at 45 CFR part 96. Those regulations include both specific requirements and general administrative requirements for the covered block grant programs in lieu of 45 CFR part 92 (the HHS implementation of the A-102 Common Rule). Requirements specific to CSBG are in 45 CFR sections 96.90 through 96.92. Separate regulations governing religious organizations as nongovernmental providers of service (Charitable Choice) are codified at 45 CFR part 1050.

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should look first to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**



**A. Activities Allowed or Unallowed**1. *Activities Allowed*

- a. Subgrantees may use CSBG funds for any programs, services or other activities related to achieving the broad goals of the CSBG programs, such as reducing poverty, revitalizing low-income communities, and assisting low-income individuals and families. Funds may be used to:
  - (1) Promote economic self-sufficiency, employment, education and literacy, housing and civic participation.
  - (2) Support community youth development programs.
  - (3) Fill gaps in services through information dissemination, referrals, and case management.
  - (4) Provide emergency assistance through grants and loans, and provision of supplies, services and food stuffs.
  - (5) Secure more active involvement of the private sector, faith-based institutions, neighborhood-based organizations, and charitable groups.
  - (6) Plan, coordinate, and develop linkages among public (Federal, States and local), private, and non-profit resources, including religious organizations, to improve their combined effectiveness in ameliorating poverty (42 USC 9901, 42 USC 9908(b), and 42 USC 9920(a); 45 CFR section 1050.3(a)(1)).
- b. States may use retained funds to achieve CSBG program goals through activities, including, but not limited to:
  - (1) Training and technical assistance.
  - (2) Statewide coordination and communication among eligible entities.
  - (3) Analysis to better target the distribution of funds to the areas of greatest need.
  - (4) Individual development accounts and other asset-building programs for low-income individuals.
  - (5) Coordinating State-operated programs and services targeted to low-income children and families.
  - (6) State charity tax credits.

- (7) Supporting innovative programs and activities conducted by community-based organizations to address the goals of the program.
- (8) Administrative functions (42 USC 9901 and 9907(b)).

## 2. *Activities Unallowed*

- a. Funds may not be used to purchase or improve land or to purchase, construct, or permanently improve buildings or facilities, other than low-cost residential weatherization or other energy-related home repairs (this limitation may be waived by ACF) (42 USC 9918(a)).
- b. Funds may not be used to support any partisan or non-partisan political activity or to provide voters or prospective voters with transportation to the polls or provide similar assistance in connection with an election or any voter registration (42 USC 9918(b)).
- c. No CSBG program funding provided directly to a religious organization may be used for inherently religious activities, such as worship, religious instruction, or proselytization (42 USC 9920(c); 45 CFR section 1050.3(b)).

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

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, the CSBG program is exempt from the provisions of OMB cost principles circulars at the State level. As a block grant, State cost principles requirements apply to CSBG at the State level. However, OMB administrative requirements and cost principles circulars do apply to subgrantees receiving CSBG funds (42 USC 9916(a)(1)(B)).

## **E. Eligibility**

### **1. Eligibility for Individuals**

The official poverty guideline as revised annually by HHS shall be used to determine eligibility. The poverty guidelines are issued each year in the *Federal Register* and on the HHS web site (<http://aspe.hhs.gov/poverty/>). A State may adopt a revised poverty guideline but it may not exceed 125 percent of the HHS-determined poverty guidelines (42 USC 9902(2)).

### **2. Eligibility for Group of Individuals or Area of Service Delivery – Not Applicable**

### **3. Eligibility for Subrecipients**

Subgrants may be made to the following entities, based on receipt of a community plan (42 USC 9908(b)(11):

- a. A private non-profit organization (including migrant farm worker organization) with a pre-existing designation as an “eligible entity” immediately prior to enactment of the new CSBG Act on October 27, 1999, and with a governance mechanism meeting the tripartite governing board requirement specified in 42 USC 9910(a).
- b. A subdivision of State government with a pre-existing designation as an “eligible entity” immediately prior to enactment of the new CSBG Act, with a governance mechanism meeting either the “tripartite” board requirements or otherwise assuring decision-making and participation by low-income individuals in the development, planning, implementation, and evaluation of CSBG-funded programs (42 USC 9910(b))
- c. A private non-profit organization or subdivision of State government newly designated by the State after October 27, 1999 as an “eligible entity” to provide services in an unserved area, in accordance with the criteria, requirements, and procedures specified by 42 USC 9909.

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

**1. Matching** – Not Applicable

**2. Level of Effort** – Not Applicable

**3. Earmarking**

- a. States must use at least 90 percent of the allotted funds for subgrants to eligible entities (42 USC 9907(a)(1)). See III.H.2, “Period of Availability of Federal Funds,” for period of availability of funds to subgrantees.
- b. State administrative expenses, including monitoring activities, may not exceed the greater of \$55,000 or 5 percent of CSBG funds. Such expenditures must be made from the portion of funds remaining to a State after subgranting at least 90 percent of funds to eligible entities (42 USC 9907(b)(2)).

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

1. Amounts unobligated by the State at the end of the fiscal year in which they were first allotted shall remain available for obligation during the succeeding fiscal year (45 CFR section 96.14(a)).

2. CSBG funds granted by the State to subgrantees are available to the subgrantee for obligation during the Federal fiscal year that the grant was made and in the following Federal fiscal year (42 USC 9907(a)(2)).

However, beginning on October 1, 2000, if more than 20 percent of the funds granted by the State to a subgrantee in one fiscal year remain unobligated at the end of that fiscal year, a State may recapture and redistribute those funds. A State must either (a) redistribute the recaptured funds to an eligible entity located within the community served by the original subgrantee, or (b) require the original subgrantee to distribute the funds to a private non-profit organization within that community. Activities undertaken with redistributed funds must conform with the activities allowed under the CSBG Act (42 USC 9907(a)(3)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269A, *Financial Status Report (Short Form)* – Applicable (45 CFR 96.30(b)(3)).
- b. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- d. SF-272, *Federal Cash Transactions Report* – Not Applicable

### **2. Performance Reports** – Not Applicable

### **3. Special Reports** – Not Applicable

## **M. Subrecipient Monitoring**

States must conduct full onsite reviews of each eligible subgrantee once every three years to check conformity with performance goals, administrative standards, financial management rules, and other requirements. States must conduct an onsite review of each newly designated entity immediately after the completion of the first year in which such entity receives CSBG funding. Follow-up reviews, including prompt return visits to eligible entities and their programs, are required for entities that fail to meet the goals, standards, and requirements established by the State (42 USC 9914(a)).

If a State finds a need for corrective action, the State must (1) inform the subgrantee of the deficiency and require correction; (2) offer training and technical assistance and report to OCS on that assistance, or explain why providing such assistance was not appropriate; (3) and receive an improvement plan from the subgrantee within 60 days, and approve (42 USC 9915). If the subgrantee fails to remedy the deficiency, the State may initiate proceedings to terminate the subgrantees eligibility or reduce its funding (42 USC 9908(b)(8) and 42 USC 9915(a)(5)).

## N. Special Tests and Provisions

### Subgrant Award and Administration

**Compliance Requirements** – States must (1) use at least 90 percent of their allotted funds under this program for subgrants to eligible entities, (2) subgrant funds in a timely manner to allow subgrantees a sufficient opportunity to obligate the funds to accomplish program purposes, and (3) adhere to expense limits for administrative activities performed (42 USC 9907(a)(1), (a)(2), (a)(3), and (b)(2)). There is a concern that some States are (1) not allotting the funds to subgrantees, either to the required level or early enough to allow a full period of performance by subgrantees without the possibility of recapture, resulting in unobligated balances of funds, and (2) inappropriately claiming administrative expenses for subgrant award and monitoring.

**Audit Objectives** - To determine if the State (1) complied with the requirement to subgrant 90 percent of its allotted funds in a timely manner and (2) claimed appropriate administrative expenses.

- a. Determine the State's procedures, including any standards for administrative lead time, for issuance of subgrant awards.
- b. Determine if the subgrants were made in a timely manner, consistent with CSBG requirements and the State's own procedures.
- c. Determine if the State tracks, by each individual subgrant, the issuance date, expenditure by the subgrantee, and the associated administrative costs.
- d. Determine if the State is appropriately claiming administrative costs in relation to its award and administration of subgrants.
- e. Select a sample of subgrantees and match State-maintained records of disbursement of funds with subgrantee records of receipt of funds from the State.

## IV. OTHER INFORMATION

As described in Part 4, Social Services Block Grant (SSBG) program (CFDA 93.667), III.A. "Activities Allowed or Unallowed," a State may transfer up to 10 percent of its annual allotment under SSBG to CSBG and other specified block grant programs for support of health services, health promotion and disease prevention activities, low-income home energy assistance, or any combination of these activities. Amounts transferred into the CSBG program are subject to the requirements of the CSBG 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.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### **CFDA 93.575 CHILD CARE AND DEVELOPMENT BLOCK GRANT** **CFDA 93.596 CHILD CARE MANDATORY AND MATCHING FUNDS OF THE** **CHILD CARE AND DEVELOPMENT FUND**

#### **I. PROGRAM OBJECTIVES**

The Child Care and Development Fund (CCDF) provides funds to States (including Territories and Indian Tribes) to increase the availability, affordability, and quality of child care services for low-income families where the parents are working or attending training or educational programs. The CCDF consolidates the Child Care and Development Block Grant and funding formerly provided to States through the child care programs under Title IV-A of the Social Security Act.

#### **II. PROGRAM PROCEDURES**

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) repealed the child care programs under Title IV-A of the Social Security Act, i.e., Aid to Families with Dependent Children Child Care, Transitional Child Care and At-Risk Child Care, and required that all Federal child care funds be spent in accordance with the provisions of the amended Child Care and Development Block Grant program. While these Federal child care programs have been consolidated under a single set of eligibility requirements, there are three distinct funding sources. The three sources are the Discretionary Fund (CFDA 93.575), Mandatory Fund (CFDA 93.596), and the Matching Fund (CFDA 93.596). Additionally, under the Temporary Assistance for Needy Families (TANF) program (CFDA 93.558), a State may transfer TANF funds to CCDF and the funds transferred in are treated as Discretionary Funds (42 USC 606(d); 45 CFR section 98.54(a)).

#### **Administration and Services**

The Child Care Bureau of the Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS), administers the CCDF. To receive funds a State, Territory or Indian Tribe (Tribe) must submit a plan containing specific information and assurances. The plan serves as the application for funding for States and Territories and is effective for a two-year period. Tribes, in contrast, must submit a yearly application as well as a tribal plan. A Tribe's plan is also effective for two years. Tribes are generally subject to the same program requirements as States and Territories, except as specifically noted below.

Following ACF approval of the plan (and application, in the case of Tribes), funds are awarded based on statutory/regulatory formulas. State awards are not adjusted by separate direct Federal funding of counterpart tribal programs within the State. As long as statutory and regulatory requirements are met (e.g., that the States, Territories, and those Tribes receiving grants over \$500,000 offer parents certificates for the purchase of child care services), grantees have broad flexibility in designing programs and offering services. For example, CCDF funds may be used in collaborative efforts with Head Start (CFDA 93.600) programs to provide comprehensive child care and development services for children who are eligible for both programs. In fact, the coordination and collaboration between Head Start and the CCDF is mandated by sections

640(g)(2)(D) and (E), and 642(c) of the Head Start Act (42 USC 9835(g)(2)(D) and (E); 42 USC 9837(c)) in the provision of full working day, full calendar year comprehensive services (42 USC 9835(a)(5)(v)). In order to implement such collaborative programs, which share, for example, space, equipment or materials, grantees may blend several funding streams so that seamless services are provided.

Tribes may operate the CCDF program under a consolidated Pub. L. No. 102-477 program. Pub. L. No. 102-477 refers to the Indian Employment, Training, and Related Services Demonstration Act of 1992, the purpose of which is to provide for the integration of employment, training, and related services to improve the effectiveness of those services. Tribes that integrate their CCDF program into a Pub. L. No. 102-477 program are subject to CCDF statutory and regulatory requirements, with the exception of the requirements to submit a biennial plan and administrative data and financial reports. Tribes participating under Pub. L. No. 102-477 submit alternative plans and reports. Upon request by a Tribe, under Pub. L. No. 102-477, HHS may also waive certain statutory provisions, regulations, policies, or procedures.

### **Source of Governing Requirements**

The Discretionary Fund (CFDA 93.575) is authorized by the Child Care and Development Block Grant Act of 1990, as amended by Title VI of the PRWORA of 1996 (Pub. L. No. 104-193), and subsequent amendments thereto, and codified at 42 USC 9858-9858q. The Mandatory and Matching Funds (CFDA 93.596) are authorized under section 418 of Title IV-A of the Social Security Act as amended by PRWORA and the Deficit Reduction Act of 2005 (Pub. L. No. 109-171), and codified at 42 USC 618. The CCDF (i.e., all three funds) is subject to the implementing regulations at 45 CFR parts 98 and 99.

CCDF is not subject to the HHS implementation of the A-102 Common Rule or to OMB Circular A-87 (see III.B, “Allowable Costs/Cost Principles”).

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

The ACF Child Care Bureau’s web site (<http://www.acf.hhs.gov/programs/ccb/>) provides general information on this program.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

1. Funds may be used for child care services in the form of certificates, grants, or contracts (42 USC 9858c(c)(2)(A)).

2. Funds may be used for activities that improve the quality or availability of child care services, consumer education, and parental choice (42 USC 9858e).
3. Funds may be used for any other activity that the State deems appropriate to promoting parental choice, providing comprehensive consumer education information to help parents and the public make informed choices about child care, providing child care to parents trying to achieve independence from public assistance, and implementing the health, safety, licensing, and registration standards established in State regulations (42 USC 9858c(c)(3)(B)).
4. No funds may be expended through any grant or contract for child care services for any sectarian purpose or activity, including sectarian worship or instruction (42 USC 9858k(a)).
5. With regard to services to students enrolled in grades 1 through 12, no funds may be used for services provided during the regular school day, for any services for which the students receive academic credit toward graduation, or for any instructional services that supplant or duplicate the academic program of any public or private school (42 USC 9858k(b)).
6. Except for Tribes, no funds can be used for the purchase or improvement of land, or for the purchase, construction, or permanent improvement (other than minor remodeling) of any building or facility (42 USC 9858d(b)).  
  
Tribes may use funds for the construction and major renovation of child care facilities with ACF approval (42 USC 9858m(c)(6); 45 CFR section 98.84).
7. Except for sectarian organizations, funds may be used for the minor remodeling (i.e., renovation and repair) of child care facilities. For sectarian organizations, funds may be used for the renovation or repair of facilities only to the extent that it is necessary to bring the facility into compliance with the health and safety standards required by 42 USC 9858c(c)(2)(F) (42 USC 9858d(b)).

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

As indicated in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, grantees (“lead agencies”) shall expend and account for CCDF funds in accordance with the laws and procedures they use for expending and accounting for their own funds (45 CFR section 98.67).

## **C. Cash Management**

For the Matching Fund’s (CFDA 93.596) requirement, the drawdown of Federal cash should not exceed the federally funded portion of the State’s Matching Funds, taking into account the State matching requirements. For example, the total Matching Fund expenditures for a year—both State and Federal shares—for a fiscal year are \$100. Of this \$100, the State share of the Matching Fund is \$40. For any period, the amount of



Federal funds drawn down should not exceed 60 percent of the total expenditures for that period (31 CFR section 205.15(d)).

## **E. Eligibility**

### **1. Eligibility for Individuals**

The approved plan provides the specific eligibility requirements selected by each State/Territory/Tribe. Those requirements must comply with the following Federal requirements for individual eligibility:

- a. Children must be under age 13 (or up to age 19, if incapable of self care or under court supervision), who reside with a family whose income does not exceed 85 percent of State/territorial/tribal median income for a family of the same size, and reside with a parent (or parents) who is working or attending a job-training or education program; or are in need of, or are receiving, protective services (42 USC 9858n(4); 45 CFR section 98.20(a)).
- b. The award of CCDF funds to an Indian Tribe shall not affect the eligibility of any Indian child to receive CCDF services in the State or States in which the Tribe is located (45 CFR section 98.80(d)).

### **2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

### **3. Eligibility for Subrecipients - Not Applicable**

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

The matching and MOE requirements apply only to the Matching Fund (CFDA 93.596). The State's matching and MOE expenditures are closely related. For a State to receive the allotted share of the Matching Fund, the State must meet the MOE requirement and obligate the Mandatory Fund by year end (see III.H, "Period of Availability of Federal Funds"). The matching and MOE amounts are reported on the CCDF Financial Report (ACF-696) (see III.L.1, "Reporting - Financial Reporting").

### **1. Matching**

- a. A State is eligible for Federal matching funds (limit specified in 42 USC 618 and 45 CFR section 98.63) only for those allowable State expenditures that exceed the State's MOE requirement, provided all of the Mandatory Funds (CFDA 93.596) allocated to the State are also obligated by the end of the fiscal year (45 CFR section 98.53).
- b. State expenditures will be matched at the Federal Medical Assistance Percentage (FMAP) rate for the applicable fiscal year. This percentage varies by State and is available on the Internet at

<http://www.aspe.hhs.gov/health/fmap.htm>. To be eligible an activity must be allowable and be described in the approved State plan (45 CFR section 98.53).

- c. Private or public donated funds may be counted as State expenditures for this purpose subject to the limitations in 45 CFR section 98.53.
- d. No more than 30 percent of State matching claims may be for pre-kindergarten services. The 30 percent threshold is based on a regulatory provision implemented beginning in fiscal year (FY) 2008. For any fiscal year prior to 2008, a State may use public pre-kindergarten funds for up to 20 percent of the funds for State match expenditures (45 CFR section 98.53(h)(3)). The same expenditure may not be used for both MOE and matching purposes (45 CFR sections 98.53(d) and 98.53(h)).

### **2.1 Level of Effort - Maintenance of Effort**

If a State requests Matching Funds (CFDA 93.596), State MOE (non-Federal) funds for child care activities must be expended in the year for which Matching Funds are claimed in an amount that is at least equal to the State's share of expenditures for FY 1994 or 1995 (whichever is greater) under former Sections 402(g) and (i) of the Social Security Act (42 USC 618). Private or public donated funds may be counted as State expenditures for this purpose (45 CFR section 98.53).

No more than 20 percent of the MOE requirement may be met with State expenditures for pre-kindergarten services. The same expenditure may not be used for both MOE and matching purposes (45 CFR sections 98.53(d) and 98.53(h)).

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

### **3. Earmarking**

- a. *Administrative Earmark* - A State/Territory may not spend on administrative costs more than five percent of total CCDF awards expended (i.e., the total of CFDA 93.575 and 93.596) and any State expenditures for which Matching Funds (CFDA 93.596) are claimed (42 USC 9858c(c)(3)(C); 45 CFR section 98.52).

Tribes are allowed 15 percent of the amount expended under CFDA 93.575 and 93.596 for administrative costs. Tribes with at least 50 children under age 13 are provided a base amount of \$20,000, which may be expended for any purpose consistent with the purpose and requirements of the CCDF. Tribes with fewer than 50 children who are members of a consortium receive a pro rata amount of the \$20,000 in proportion to the number of children under age 13 in relation to 50. The base amount is not

included in the amount against which the administrative earmark is calculated (45 CFR sections 98.61(c), 98.83(e), and 98.83(g)).

The following activities are not considered administrative costs (63 FR 39962):

- (1) Eligibility determination and redetermination.
- (2) Preparation and participation in judicial hearings.
- (3) Child care placement.
- (4) Recruitment, licensing, inspection, review and supervision of child care placements.
- (5) Rate-setting.
- (6) Resource and referral services.
- (7) Training of child care staff.
- (8) Establishment and maintenance of computerized child care information systems.
- (9) Establishment and operation of a certificate program

- b. *Quality Earmark* - States and Territories must spend on quality and availability activities, as provided in the State/territorial plan, not less than 4 percent of CCDF funds expended (i.e., the total of CFDA 93.575 and 93.596 funds) and any State expenditures for which Matching Funds (CFDA 93.596) are claimed (45 CFR section 98.51).

Only those Tribes receiving grants over \$500,000 must spend at least four percent of CCDF funds expended on quality activities as described in the tribal plan/application. The \$20,000 base amount is not included in the amount against which the quality earmark is calculated (45 CFR sections 98.51(a), 98.83(e), and 98.83(f)).

- c. *Targeted Funds* - Congress may also specifically target funds for certain purposes. For example, in the FY 2007 HHS appropriation, Congress specified three types of targeted funds—one for resource and referral and school-aged activities, another for activities to increase the supply of quality child care for infants and toddlers, and a third for quality improvement activities.

## H. Period of Availability of Federal Funds

1. Discretionary Funds (CFDA 93.575) must be obligated by the end of the succeeding fiscal year after award, and expended by the end of the third fiscal year after award (42 USC 9858h(c); 45 CFR section 98.60).
2. Mandatory Funds (CFDA 93.596) for States must be obligated by the end of the fiscal year in which they are awarded if the State also requests Matching Funds (CFDA 93.596). If no Matching Funds are requested for the fiscal year, then the Mandatory Funds (CFDA 93.596) are available until expended (45 CFR section 98.60(d)).
3. Mandatory Funds (CFDA 93.596) for Tribes must be obligated by the end of the succeeding fiscal year after award, and expended by the end of the third fiscal year after award (45 CFR section 98.60(e)).
4. Matching Funds (CFDA 93.596) must be obligated by the end of the fiscal year in which they are awarded, and expended by the end of the succeeding fiscal year after award (45 CFR section 98.60(d)).

For example, availability periods for FY 2007 funds awarded on any date in FY 2007 (October 1, 2006 through September 30, 2007):

<b>If Source of Obligation Is --</b>	<b>Obligation must Be Made by End of --</b>	<b>Obligation must Be Liquidated by End of --</b>
Discretionary <sup>1,2</sup> (CFDA 93.575)	FY 2008 (i.e., by 9/30/08)	FY 2009 (i.e., by 9/30/09)
Mandatory (State) (CFDA 93.596)	FY 2007 (i.e., by 9/30/07 but ONLY if Matching Funds are used)	No requirement for liquidation by a specific date
Mandatory (Tribes) <sup>2</sup> (CFDA 93.596)	FY 2008 (i.e., by 9/30/08)	FY 2009 (i.e., by 9/30/09)
Matching (CFDA 93.596)	FY 2007 (i.e., by 9/30/07)	FY 2008 (i.e., by 9/30/08)

<sup>1</sup> TANF funds (CFDA 93.558) transferred to the CCDF during a fiscal year are treated as Discretionary Funds of the year they are transferred for purposes of the period of availability (45 CFR section 98.54(a)(1)).

<sup>2</sup> In lieu of the obligation and liquidation requirements cited above, Tribes are required to liquidate CCDF funds used for construction or major renovation by the end of the second fiscal year following the fiscal year for which the grant is awarded (45 CFR section 98.84(e)).

**L. Reporting**

1. Financial Reporting
  - a. SF-269, *Financial Status Report* - Not Applicable
  - b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
  - c. SF-271, *Outlay Report and Request from Reimbursement for Construction Programs* - Not Applicable
  - d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by HHS, Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC-272 series of reports.
  - e. ACF-696, *Child Care and Development Fund Financial Report (OMB No 0970-0163)* is due quarterly from States and Territories. The ACF-696T, *Child Care and Development Fund Financial Report for Tribes (OMB No. 0970-0195)* is due annually from Tribes. These reports are in lieu of the SF-269, *Financial Status Report*. Each fiscal year's expenditure report must be separate, therefore, multiple reports may be required if awards from more than one fiscal year are expended in a given quarter. Any funds transferred from TANF are treated as Discretionary Funds for reporting on the ACF-696 (42 USC 604(d); 45 CFR section 98.54(a)).
2. **Performance Reporting** - Not Applicable
3. **Special Reporting** - Not Applicable

**IV. OTHER INFORMATION**

Under the TANF program (CFDA 93.558), a State may transfer TANF funds to CCDF and the funds transferred are treated as Discretionary Funds under CCDF (42 USC 604(d); 45 CFR section 98.54(a)). The amounts transferred into CCDF should be included in the audit universe and in total expenditures of CCDF when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amount transferred in should be shown as CCDF expenditures when expended.

See Appendix VI for special provisions related to Hurricanes Katrina and Rita.

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## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.600 HEAD START

#### I. PROGRAM OBJECTIVES

The objectives of the Head Start and Early Head Start programs are to provide comprehensive health, educational, nutritional, social, and other developmental services primarily to economically disadvantaged preschool children (ages 3 to 5) and infants and toddlers (birth through age 3) so that the children will attain school readiness. Parents receive social services and participate in various decision-making processes related to the operation of the program.

#### II. PROGRAM PROCEDURES

##### Head Start Services

The Head Start program provides services in the following areas:

*Early Childhood Development and Health* - Head Start's educational program is designed to meet the needs of each child, the community served, and its ethnic and cultural characteristics. Every child receives a variety of learning experiences to foster intellectual, social, and emotional growth. Head Start also emphasizes the importance of the early identification of health problems. Every child is involved in a comprehensive health program, which includes immunizations, medical, dental, mental health, and nutritional services.

*Family and Community Partnerships* - An essential part of the Head Start program is the involvement of parents in parent education, program planning, and operating activities. Many parents serve as members of policy councils and committees and have a voice in administrative and managerial decisions. Participation in classes and workshops on child development and staff visits assist parents in identifying the needs of their children and about educational activities that can take place at home. Specific services are geared to each family after its needs are determined. They include community outreach; referrals; family need assessments; recruitment and enrollment of children; and emergency assistance or crisis intervention.

##### Early Head Start

The 1994 Head Start Reauthorization (Pub. L. No. 103-252) established a new program for low-income pregnant women and families with infants and toddlers.

The purpose of this program is to enhance children's physical, social, emotional and cognitive development; enable parents to be better caregivers to and teachers of their children; and help parents meet their own goals, including that of economic independence.

## Administration and Services

Head Start programs operate in all 50 States, the District of Columbia, Puerto Rico, and the U.S. territories. Head Start grants are awarded for an indefinite project period, with an annual budget period that is specific to each grantee. Grants are awarded to public, non-profit, and for-profit organizations directly by the Administration for Children and Families (ACF) in the ten Department of Health and Human Service (HHS) Regional Offices and in Washington, DC.

Early Head Start grantees include Head Start grantees, school systems, universities, colleges, and other public and private entities. In all other respects, Early Head Start grants are subject to the same program performance standards and compliance requirements as Head Start grants; therefore, references to Head Start apply to both. Initial Head Start grants were for a five-year period. Beginning in FY 2000, however, all new Head Start grants were for an indefinite project period. For Early Head Start grantees that are also Head Start grantees, the Early Head Start program will no longer be a separate grant; instead, Early Head Start will be shown as a separate program account in the single grant document.

Grantees may also subgrant some or all of its operational responsibilities for a Head Start/Early Head Start grant to a “delegate agency.” Delegate agencies (subrecipients) may be public, non-profit, or for-profit organizations.

Grantees may collaborate with other entities carrying out early childhood education and child-care programs in the community, including those funded by the Child Care and Development Fund (CCDF) (CFDA 93.575 and CFDA 93.596) and Temporary Assistance to Needy Families (CFDA 93.558). The coordination and collaboration between Head Start and the CCDF entity is mandated by sections 640(a)(5)(E), 640(g)(2)(D) and (E) and 642(c) of the Head Start Act (42 USC 9837(c)) in the provision of full-working day, full calendar year comprehensive services (42 USC 9835(a)(5)(C)(v)).

## Source of Governing Requirements

Head Start began in 1965 under the Office of Economic Opportunity and is now administered by ACF, HHS. These programs are currently authorized under the Head Start Act (Title VI, Subtitle A, Chapter 8, Subchapter B of Pub. L. No. 97-35), as amended, which is codified at 42 USC 9831-9843a. The implementing program regulations are 45 CFR parts 1301 through 1308.

## Availability of Other Program Information

The Head Start Bureau’s web page (<http://www.acf.dhhs.gov/programs/hsb>) provides general information about this program.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

**A. Activities Allowed or Unallowed**

1. Allowable services include, but are not limited to, health (medical, dental, nutrition, and mental health); education; social services; transportation; parent involvement; use of volunteers; career development for teachers, nonprofessional aides and other staff members; and special services for parents (e.g., literacy) (45 CFR part 1304, subparts B, C, and D).
2. Grant funds may, with specific ACF approval, be used for capital expenditures (including paying the cost of amortizing the principal, and paying interest on, loans) such as construction of new facilities, purchase of new or existing facilities, major renovations on existing facilities, and purchase of vehicles used for programs conducted at the Head Start facilities (42 USC 9839(f) and (g)).

**B. Allowable Costs/Cost Principles**

Indirect costs attributable to common or joint use of facilities or services must be fairly allocated among the various programs which utilize such services (42 USC 9839(c); 45 CFR section 1301.32), except as provided for in section 640(a)(5)(E)(ii) of the Head Start Act. This provision exempts equipment and non-consumable supplies from this requirement if Head Start is the predominant funding source for the activity (42 USC 9835(a)(5)(E)(ii)).

**G. Matching, Level of Effort, Earmarking****1. Matching**

Grantees are required to contribute at least 20 percent of the costs of the program through cash or in-kind contributions, unless a lesser amount has been approved by ACF (42 USC 9835 (b); 45 CFR sections 1301.20 and 1301.21).

**2. Level of Effort - Not Applicable****3. Earmarking**

- a. The costs of developing and administering a Head Start program shall not exceed 15 percent of the annual total program costs, including the required non-Federal contribution to such costs (i.e., matching), unless a waiver has been granted by ACF. Development and administrative costs include, but are not limited to, the cost of organization-wide planning, coordination and general purpose direction, accounting and auditing, purchasing and personnel functions, and the cost of operating and maintaining space for these purposes (42 USC 9839(b); 45 CFR section 1301.32).
- b. Enrollment levels must adhere to the levels specified in the financial assistance award.



- c. *Required percentage of income eligibles*
- (1) For grantees other than Indian tribes/tribal organizations, at least 90 percent of the enrollees must come from families whose income is below the official Federal poverty guidelines or who are receiving public assistance (income-eligible). Up to 10 percent of the children who are enrolled may be from families that are not income-eligible (45 CFR section 1305.4).
  - (2) For tribal grantees, the income-eligible percentage may be as low as 51 percent, providing certain conditions are met (45 CFR section 1305.4(b)(3)).
  - (3) The family income must be verified by the Head Start grantee before determining that a child is income-eligible (45 CFR section 1305.4(c)).
  - (4) Verification must include examination of any of the following: Individual Income Tax Form 1040, W-2 forms, pay stubs, pay envelopes, written statements from employers, or documentation showing current status as recipients of public assistance (45 CFR section 1305.4(d)).
  - (5) Although copies of income verification documents need not be retained by grantees, the child or family record must include a statement, signed by an employee of the grantee (Head Start program), identifying which income verification document was examined and stating that the child is income-eligible (45 CFR section 1305.4(e)).

The poverty guidelines are issued each year in the *Federal Register* and HHS maintains a web page that provides the poverty guidelines (<http://aspe.hhs.gov/poverty/>).

## L. Reporting

### 1. Financial Reporting

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable

- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC-272 series of reports.

#### **M. Subrecipient Monitoring**

Grantees must establish and implement procedures for the ongoing monitoring of their own Early Head Start and Head Start operations, as well as those of their delegate agencies, to ensure that these operations effectively implement Federal regulations. Grantees must inform delegate agency governing bodies of any deficiencies in delegate agency operations identified in the monitoring review and must help them develop plans, including timetables, for addressing identified problems (45 CFR sections 1304.51(i)(2) and (3)).

#### **IV. OTHER INFORMATION**

See Appendix VI for a Hurricane Katrina-related waiver.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.645 CHILD WELFARE SERVICES--STATE GRANTS

#### I. PROGRAM OBJECTIVES

The purpose of the Child Welfare Services (CWS) program is to promote State flexibility in the development and expansion of a coordinated child and family services program that utilizes community-based agencies and ensures all children are raised in safe, loving families.

#### II. PROGRAM PROCEDURES

The Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Administration on Children, Youth and Families, Children's Bureau, administers the CWS program on the Federal level. Funds are awarded directly to States and tribes. State agencies can have agreements and contracts with other public agencies and with private agencies for provision of appropriate services. Each State receives a base amount of \$70,000. Additional funds are distributed in proportion to the State's population of children under age 21 multiplied by the complement of the State's average per capita income. The funds must go to, and be administered only by, the State child welfare agency, tribes, or tribal organizations.

To be eligible for funds, each State and tribe must submit a five-year comprehensive plan, the Child and Family Services Plan (CFSP). This plan encompasses planning and service delivery for the full child welfare services spectrum. This includes: Child Welfare Services, services promoting safe and stable families under Title IV-B, Subpart 2; a child welfare staff development and training plan; a diligent recruitment of foster and adoptive families plan that reflects the ethnic and racial diversity of children in the State for whom foster and adoptive homes are needed; and child abuse and prevention, foster care, adoption, and foster care independence services. The plan must include how the State or tribe intends to meet specific goals, provide services, and coordinate services. The Children's Bureau has approval authority for the CFSP.

As required by the Child and Family Service Improvement Act of 2006 (Pub. L. No. 109-288), which amended Part B of Title IV of the Social Security Act, States, in consultation with HHS, are required to establish by June 30, 2008, an outline of steps to be taken to ensure that 90 percent of children in foster care are visited by their caseworkers on a monthly basis by October 1, 2011, and that the majority of the visits occur in the residence of the child (Pub. L. No. 109-288, Section 6(c) (42 USC 622 (b)(17))). HHS must reduce the Federal share of participation in expenditures under the State's Title IV-B, subpart 1, program by a certain statutory percentage if the State does not meet its annual progress toward the 90 percent caseworker visit standard. The law requires the State to submit FY 2007 data, which will be used as a baseline in determining annual progress toward the 90 percent standard (Pub. L. No. 109-288, Section 6(b)(2) (42 USC 623(e)(1) and (2))).

## Source of Governing Requirements

The CWS program is authorized under Title IV-B, Subpart 1 (sections 421 – 428) of the Social Security Act as amended, and is codified at 42 USC 620-628a. Implementing program regulations are published at 45 CFR parts 1355 and 1357.

### III. Compliance Requirements

#### A. Activities Allowed or Unallowed

1. Prior to fiscal year (FY) 2007, funds for CWS could be used to accomplish the following purposes:
  - a. Protecting and promoting the welfare and safety of all children, including individuals with disabilities, homeless, dependent, or neglected children (45 CFR section 1357.10(c)(1));
  - b. Preventing or remedying, or assisting in the solution of problems that may result in the neglect, abuse, exploitation, or delinquency of children (45 CFR section 1357.10(c)(2));
  - c. Preventing the unnecessary separation of children from their families by identifying family problems and assisting families in resolving their problems and preventing the breakup of the family where the prevention of child removal is desirable and possible (45 CFR section 1357.10(c)(3));
  - d. Restoring children who have been removed and may be safely returned to their families, by the provision of services to the child and the family (45 CFR section 1357.10(c)(4));
  - e. Assuring adequate care of children away from their homes, in cases where the child cannot be returned home or cannot be placed for adoption (45 CFR section 1357.10(c)(5)); and
  - f. Placing children in suitable adoptive homes, in cases where restoration to the biological family is not possible or appropriate (45 CFR section 1357.10(c)(6)).
2. Beginning in FY 2007, funds may be used for the following purposes:
  - a. Protecting and promoting the welfare of all children (Pub. L. No. 109-288, Section 421(1));
  - b. Preventing the abuse, neglect, or exploitation of children (Pub. L. No. 109-288, Section 421(2));

- c. Supporting at-risk families through services that allow children to remain with their families or return to their families in a timely manner (Pub. L. No. 109-288, Section 421(3));
  - d. Promoting the safety, permanence, and well-being of children in foster care and adoptive families (Pub. L. No. 109-288, Section 421(4));
  - e. Providing training, professional development, and support to ensure a well-qualified workforce (Pub. L. No. 109-288, Section 421(5))
3. Funds may be used for administrative costs, subject to the limitation in III.G.3 Matching, Level of Effort, Earmarking – Earmarking) below. The term “administrative costs” means costs for the following but only to the extent incurred in administering the State plan for this program: procurement; payroll management; personnel functions (other than the portion of the salaries of supervisors attributable to time spent directly supervising the provision of services by caseworkers); management; maintenance and operation of space and property; data processing and computer services; accounting; budgeting; auditing; and travel expenses (except those related to the provision of services by caseworkers or oversight of the program). (Pub. L. No. 109-288, Sections 422(b)(14) and (c) and 424(e) (42 USC 622(b)(14) and (c) and 623(e))).
  4. Funds may not be used for the purchase or construction of facilities (45 CFR section 1357.30(f)).

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

### **1. Matching**

- a. The State and tribal match requirement is 25 percent of the Federal funds expended (42 USC 623 and 629d(a)(1)(A)). The State’s contribution may be in cash, donated funds, and non-public third party in-kind contributions (45 CFR section 1357.30(e)(1)).
- b. Beginning in FY 2008, the State can not use more than the amount it spent in FY 2005 using non-Federal funds on foster care maintenance payments as match for the Title IV-B, subpart 1, program (Pub. L. No. 109-288, Section 424(d) (42 USC 623(d))).

### **2.1 Level of Effort - Maintenance of Effort**

Beginning in FY 2008, a State may not receive an amount of Federal funds under Title IV-B for child care, foster care maintenance or adoption assistance payments in excess of the amount of Title IV-B, subpart 1, funds they spent on these activities in FY 2005 (Pub. L. No. 109-288, Section 424(c) (42 USC 623(c))).

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

**3. Earmarking**

Beginning in FY 2008, no more than 10 percent of the expenditures of the State with respect to activities funded from amounts provided under Title IV-B, subpart 1 may be used for administrative costs (Pub. L. No. 109-288, Sections 422(b)(14) and (c) and 424(e) (42 USC 622(b)(14) and (c) and 623(e))).

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

Funds under title IV-B, subpart 1, must be expended by September 30 of the fiscal year following the fiscal year in which the funds were awarded (45 CFR section 1357.30(i)).

**L. Reporting**

**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable.
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC-272 review of reports.

**2. Performance Reporting - Not Applicable**

**3. Special Reporting - Not Applicable**

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.658 FOSTER CARE--TITLE IV-E

#### I. PROGRAM OBJECTIVES

The objective of the Foster Care program is to help States provide safe, appropriate, 24-hour, substitute care for children who are under the jurisdiction of the administering State agency and need temporary placement and care outside their homes.

#### II. PROGRAM PROCEDURES

##### Administration and Services

The Foster Care program is administered at the Federal level by the Children's Bureau, Administration on Children, Youth and Families, Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS). Funding is provided to the 50 States, the District of Columbia and Puerto Rico, based on a State plan and amendments, as required by changes in statutes, rules, and regulations submitted to and approved by the cognizant ACF Regional Administrator. This program is considered an open-ended entitlement program and allows the State to be funded at a specified percentage (Federal financial participation) for program costs for eligible children.

The designated State agency for this program, which is authorized under Title IV-E of the Social Security Act, as amended, also administers ACF funding provided for other Title IV-E programs, e.g., Adoption Assistance (CFDA 93.659); and Independent Living (93.674); Child Welfare Services (CFDA 93.645) and Promoting Safe and Stable Families (CFDA 93.556) programs (Title IV-B of the Social Security Act, as amended); and the Social Services Block Grant program (CFDA 93.667) (Title XX of the Social Security Act, as amended).

##### Source of Governing Requirements

The Foster Care program is authorized by Title IV-E of the Social Security Act, as amended (42 USC 670 *et seq.*). Implementing regulations are at 45 CFR parts 1355, 1356, and 1357.

Awards under the Foster Care program with funding periods beginning on or after October 1, 2003, are subject to the HHS implementation of the A-102 Common Rule, 45 CFR part 92 (*Federal Register*, September 8, 2003, 68 FR 52843-52844). Previously, this program and other HHS entitlement programs described in the Supplement (as noted under the applicable program description) were excluded from this coverage. This program also is subject to 45 CFR part 95 and the cost principles under Office of Management and Budget Circular A-87 (as provided in *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government*, HHS Publication ASMB C-10, available on the Internet at <http://rates.psc.gov/fms/dca/asmb%20c-10.pdf>).

States are required to adopt and adhere to their own statutes and regulations for program implementation, consistent with the requirements of Title IV-E and the approved State plan.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should look first to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

##### 1. *Activities Allowed*

- a. Funds may be expended for Foster Care maintenance payments on behalf of eligible children, in accordance with the State's Foster Care maintenance payment rate schedule, to individuals serving as foster family homes, to child-care institutions, or to public or private child-placement or child-care agencies. Such payments may include the cost of (and the cost of providing, including the associated administrative and operating costs of an institution) food, clothing, shelter, daily supervision, school supplies, personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation (42 USC 672(b)(1) and (2), (c)(2), and 675(4)).
- b. Funds may be expended for training (including both short and long-term training at educational institutions through grants to such institutions or by direct financial assistance to students enrolled in such institutions) of personnel employed or preparing for employment by the agency administering the plan (42 USC 674(a)(3)(A)).
- c. Funds may be expended for short-term training, including associated travel and per diem, of current or prospective foster parents and staff of licensed or approved child-care institutions at the initiation of or during their period of care (45 CFR section 1356.60(b)(1)(ii)).
- d. Funds may be expended for costs directly related to the administration of the program, including those associated with eligibility determination and redetermination; referral to services; placement; preparation for and participation in hearings and appeals; rate setting; recruitment and licensing of foster homes and institutions; and a proportionate share of related agency overhead (45 CFR section 1356.60(c)).
- e. With any required ACF approval, funds may be expended for costs related to design, implementation and operation of a statewide data collection system (45 CFR sections 1356.60(d) and 95.611).



## 2. *Activities Unallowed*

- a. Costs of social services provided to a child, the child's family, or the child's foster family which provide counseling or treatment to ameliorate or remedy personal problems, behaviors, or home conditions are unallowable (45 CFR section 1356.60(c)(3)).
- b. Costs claimed as foster care maintenance payments that include medical, educational or other expenses not outlined in 42 USC 675(4)(A).

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

In addition to the requirements of OMB Circular A-87, States are subject to the cost allocation provisions and rules governing allowable costs of equipment of 45 CFR part 95, which references OMB Circular A-87 at 45 CFR section 95.507(a)(2) (45 CFR sections 1355.57, 95.503, and 95.705).

## **E. Eligibility**

### **1. Eligibility for Individuals**

Foster Care benefits may be paid on behalf of a child only if all of the following requirements are met:

- a. Foster Care maintenance payments are allowable only if the foster child was removed from the home of a relative specified in section 406(a) of the Social Security Act, as in effect on July 16, 1996, and placed in foster care by means of a judicial determination, as defined in 42 USC 672(a)(2), or pursuant to a voluntary placement agreement, as defined in 42 USC 672(f), (42 USC 672(a)(1) and (2) and 45 CFR section 1356.21).

#### (1) *Judicial Determination*

- (a) *Contrary to the welfare determination* – A child's removal from the home must be the result of a judicial determination to the effect that continuation in the home would be contrary to the child's welfare, or that placement in foster care would be in the best interest of the child (unless removal is pursuant to a voluntary placement agreement). The precise language "contrary to the welfare" does not have to be included in the removal court order, but the order must include language to the effect that remaining in the home will be contrary to the child's welfare, safety, or best interest (45 CFR section 1356.21(c)).

- (i) *Prior to March 27, 2000* – For a child who entered foster care before March 27, 2000, the judicial determination of contrary to the welfare must be in a court order that resulted from court proceedings that are initiated no later than 6 months from the date the child is removed from the home, consistent with Departmental Appeals Board Decision Number 1508 (DAB 1508). The Departmental Appeals Board, through Decision Number 1508, ruled that a petition to the court stating the reason for the State agency’s request for the child’s removal from home, followed by a court order granting custody to the State agency is sufficient to meet the contrary to the welfare requirement (*Federal Register*, January 25, 2000, Vol. 65, Number 16, pages 4020 and 4088-89).
  - (ii) *On or after March 27, 2000* – For a child who enters foster care on or after March 27, 2000, the judicial determination of contrary to the welfare must be in the first court ruling that sanctions the child’s removal from home. Acceptable documentation is a court order containing a judicial determination regarding contrary to the welfare or a transcript of the court proceedings reflecting this determination (45 CFR section 1356.21(c)).
- (b) *Removal from home of a specified relative* - Within 60 days from the date of the removal from home pursuant to 45 CFR section 1356.21(k)(ii), there must be a judicial determination as to whether reasonable efforts were made or were not required to prevent the removal (e.g., child subjected to aggravated circumstances such as abandonment, torture, chronic abuse, sexual abuse, parent convicted of murder or voluntary manslaughter or aiding or abetting in such activities) (45 CFR sections 1356.21(b)(1) and (k)).
- (i) *Prior to March 27, 2000* – For a child who entered care foster care before March 27, 2000, the judicial determination that reasonable efforts were made to prevent removal or that reasonable efforts were made to reunify the child and family satisfies the reasonable efforts requirement (*Federal Register*: January 25, 2000, Vol. 65, Number 16, pages 4020 and 4088).

- (ii) *On or after March 27, 2000* – For a child who enters foster care on or after March 27, 2000, the judicial determination that reasonable efforts were made to prevent removal or were not required must be made no later than 60 days from the date of the child’s removal from the home (45 CFR section 1356.21(b)(1)).
    - (c) *Permanency plan* - A judicial determination regarding reasonable efforts to finalize the permanency plan must be made within 12 months of the date on which the child is considered to have entered foster care and at least once every 12 months thereafter while the child is in foster care. If a judicial determination regarding reasonable efforts to finalize a permanency plan is not made within this timeframe, the child is ineligible at the end of the 12th month from the date the child was considered to have entered foster care or at the end of the month in which the subsequent judicial determination of reasonable efforts was due, and the child remains ineligible until such a judicial determination is made (45 CFR section 1356.21(b)(2)).
      - (i) *Prior to March 27, 2000* - For a child who entered foster care before March 27, 2000, the judicial determination of reasonable efforts to finalize the permanency plan must be made no later than March 27, 2001, because such child will have been in care for 12 months or longer (January 25, 2000, *Federal Register*, Vol. 65, Num 16, pages 4020 and 4088).
      - (ii) *On or after March 27, 2000* - For a child who enters foster care on or after March 27, 2000, the judicial determination of reasonable efforts to finalize the permanency plan must be made no later than 12 months from the date the child is considered to have entered Foster Care (45 CFR section 1356.21(b)(2)).
  - (2) If the removal was by a voluntary placement agreement, it must be followed within 180 days by a judicial determination to the effect that such placement is in the best interests of the child (42 USC 672(e); 45 CFR section 1356.22(b)).
- b. The child’s placement and care are the responsibility of either the State agency administering the approved Title IV-E plan or any other public agency under a valid agreement with the cognizant State agency (42 USC 672(a)(2)).

- c. A child must meet the eligibility requirements of the former Aid to Families with Dependent Children (AFDC) program (i.e., meet the State-established standard of need as of July 16, 1996, prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act) (42 USC 672(a)). Unless the child is expected to graduate from a secondary educational, or an equivalent vocational or technical training, institution before his or her 19th birthday, eligibility ceases at the child's 18th birthday (45 CFR section 233.90(b)(3)).
- d. The provider, whether a foster family home or a child-care institution must be fully licensed by the proper State Foster Care licensing authority. A child care institution is defined as a private child-care institution, or a public child-care institution which accommodates no more than 25 children, which is licensed or approved by the State in which it is situated, but does not include detention facilities, forestry camps, training schools, or facilities operated primarily for the purpose of detention of children who are determined to be delinquent (42 USC 671(a)(10) and 672(c)).
- e. The foster family home provider must satisfactorily have met a criminal records check, including a fingerprint-based check, with respect to prospective foster and adoptive parents (42 USC 671(a)(20)(A)). The requirement for a fingerprint-based check takes effect on October 1, 2006 unless prior to September 30, 2005 the State has elected to opt out of the criminal records check requirement or State legislation is required to implement the fingerprint-based check, in which case a delayed implementation is permitted until the first quarter of the State's regular legislative session following the close of the first regular session beginning after October 1, 2006. The requirement applies to foster care maintenance payments for calendar quarters beginning on or after the State's effective date for implementation (Pub. L. No. 109-248, section 152(c)(1) and (3)). The criminal records check option, including fingerprint-based checks, expires on October 1, 2008 and applies to foster care maintenance payments for calendar quarters beginning on or after that date (42 USC 671(a)(20)(B); Pub. L. No. 109-248, section 152(c)(2)).
- f. The foster family home provider must satisfactorily have met a child abuse and neglect registry check with respect to prospective foster and adoptive parents and any other adult living in the home who has resided in the provider home in the preceding 5 years. This requirement takes effect on October 1, 2006 unless the State requires legislation to implement the requirement, in which case a delayed implementation is permitted until the first quarter of the State's regular legislative session following the close of the first regular session beginning after October 1, 2006. The requirement applies to foster care maintenance payments for calendar quarters beginning on or after that date. (42 USC 671(a)(20)(C); Pub. L. No. 109-248, section 152(c)(2) and (3)). .

- g. The licensing file for the child-care institution must contain documentation that verifies that safety considerations with respect to staff of the institution have been addressed (45 CFR section 1356.30(f)).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

**3. Eligibility for Subrecipients - Not Applicable**

**F. Equipment and Real Property Management**

Equipment that is capitalized and depreciated or is claimed in the period acquired and charged to more than one program is subject to 45 CFR section 95.707(b) in lieu of the requirements of the A-102 Common Rule.

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

**1. Matching**

The percentage of required State funding and associated Federal funding (“Federal financial participation” (FFP)) varies by type of expenditure as follows:

- a. Third party in-kind contributions cannot be used to meet the State’s cost sharing requirements (ACYF-CB-PIQ-84-06, 10/22/84; incorporated in the Child Welfare Manual 8.1F. 8/16/02). The non-applicability of the matching and cost sharing provisions of 45 CFR Part 74 to this program conveys to the similar provisions of 45 CFR 92.24 (as a result of the Department of Health and Human Services inclusion of entitlement programs under 45 CFR Part 92) (45 CFR sections 1355.30(c) and 1355.30(n)(1); 45 CFR section 201.5(e)).
- b. The percentage of Federal funding in Foster Care maintenance payments will be the Federal Medical Assistance Program percentage. This percentage varies by State and is available on the Internet (<http://www.aspe.hhs.gov/health/fmap.htm>) (42 USC 674(a)(1); 45 CFR section 1356.60(a)).
- c. The percentage of Federal funding in expenditures for short- and long-term training at educational institutions of employees or prospective employees, and short-term training of current or prospective foster or adoptive parents and members of staff of State-licensed or State-approved child-care institutions (including travel and per diem) is 75 percent (42 USC 674(a)(3)(A) and (B); 45 CFR section 1356.60(b)).

- d. The percentage of Federal funding for expenditures for planning, design, development, and installation and operation of a statewide automated child welfare information system meeting specified requirements (and expenditures for hardware components for such systems) is 50 percent (42 USC 674(a)(3)(C) and (D); 45 CFR sections 1355.52 and 1356.60(d)).
- e. The percentage of Federal funding of all other allowable administrative expenditures is 50 percent (42 USC 674 (a)(1)(E); 45 CFR section 1356.60(c)).

**2. Level of Effort - Not Applicable**

**3. Earmarking - Not Applicable**

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

This program operates on a cash accounting basis and each year's funding and accounting is discrete. To be eligible for Federal funding, claims must be submitted to ACF within 2 years after the calendar quarter in which the State made the expenditure. This limitation does not apply to any claim resulting from a court-ordered retroactive adjustment (45 CFR sections 95.7, 95.13, and 95.19).

**L. Reporting**

**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. ACF-Title IV-E-1, *Foster Care and Adoption Assistance Financial Report (OMB No. 0970-0205)* - States report current expenditures for the previous quarter, and estimate costs for the next quarter. States may also report adjustments to prior quarter costs for the prior two years.

*Key Line Items* - The following line items contain critical information.

Part 1, *Foster Care*, columns (a) through (d)

Part 2, *Foster Care*, columns (a) through (d)

**2. Performance Reporting - Not Applicable**

**3. Special Reporting - Not Applicable**

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.659 ADOPTION ASSISTANCE (Title IV-E)

#### I. PROGRAM OBJECTIVES

The objective of the Adoption Assistance program is to facilitate the placement of children with special needs in permanent adoptive homes and thus prevent long, inappropriate stays in foster care.

#### II. PROGRAM PROCEDURES

##### Administration and Services

The Adoption Assistance program is administered at the Federal level by the Children's Bureau, Administration on Children, Youth and Families, Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS). The Adoption Assistance program provides funds to States for adoption assistance agreements with parents who adopt eligible children with special needs. Federal matching funds are provided to States that provide adoption assistance subsidy payments to parents who adopt Aid for Families with Dependent Children (AFDC) eligible children (i.e., meet the State-established standard of need as of July 16, 1996, prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act) or children eligible for Supplemental Security Insurance (SSI) with special needs. An adoption assistance agreement is a written agreement between the adoptive parents, the State IV-E agency, and other relevant agencies (such as a private adoption agency) specifying the nature and amount of assistance to be given on a monthly basis to parents who adopt eligible special needs children. A child with special needs is defined as a child who the State has determined cannot or should not be returned home; has a specific factor or condition, as defined by the State, because of which it is reasonable to conclude that the child cannot be adopted without financial or medical assistance; and for whom a reasonable effort has been made to place the child without providing financial or medical assistance (42 USC 673(a)(2)).

Funding is provided to the 50 States, the District of Columbia and Puerto Rico, based on a State plan and amendments, as required by changes in statutes, rules, and regulations, submitted to and approved by the cognizant ACF Regional Administrator. The Adoption Assistance program is an open-ended entitlement program. Federal financial participation in State expenditures for adoption assistance agreements is provided at the Medicaid match rate for medical assistance payments, which varies among States. Monthly payments to families and institutions made on behalf of eligible adopted children also vary from State to State. Federal financial participation is made at an open-ended 50 percent match rate for State administrative expenditures and at an open-ended 75 percent for State training expenditures. In addition, the program authorizes Federal matching funds for States that reimburse the non-recurring adoption expenses of adoptive parents of special needs children (regardless of AFDC or SSI eligibility).

The designated State agency for this program also administers ACF funding provided for other Social Security Act programs (e.g., Foster Care (CFDA 93.658) and Independent Living (CFDA 93.674) programs (Title IV-E of the Social Security Act); Child Welfare Services (CFDA 93.645) and Promoting Safe and Stable Families (CFDA 93.556) programs (Title IV-B of the Social Security Act, as amended); and the Social Services Block Grant program (CFDA 93.667) (Title XX of the Social Security Act, as amended)).

### **Source of Governing Requirements**

The Adoption Assistance program is authorized by Title IV-E of the Social Security Act, as amended (42 USC 670 *et seq.*). Implementing regulations are published at 45 CFR parts 1355 and 1356. States are to implement the program according to their State plan, which is submitted to ACF for approval.

Awards made under the Adoption Assistance program with funding periods beginning on or after October 1, 2003, are subject to the HHS implementation of the A-102 Common Rule, 45 CFR part 92 (*Federal Register*, September 8, 2003, 68 FR 52843-52844). Previously, this program and other HHS entitlement programs described in the Compliance Supplement (as noted under the applicable program description) were excluded from this coverage. This program also is subject to 45 CFR part 95 and the cost principles under Office of Management and Budget Circular A-87 (as provided in *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government*, HHS Publication ASMB C-10, available on the Internet at <http://rates.psc.gov/fms/dca/asmb%20c-10.pdf>).

States are required to adopt and adhere to their own statutes and regulations for program implementation, consistent with the requirements of Title IV-E and the approved State Plan.

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

The Children's Bureau manages a policy issuance system that provides further clarification of the law and guides States in implementing the Adoption Assistance program. This information may be accessed on the Internet at [http://www.acf.dhhs.gov/programs/cb/laws\\_policies/laws/cwpm/index.jsp](http://www.acf.dhhs.gov/programs/cb/laws_policies/laws/cwpm/index.jsp).

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**



## A. Activities Allowed or Unallowed

1. *Adoption Assistance Subsidies* - Funds may be expended for adoption assistance agreement subsidy payments, in accordance with the State's foster care maintenance payment rate schedule; administrative payments for expenses associated with placing children in adoption; and training of professional staff and parents involved in adoptions. Subsidy payments are made to adoptive parents based on the need(s) of the child (i.e. developmental, cognitive, emotional behavioral) and the circumstances of the adopting parents (42 USC 673(a)(2)). Subsidy payment amounts cannot be based on any income eligibility requirements of the prospective adoptive parents (45 CFR section 1356.41(c)). Adoption assistance subsidy payments cannot exceed the foster care maintenance payment the child would have received in a foster family home; however, the amount of the subsidy payments may be up to 100 percent of the foster care maintenance payment rate (42 USC 673(a)(3)).
2. *Administrative Costs*
  - a. *Program Administration* - Funds may be expended for costs directly related to the administration of the program. State cost allocation plans will identify which costs are allocated and claimed under this program (45 CFR section 1356.60(c)).
  - b. *Nonrecurring Costs* - Funds may be expended by a State under an adoption assistance agreement for nonrecurring expenses (45 CFR section 1356.41). Nonrecurring adoption expenses are defined as reasonable and necessary adoption fees, court costs, attorney fees and other expenses that are directly related to the legal adoption of a child with special needs. Other expenses may include those costs of adoption incurred by or on behalf of the adoptive parents, such as, the adoptive home study, health and psychological examination, supervision of the placement prior to adoption, transportation and the reasonable costs of lodging and food for the child and/or the adoptive parents when necessary to complete the placement or adoptions process (45 CFR section 1356.41(i)).
  - c. *Adoption Placement Costs* - Funds expended by the State for adoption placements are considered an administrative expenditure and are subject to the matching requirements in section III.G.3.c (45 CFR section 1356.41(f)(1)).
3. *Training*
  - a. Funds may be expended for short-term training of current or prospective adoptive parents and members of the staff of State-licensed or State-approved child care institutions (including travel and per diem) at the initiation of or during their period of care (42 USC 674(a)(3)(B) and 45 CFR section 1356.60(b)(1)(ii)).

- b. Funds may be expended for training (including both short- and long-term training at educational institutions through grants to such institutions or by direct financial assistance to students enrolled in such institutions) of personnel employed or preparing for employment by the agency administering the plan (42 USC 674(a)(3)(A)).

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

In addition to the requirements of OMB Circular A-87, States are subject to the cost allocation provisions and rules governing allowable costs of equipment of 45 CFR part 95, which references OMB Circular A-87 at 45 CFR section 95.507(a)(2) (45 CFR sections 1355.57, 95.503 and 95.705).

## **E. Eligibility**

### **1. Eligibility for Individuals**

- a. Adoption assistance subsidy payments may be paid on behalf of a child only if all of the following requirements are met:
  - (1) The child is eligible, or would have been eligible, for the former Aid to Families with Dependent Children (AFDC) program (i.e., met the State-established standard of need as of July 16, 1996, prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act) except for his/her removal from the home of a relative pursuant to either a voluntary placement agreement or as a result of a judicial determination to the effect that continuation in the home of removal would have been contrary to the welfare of the child; the child is eligible for Supplemental Security Income; or is a child whose costs in a foster family home or child care institution are covered by the foster care maintenance payments being made with respect to his/her minor parent (42 USC 673(a)(2)(A)).
  - (2) The child was determined by the State to be a child with special needs (42 USC 673(c)).
  - (3) The State has made reasonable efforts to place the child for adoption without a subsidy (42 USC 673(c)).
  - (4) The agreement for the subsidy was signed and was in effect before the final decree of adoption and contains information concerning the nature of services; the amount and duration of the subsidy; the child's eligibility for Title XX services and Title XIX Medicaid; and covers the child should he/she move out of State with the adoptive family (42 USC 675(3)).

- b. Nonrecurring expenses of adoption may be paid on behalf of a child only if all of the following requirements are met:
  - (1) The agreement, as a separate document or part of an agreement for State or Federal Adoption assistance payment or services, was signed prior to the final decree of adoption (45 CFR section 1356.41).
  - (2) The agreement indicates the nature and amount of the nonrecurring expenses to be paid (45 CFR section 1356.41(a)).
  - (3) The State has determined that the child is a child with special needs (45 CFR section 1356.41(d)).
  - (4) The child has been placed for adoption in accordance with applicable State and local laws (45 CFR section 1356.41(d)).
- c. There may be no income-eligibility requirement (means test) for the prospective adoptive parent(s) in determining eligibility for adoption assistance subsidy payments or nonrecurring expenses of adoption (45 CFR sections 1356.40(c) and 1356.41(c)).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

**3. Eligibility for Subrecipients - Not Applicable**

## **F. Equipment and Real Property Management**

Equipment that is capitalized and depreciated or is claimed in the period acquired and charged to more than one program is subject to 45 CFR section 95.707(b) in lieu of the requirements of the A-102 Common Rule.

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

### **1. Matching**

The percentage of required State funding and associated Federal funding (“Federal financial participation” (FFP)) varies by type of expenditure as follows:

- a. *Adoption Assistance Subsidy Payments* - The percentage of Title IV-E funding in adoption assistance subsidy payments will be the Federal Medical Assistance Program percentage. This percentage varies by State and is available on the Internet at <http://www.aspe.hhs.gov/health/fmap.htm> (42 USC 674(a)(1); 45 CFR section 1356.60(a)).

- b. *Training* - The percentage of Federal funding in expenditures for short- and long-term training at educational institutions of employees or prospective employees, and short-term training of current or prospective foster or adoptive parents and members of staff of State-licensed or State-approved child care institutions (including travel and per diem) is 75 percent (42 USC 674(a)(3)(A) and (B); 45 CFR section 1356.60(b)).
- c. *Administrative Costs*
  - (1) The percentage of Federal funding for expenditures for planning, design, development, and installation and operation of a statewide automated child welfare information system meeting specified requirements (and expenditures for hardware components for such systems) is 50 percent (42 USC 674(a)(3)(C) and (D); 45 CFR sections 1355.52 and 1356.60(d)).
  - (2) The percentage of Federal funding for adoption placement expenditures is 50 percent for State expenditures up to \$2000 for each adoptive placement (45 CFR section 1356.41(f)(1)).
  - (2) The percentage of Federal funding of all other allowable administrative expenditures, is 50 percent (42 USC 674 (a)(3)(E); 45 CFR sections 1356.41(f) and 1356.60(c)).

2. **Level of Effort** - Not Applicable

3. **Earmarking** - Not Applicable

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

This program operates on a cash accounting basis and each year's funding and accounting is discrete. To be eligible for Federal funding, claims must be submitted to ACF within two years after the calendar quarter in which the State made the expenditure. This limitation does not apply to any claim for an adjustment to prior year costs or resulting from a court-ordered retroactive adjustment (45 CFR sections 95.7, 95.13, and 95.19).

## L. **Reporting**

### 1. **Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable

- d. SF-272, *Federal Cash Transactions Report* - Not Applicable.
- e. ACF-IV-E-1, *Foster Care and Adoption Assistance Financial Report* (OMB No. 0970-0205) - States report current expenditures for the previous quarter. States may also report adjustments to prior quarter costs for the prior two years.

*Key Line Items* - The following items contain critical information:

Part 1, *Adoption Assistance*, columns (a) through (d)

Part 2, *Adoption Assistance*, columns (a) through (d)

Part 4, *Demonstration Projects*, columns (a) through (d) (applicable only for States with approved Title IV-E waiver demonstration)

- 2. **Performance Reporting** - Not Applicable
- 3. **Special Reporting** - Not Applicable

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.667 SOCIAL SERVICES BLOCK GRANT

#### 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.

##### Source of Governing Requirements

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.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

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. Funds may not be used for:
  - a. Except as provided in III.A.4, above, purchase or improvement of land, or the purchase, construction, or permanent improvement (other than minor remodeling) of any facility (unless the 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)).

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

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.

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

1. **Matching** - Not Applicable
2. **Level of Effort** - Not Applicable
3. **Earmarking**

The State shall use all of the amount transferred in from TANF (CFDA 93.558) only for programs and services to children or their families whose income is less than 200 percent of the official poverty guideline as revised annually by HHS (42 USC 604(d)(3)(A) and 9902(2)). Additional information on this transfer is provided in IV, "Other Information."

The poverty guidelines are issued each year in the *Federal Register* and HHS maintains a page on the Internet that provides the poverty guidelines (<http://aspe.hhs.gov/poverty/>).

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

SSBG funds must be expended by the State in the fiscal year allotted or in the succeeding fiscal year (42 USC 1397a(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).

## **IV. 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.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.767 STATE CHILDREN'S INSURANCE PROGRAM (SCHIP)

#### I. PROGRAM OBJECTIVES

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

#### II. PROGRAM PROCEDURES

##### Administration and Services

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

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

##### State Plans

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

##### Waivers

The State may apply for a waiver of SCHIP Federal requirements. Waivers are intended to provide flexibility needed to enable States to try new or different approaches to the efficient and cost-effective delivery of health care services, or to adapt their programs to the special needs of particular areas or groups of enrollees. Waivers allow exceptions to State plan requirements that permit the State to implement innovative programs or activities on a time-limited basis. Such

demonstration projects are subject to specific safeguards for the protection of enrollees and the program. The Secretary will approve only demonstration projects that are consistent with key principles of the SCHIP statute. States' waiver authority is found at 42 USC 1397gg(e), which extends to SCHIP the Medicaid waiver authority at 42 USC 1315.

### **Source of Governing Requirements**

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

Awards under SCHIP are no longer excluded from coverage under the HHS implementation of the A-102 Common Rule, 45 CFR part 92 (*Federal Register*, September 8, 2003, 68 FR 52843-52844). This change is effective for any grant award under this program made after issuance of the initial awards for the second quarter of Federal fiscal year (FY) 2004. This program also is subject to the requirements of 45 CFR part 95 and the cost principles under Office of Management and Budget Circular A-87 (as provided in *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government*, HHS Publication ASMB C-10, available on the Internet at <http://rates.psc.gov/fms/dca/asmb%20c-10.pdf>).

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

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

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

#### *1. Activities Allowed*

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

reasonable costs incurred by the State to administer the plan (42 USC 1397ee).

- b. A qualifying State may elect to use not more than 20 percent of its available SCHIP allotment for FYs 1998, 1999, 2000, and 2001 for payments under the State's Medicaid program (CFDA 93.778) instead of for expenditures under the State's SCHIP (Pub. L. No. 108-74, section 1(g)(1)(A)) (also see III.H, "Period of Availability of Federal Funds"). The qualifying States are Connecticut, Hawaii, Maryland, Minnesota, New Hampshire, New Mexico, Rhode Island, Tennessee, Vermont, Washington, and Wisconsin (as determined by CMS on the basis of the criteria in Pub. L. No. 108-74, section 1(g)(2) and Pub. L. No. 108-127, section 1).
2. *Activities Unallowed* - Federal funds may not be expended under the State plan to pay for any abortion or to assist in the purchase, in whole or in part, of health coverage that includes coverage of abortion, except if necessary to save the life of the mother or if the pregnancy is the result of incest or rape (42 USC 1397ee(c)).

## **E. Eligibility**

### **1. Eligibility for Individuals**

- a. States have flexibility in determining eligibility levels for individuals for whom the State will receive enhanced matching funds within the guidelines established under the Act. Generally, a State may not cover children with higher family income without covering children with a lower family income, nor deny eligibility based on a child having a preexisting medical condition. States are required to include in their State plans a description of the standards used to determine eligibility of targeted low-income children. State plans should be consulted for specific information concerning individual eligibility requirements (42 USC 1397bb(b)).
- b. Qualified aliens, as defined at 8 USC 1641, who entered the United States on or after August 22, 1996, are not eligible for a separate child health program under Title XXI (SCHIP) for a period of five years, beginning on the date the alien became a qualified alien, unless the alien is exempt from this five year bar under the terms of 8 USC 1613. States must provide coverage under a separate child health program under Title XXI to all other otherwise eligible qualified aliens who are not barred from coverage under 8 USC 1613 (42 CFR section 457.320(b)(6)).

### **2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

### **3. Eligibility for Subrecipients - Not Applicable**

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

### **1. Matching**

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

#### **2.1 Level of Effort - Maintenance of Effort**

- a. In order to receive Federal matching funds for SCHIP expenditures at the enhanced matching rate, each State must continue to maintain its Medicaid eligibility standards and the methodologies that were applied in its Medicaid State plans as of June 1, 1997 (42 USC 1397ee(d)(1) and 1397jj(b)).
- b. Three States, New York, Florida and Pennsylvania, maintain “existing comprehensive State-based programs.” For these three States only, beginning with FY 1999, the amount of the State’s allotment for a fiscal year is reduced by the amount that the “State children’s health insurance expenditures” for the previous fiscal year is less than the total of such expenditures for FY 1996. For purposes of this provision, the term “State children’s health insurance expenditures” means: the State share of Title XXI (SCHIP) expenditures; the State share of expenditures under Title XIX (Medicaid) attributable to an enhanced FMAP under section 1905(u) of the Act (42 USC 1396d(u)); and State expenditures for health benefits coverage under an existing comprehensive State-based program (42 USC 1397cc(d)(1) and 1397ee(d)(2)).

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

### **3. Earmarking**

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

- (a) payment for other child health assistance for targeted low-income children;
- (b) expenditures for health services initiatives under the State child health assistance plan for improving the health of children;
- (c) expenditures for outreach activities; and
- (d) other reasonable costs incurred by the State to administer the State child health assistance plan (42 USC 1397ee(c)). States may apply for a

waiver, or variance of this 10 percent cap under 42 USC 1397ee(c)(2). If applicable, information regarding such a waiver is in the State plan.

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

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

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

1. The period of availability of a State's FY 1998 and FY 1999 retained and redistributed SCHIP allotments is through September 30, 2004 (Pub. L. No. 108-74, section 1(a)(1)).
2. Fifty percent of any unexpended amount of a State's FY 2000 retained SCHIP allotment not expended by September 30, 2002 is available for expenditure by the State through September 30, 2004. Any amount made available to a State as a result of redistribution of FY 2000 SCHIP allotments is available to the State for expenditure through September 30, 2004 (Pub. L. No. 108-74, sections 1(a)(2)(A)(iii) and 1(a)(2)(B)(v)(II)).
3. Fifty percent any unexpended amount of a State's FY 2001 retained SCHIP allotment not expended by September 30, 2003 is available for expenditure by the State through September 30, 2005. Any amount made available to a State as a result of redistribution of FY 2001 SCHIP allotments is available to the State for expenditure through September 30, 2005 (Pub. L. No. 108-74, sections 1(a)(3)(A)(iv) and 1(a)(3)(B)(v)(III)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC-272 series of reports.

- e. CMS-64, *Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (OMB No. 0938-0067)*
- f. CMS-21, *Quarterly Children's Health Insurance Program Statement of Expenditures for Title XXI (OMB No. 0938-0731)*

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

CMS-21 Base - The CMS-21 consists of three parts: CMS-21 Base, CMS-21B, and CMS-21C. Only CMS-21 Base is expected to be tested for compliance.

- 2. **Performance Reporting** - Not Applicable
- 3. **Special Reporting** - Not Applicable



**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

- CFDA 93.775 STATE MEDICAID FRAUD CONTROL UNITS**  
**CFDA 93.776 HURRICANE KATRINA RELIEF**  
**CFDA 93.777 STATE SURVEY AND CERTIFICATION OF HEALTH CARE PROVIDERS AND SUPPLIERS**  
**CFDA 93.778 MEDICAL ASSISTANCE PROGRAM (Medicaid; Title XIX)**

Note: In accordance with OMB Circular A-133, §\_\_\_\_.525(c)(2), when the auditor is using the risk-based approach for determining major programs, the auditor should consider that the Department of Health and Human Services (HHS) has identified the Medicaid Assistance Program as a program of higher risk.

Medicaid is the largest dollar Federal grant program and under OMB budgetary guidance and Pub. L. No. 107-300, HHS is required to provide an estimate of improper payments for Medicaid. Improper payments mean any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and includes any payment to an ineligible recipient, and any payment for an ineligible service, any duplicate payment, payments for services not received, and any payments that does not account for credit for applicable discounts.

While not precluding an auditor from determining that the Medicaid Cluster qualifies as a low-risk program (e.g., because prior audits have shown strong internal controls and compliance with Medicaid requirements), the above should be considered as part of the risk assessment process.

**I. PROGRAM OBJECTIVES****Medical Assistance Program**

The objective of the Medical Assistance Program (Medicaid or Title XIX of the Social Security Act, as amended, (42 USC 1396 *et seq.*)) is to provide payments for medical assistance to low-income persons who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children.

**State Medicaid Fraud Control Units**

The mission of the State Medicaid Fraud Control Units (MFCUs) is to investigate and prosecute violations of all applicable State laws pertaining to fraud in the administration of the Medicaid program, the provision of medical assistance, or the activities of providers of medical assistance under the State Medicaid plan. The State MFCUs also review complaints alleging abuse or neglect of patients in health care facilities receiving payments under the State Medicaid plan, and may review complaints of misappropriation of patients' private funds in such facilities. Federal requirements for the establishment and continued operations of the units are contained in 42 USC 1396b(a)(6), 1396b(b)(3), and 1396b(q); and 42 CFR part 1007. A key requirement of the governing regulations is that a unit must be a single identifiable entity of State government.

The HHS Office of the Inspector General (OIG) is the agency responsible for the Federal oversight of the State MFCUs. In order to receive the Federal grant funds necessary to sustain their operations, the units must submit an application for Federal assistance to the OIG on an annual basis.

### **State Survey and Certification of Health Care Providers and Suppliers**

The objective of the State Survey and Certification of Health Care Providers and Suppliers program is to determine whether the providers and suppliers of health care services under the Medicaid program are in compliance with regulatory health and safety standards and conditions of participation. This program is administered in a manner similar to Medicaid and includes an approved State plan that addresses Federal requirements.

Even though the State MFCUs and State Survey and Certification of Health Care Providers and Suppliers have substantially less Federal expenditures than the Medicaid Assistance Program, they are clustered with Medicaid because these programs provide significant controls over the expenditures of Medicaid funds. It is unlikely that the expenditures for these two programs would be material to the Medicaid cluster; however, noncompliance with the requirements to administer these controls may be material.

### **Hurricane Katrina Relief**

The objectives of the Hurricane Katrina Relief program are to provide (1) additional Federal payments under Hurricane Katrina-related multi-State Section 1115 demonstrations to reimburse affected States for the non-federal share of specified medical care hurricane-related expenditures and associated administrative costs, and the total uncompensated care costs for affected States; and (2) with respect to counties or parishes in Alabama, Louisiana, and Mississippi affected by Hurricane Katrina, this program is intended to provide the non-federal share of medical care expenditures furnished to Title XIX and Title XXI individuals under existing State plans. In addition, if approved by the Secretary, funds may be used by the State to restore access to health care in Katrina-impacted communities.

## **II. PROGRAM PROCEDURES**

The following paragraphs are intended to provide a high-level, overall description of how Medicaid generally operates. It is not practical to provide a complete description of program procedures because Medicaid operates under both Federal and State laws and regulations and States are afforded flexibility in program administration. Accordingly, the following paragraphs are not intended to be used in lieu of or as a substitute for the Federal and State laws and regulations applicable to this program.

### **Administration**

The U.S. Department of Health and Human Services (HHS) Centers for Medicare and Medicaid Services (CMS) administers the Medicaid program in cooperation with State governments. The Medicaid program is jointly financed by the Federal and State governments and administered by the States. For purposes of this program, the term "State" includes the 50 States, the District of Columbia, and five U.S. territories: Puerto Rico, the Virgin Islands, Guam, American Samoa,

and the Northern Mariana Islands. Medicaid operates as a vendor payment program, with States paying providers of medical services directly. Participating providers must accept the Medicaid reimbursement level as payment in full. Within broad Federal rules, each State decides eligible groups, types and range of services, payment levels for services, and administrative and operating procedures.

### *State Plans*

States administer the Medicaid program under a State plan approved by CMS. The Medicaid State plan is a comprehensive written statement submitted by the State Medicaid agency describing the nature and scope of its Medicaid program. A State plan for Medicaid consists of preprinted material that covers the basic requirements, and individualized content that reflects the characteristics of each particular State's program. The State plan is referenced to the applicable Federal regulation for each requirement and will also contain references to applicable State regulations.

The State plan contains all information necessary for CMS to determine whether the State plan can be approved to serve as a basis for determining the level of Federal financial participation in the State program. The State plan must specify a single State agency (hereinafter referred to as the "State Medicaid agency") established or designated to administer or supervise the administration of the State plan. The State plan must also include a certification by the State Attorney General that cites the legal authority for the State Medicaid agency to determine eligibility.

The State plan also specifies the criteria for determining the validity of payments disbursed under the Medicaid program. This encompasses the system the State will use to ensure that payments are disbursed only to eligible providers for appropriately priced services that are covered by the Medicaid program and provided to eligible beneficiaries. Payments must also be based on claims that are adequately supported by medical records, and payments must not be duplicated.

A State plan or plan amendment will be considered approved unless CMS sends the State written notice of disapproval or a request for additional information within 90 days after receipt of the State plan or plan amendment. Copies of the State plan are available from the State Medicaid agency.

### *Waivers*

The State Medicaid agency may apply for a waiver of Federal requirements. Waivers are intended to provide the flexibility needed to enable States to try new or different approaches to the efficient and cost-effective delivery of health care services, or to adapt their programs to the special needs of particular areas or groups of beneficiaries. Waivers allow exceptions to State plan requirements and permit a State to implement innovative programs or activities on a time-limited basis, and are subject to specific safeguards for the protection of beneficiaries and the program.

Actions that States may take if waivers are obtained include: (1) implement a primary care case-management system or a specialty physician system; (2) designate an entity to act as a central broker in assisting Medicaid beneficiaries to choose among competing health care plans; (3) share with beneficiaries (through the provision of additional services) cost-savings made possible through the beneficiaries' use of more cost effective medical care; (4) limit beneficiaries' choice of providers to providers that fully meet reimbursement, quality, and utilization standards, which are established under the State plan and are consistent with access, quality, and efficient and economical furnishing of care; (5) include as medical assistance, under its State plan, home and community-based services furnished to beneficiaries who would otherwise need inpatient care that is furnished in a hospital or nursing facility, and is reimbursable under the State plan; and (6) impose a deduction, cost-sharing or similar charge of up to twice the nominal charge established under the State plan for outpatient services for certain non-emergency services (except that, pursuant to the Deficit Reduction Act of 2005, a State may, at its option and without a waiver, charge higher co-payments for non-emergency services provided in an emergency room). A State may also obtain a waiver of statutory requirements to provide an array of home and community-based services, which may permit an individual to avoid institutionalization (42 CFR part 441 subpart G). Depending on the type of requirement being waived, a waiver may be effective for initial periods ranging from two to five years, with varying renewal periods. Copies of waivers are available from the State Medicaid agency.

### **Payments to States**

Once CMS has approved a State plan and waivers, it makes quarterly grant awards to the State to cover the Federal share of Medicaid expenditures for services, training, and administration. The amount of the quarterly grant is determined on the basis of information submitted by the State Medicaid agency (in quarterly estimate and quarterly expenditure reporting). The grant award authorizes the State to draw Federal funds as needed to pay the Federal financial participation portion of qualified Medicaid expenditures. The HHS Payment Management System, Division of Payment Management (PMS-DPM) in Rockville, Maryland, disburses Federal funds to States including funding under Medicaid. Currently, all States use a system developed by HHS, called SMARTLINK, to request funds on an as-needed basis. States may use one of two payment mechanisms which are linked to SMARTLINK: (1) wire transfers through the Automated Clearinghouse in conjunction with the Federal Reserve Bank, which are settled the day after the request date, or (2) FEDWIRE transfers through the Department of the Treasury, which is a same-day payment mechanism. The payment method is selected by the State and approved by the Department of the Treasury and HHS before payments are made through either mechanism. States report cash activity to PMS-DPM with a quarterly Cash Transactions Report (PSC-272).

### **State Expenditure Reporting**

Thirty days after the end of the quarter, States electronically submit the CMS-64, *Quarterly Statement of Expenditures for the Medical Assistance Program*. The CMS-64 presents expenditures and recoveries and other items that reduce expenditures for the quarter and prior period expenditures. The amounts reported on the CMS-64 and its attachments must be actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and is available immediately at the time the claim is filed. States use the Medicaid Budget and Expenditure System to electronically submit the CMS-64 directly to CMS.

## Eligibility

Eligibility for Medicaid is based on categorical (e.g., families and children, aged, blind, and disabled) and financial (e.g., income/resources) status. The States must provide services to mandatory categorically needy and other required special groups. States may provide coverage to members of optional groups and medically needy individuals (individuals who are eligible for Medicaid after deducting medical expenditures from their income). Eligibility criteria will be specified in the individual State plan.

Under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the cash welfare program known as Aid for Dependent Children (AFDC) was repealed and replaced with block grants to States known as Temporary Assistance for Needy Families (TANF). Under Medicaid, children and parents who received AFDC were automatically enrolled in Medicaid. However, Medicaid for children and parents who would have met the State's old AFDC income and asset standards in place on July 16, 1996, has been preserved whether or not these individuals are eligible for the new TANF system (Pub. L. No. 104-193).

States must provide limited Medicaid coverage for "qualified Medicare beneficiaries." These are aged and disabled persons who are receiving Medicare, whose income is below 100 percent of the Federal poverty level, and whose resources do not exceed twice the allowable amount under SSI (42 CFR section 407.40).

The State plan will specify if determinations of eligibility are made by agencies other than the State Medicaid agency and will define the relationships and respective responsibilities of the State Medicaid agency and the other agencies. States are required to have (1) documentation of qualified alien status if the applicant/recipient is not a U.S. citizen, (2) facts in the case record to support the agency's eligibility determination, and (3) a written application on a form prescribed by the agency and signed under a penalty of perjury. The State must require a written application signed under penalty of perjury and include in each applicant's case record facts to support the agency's decision on his/her application. The State must provide notice of its decision concerning eligibility and provide timely and adequate notice of the basis for discontinuing assistance. In cases of persons who are not U.S. citizens, the State must obtain documentation of qualified alien status (42 CFR sections 435.907, 435.912, and 435.913; 42 USC 1320b-7; Section 1137 of the Social Security Act).

## Services

Medicaid expenditures include medical assistance payments for eligible recipients for such services as hospitalization, prescription drugs, nursing home stays, outpatient hospital care, and physicians' services, and expenditures for administration and training. In order for a medical assistance payment to be considered valid, it must comply with the requirements of Title XIX, as amended, (42 USC 1396 *et seq.*) and implementing Federal regulations. Determinations of payment validity are made by individual States in accordance with approved State plans under broad Federal guidelines.

Some States have managed care arrangements under which the State enters into a contract with an entity, such as an insurance company, to arrange for medical services to be available for beneficiaries. The State pays a fixed rate per person (capitation rate) without regard to the actual medical services utilized by each beneficiary.

Medicaid expenditures also include administration and training, the State Survey and Certification Program, and State Medicaid Fraud Control Units.

## **Control Systems**

### *Utilization Control and Program Integrity*

The State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including those provided by long-term care institutions. In addition, the State must have: (1) methods of criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials.

These requirements may be met by the State Medicaid agency assuming direct responsibility for assuring the requirements or by contracting with a quality improvement organization (QIO) (formerly known as peer review organization (PRO)) to perform such reviews. The reviewer must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services.

The State Medicaid agency must have procedures for the ongoing post-payment review, on a sample basis, for the necessity, quality, and timeliness of Medicaid services. The State Medicaid agency may conduct this review directly or may contract with a QIO.

Suspected fraud identified by utilization control and program integrity should be referred to the State Medicaid Fraud Control Units.

### *Inpatient Hospital and Long-Term Care Facility Audits*

States are required to establish as part of the State plan standards and methodology for reimbursing inpatient hospital and long-term care facilities based on payment rates that represent the cost to efficiently and economically operate such facilities and provide Medicaid services. The State Medicaid agency must provide for the filing of uniform cost reports by each participating provider. These cost reports are used by the State Medicaid agency to aid in the establishment of payment rates. The State Medicaid agency must provide for periodic audits of the financial and statistical records of the participating providers. Such audits could include desk audits of cost reports in addition to field audits. These audits are an important control for the State Medicaid agency in ensuring that established payment rates are proper.

### *ADP Risk Analyses and System Security Reviews*

The Medicaid program is highly dependent on extensive and complex computer systems that include controls for ensuring the proper payment of Medicaid benefits. States are required to establish a security plan for ADP systems that include policies and procedures to address: (1) physical security of ADP resources; (2) equipment security to protect equipment from theft and unauthorized use; (3) software and data security; (4) telecommunications security; (5) personnel security; (6) contingency plans to meet critical processing needs in the event of short- or long-term interruption of service; (7) emergency preparedness; and (8) designation of an agency ADP security manager.

State agencies must establish and maintain a program for conducting periodic risk analyses to ensure appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. On a biennial basis State agencies shall review the ADP system security of installations involved in the administration of HHS programs. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices.

### *Medicaid Management Information System (MMIS)*

The MMIS is the mechanized Medicaid benefit claims processing and information retrieval system that States are required to have, unless this requirement is waived by the Secretary of HHS. HHS provides general systems guidelines (42 CFR sections 433.110 through 433.131) but it does not provide detailed system requirements or specifications for States to use in the development of MMIS systems. As a result, MMIS systems will vary from State to State. The system may be maintained and operated by the State or a contractor.

The MMIS is normally used to process payments for most medical assistance services and normally includes edits and controls that identify unusual items for follow up by the utilization control and program integrity unit. However, the State may use systems other than MMIS to process medical assistance payments. In many cases the operation of the MMIS is contracted out to a private contractor. The State plan will describe the administration of each State's claims-processing system.

Generally, the MMIS does not process claims from State agencies (e.g., State-operated intermediate care facility for the mentally retarded (ICF/MR)) and certain selected types of claims. The claims payments that are not processed through MMIS may be material to the Medicaid program.

### **Federal Oversight and Compliance Mechanisms**

CMS oversees State operations through its organization consisting of a headquarters and 10 regional offices.

CMS program oversight includes budget review, reviews of financial and program reports, and on-site reviews, which are normally targeted to cover a specific area of concern. CMS conveys areas of national and local concerns to the States through the regions. Technical assistance is used extensively to promote improvements in State operation of the program but enforcement

mechanisms are available. CMS considers the single audit as an important internal control in its monitoring of States.

Federal program oversight, because of its targeted nature, should not be used as a substitute for audit evidence gained through transaction testing.

### **Medicaid Program Payment Error Rate Measurement**

On October 5, 2005, an interim final rule, with an opportunity for comment, was published in the *Federal Register* setting forth the State requirements to provide information to CMS for the purpose of estimating improper payments in the Medicaid program, as required under the Improper Payments Information Act (IPIA) of 2002. The effective date of these regulations is November 4, 2005.

### **Source of Governing Requirements**

The auditor is expected to use the applicable laws and regulations (including the applicable State-approved plan) when auditing this program. The Federal law that authorizes these programs is Title XIX of the Social Security Act (Title XIX), enacted in 1965 and subsequently amended (42 USC 1396 *et seq.*). The Hurricane Katrina Relief program is authorized under the Deficit Reduction Act of 2005, Subtitle C-Katrina Relief, Section 6201, Additional Federal Payments Under Hurricane-Related Multi-State Section 1115 Demonstrations, Pub. L. No. 109-171.

The Federal regulations applicable to the Medicaid program are found in 42 CFR parts 430 through 456, 1002, and 1007.

Awards under the Medical Assistance Program (CFDA 93.778) are no longer excluded from coverage under the HHS implementation of the A-102 Common Rule, 45 CFR part 92 (*Federal Register*, September 8, 2003, 68 FR 52843-52844). This change is effective for any grant award under this program made after issuance of the initial awards for the second quarter of Federal fiscal year (FY) 2004. This program also is subject to the requirements of 45 CFR part 95 and the cost principles under Office of Management and Budget Circular A-87 (as provided in *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government*, HHS Publication ASMB C-10, available on the Internet at <http://rates.psc.gov/fms/dca/asmb%20c-10.pdf>).

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

The HHS OIG issues fraud alerts, some of which relate to the Medicaid program. These alerts are available on the Internet from the HHS OIG home page, Special Fraud Alerts section (<http://oig.hhs.gov/fraud/fraudalerts.html>).



### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### **General Audit Approach for Medicaid Payments**

To be allowable, Medicaid costs for medical services must be: (1) covered by the State plan and waivers; (2) for an allowable service rendered (including supported by medical records or other evidence indicating that the service was actually provided and consistent with the medical diagnosis); (3) properly coded; and (4) paid at the rate allowed by the State plan. Additionally, Medicaid costs must be net of applicable credits (e.g., insurance, recoveries from other third parties who are responsible for covering the Medicaid costs, and drug rebates), paid to eligible providers, and only provided on behalf of eligible individuals.

Due to the complexity of Medicaid program operations, it is unlikely the auditor will be able to support an opinion that Medicaid expenditures are in compliance with applicable laws and regulations (e.g., are allowable under the State plan) without relying upon the systems and internal controls. Examples of complexities include:

- Dependence upon large and complex ADP systems to process the large volume of Medicaid transactions.
- Medical services are provided directly to an eligible beneficiary, normally without prior approval by the State.
- Medical service providers normally determine the scope and medical necessity of the services.
- Notice to the State that service is rendered is after-the-fact when a bill is sent.
- Payments systems do not include a review of original detailed documentation supporting the claim prior to payment.
- Complex billing charge structures and payment rates for medical services, including significance of proper coding of services (e.g., billing by diagnosis related groups (DRG)).
- Different types of Medicaid payments (e.g., inpatient hospital, physicians, prescription drugs and drug rebates).

Medicaid has required control systems that should aid the auditor in obtaining sufficient audit evidence for Medicaid expenditures. These control systems are discussed in the preceding Program Procedures under Control Systems and are: (1) utilization control and program integrity; (2) inpatient hospital and long term care facility audits; (3) ADP risk analyses and system security reviews (e.g., of the MMIS); and (4) the MMIS normally includes edits and

controls that identify unusual items for follow up by the utilization control and program integrity function. The first three generally are performed by specialists retained by the State Medicaid agency. The following table indicates the major types of Medicaid payments to which these controls will likely relate:

Type of Medicaid Payment	1	2	3	4
Inpatient Hospital	X	X	X	X
Physicians (including dental)	X		X	X
Prescription Drugs (net of rebates)	X		X	X
Institutional Long-Term Care	X	X	X	X

Each of the above Medicaid payment types is tested for compliance with applicable laws and regulations under either III.A, “Activities Allowed or Unallowed;” III.B, “Allowable Costs/Cost Principles;” or III.E.1, “Eligibility - Eligibility for Individuals.” Based upon the assessed level of control risk, the auditor should design appropriate tests of the allowability of Medicaid payments. Testing likely will include tests of medical records, in which case the auditor should consider the need for assistance of specialists. The auditor may consider using the same specialists used by the State.

The auditor should consider the following in planning and performing tests of controls and compliance:

1. III.N, “Special Tests and Provisions” includes required internal controls, which are compliance requirements (i.e., controls (1), (2), and (3) above), and audit objectives and procedures for each. The audit procedures will entail tests of work performed by the State Medicaid agency.
2. Tests of compliance with laws and regulations relating to III.A, B, and E below, and the compliance requirements enumerated in III.N should be coordinated.

**A. Activities Allowed or Unallowed**

1. Funds can only be used for Medicaid benefit payments (as specified in the State plan, Federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification Program, and expenditures for State Medicaid Fraud Control Units (42 CFR sections 435.10, 440.210, 440.220, and 440.180).
2. *Case Management Services* - The State plan may provide for case management services as an optional medical assistance service. The term “case management services” means services that will assist individuals eligible under the plan in gaining access to needed medical, social, educational, and other services.

Medicaid case management services are divided into two separate categories:

*Administrative case management* - Services must be identifiable with Title XIX benefit (e.g., outreach services provided by public school districts to Medicaid recipients).

*Medical/targeted case management* - Services must be provided to an eligible Medicaid recipient. Services do not have to be specifically medical in nature and can include securing shelter, personal needs, etc. (e.g., services provided by community mental health boards, county offices of aging).

Case management services is an area of risk because of the high growth of expenditures and prior experience that indicates problems with the documentation of case management expenditures.

With the exception of case management services provided through capitation (a process in which payment is made on a per beneficiary basis) or prepaid health plans, Federal regulations typically require the following documentation for case management services: date of service; name of recipient; name of provider agency and person providing the service; nature, extent, or units of service; and, place of service (Pub. L. No. 99-272, Section 9508; 42 CFR part 434).

3. *Managed Care* - A State may obtain a waiver of statutory requirements in order to develop a system that more effectively addresses the health care needs of its population. For example, a waiver may involve the use of a program of managed care for selected elements of the client population or allow the use of program funds to serve specified populations that would be otherwise ineligible (Section 1115 of the Social Security Act). Managed care providers must be eligible to participate in the program at the time services are rendered, payments to managed care plans should only be for eligible clients for the proper period, and the capitation payment should be properly calculated. Medicaid medical services payments (e.g., hospital and doctors charges) should not be made for services that are covered by managed care. States should ensure that capitated payments to providers are discontinued when a beneficiary is no longer enrolled for services. Requirements related to beneficiaries' access to managed care services are covered under III.N.6 Special Tests and Provisions - Managed Care.
4. *Medicaid Health Insurance Premiums* - A State may enroll certain Medicare-eligible recipients under Medicare Part B and pay the premium, deductibles, cost sharing, and other charges (42 CFR section 431.625).
5. *Disproportionate Share Hospital* - Federal financial participation is available for aggregate payments to hospitals that serve a disproportionate number of low-income patients with special needs. The State plan must specifically define a disproportionate share hospital and the method of calculating the rate for these hospitals. Specific limits for the total disproportionate share hospital payments

for the State and the individual hospitals are contained in the legislation (Section 1923 of the Social Security Act and 42 USC 1396(r)).

6. *Home and Community-Based Services* - A State may obtain a waiver of statutory requirements to provide an array of home and community-based services which may permit an individual to avoid institutionalization (42 CFR part 441, subpart G). The HHS OIG has issued a special fraud alert concerning home health care. Problems noted include cost report frauds, billing for excessive services or services not rendered, and use of unlicensed staff. The full alert was published in the *Federal Register* on August 10, 1995, (page 40847) and is available on the Internet from the HHS OIG home page, Special Fraud Alerts section (<http://oig.hhs.gov/fraud/fraudalerts.html>).

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

*Recoveries, Refunds, and Rebates (Costs must be the net of all applicable credits)*

1. States must have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third-party resources should be exhausted prior to paying claims with program funds. Where a third-party liability is established after the claim is paid, reimbursement from the third party should be sought (42 CFR sections 433.135 through 433.154).
2. The State is required to credit the Medicaid program for (1) State warrants that are canceled and uncashed checks beyond 180 days of issuance (escheated warrants) and (2) overpayments made to providers of medical services within specified time frames. In most cases, the State must refund provider overpayments to the Federal Government within 60 days of identification of the overpayment, regardless of whether the overpayment was collected from the provider (42 CFR sections 433.300 through 433.320, and 433.40).
3. Section 1903(w)(1) of the Social Security Act (as amended by Pub. L. No. 102-234) provides that, effective January 1, 1992, before calculating the amount of Federal financial participation, certain revenues received by a State will be deducted from the State's medical assistance expenditures. The revenues to be deducted are
  - (1) donations made by health providers and entities related to providers (except for *bona fide* donations and, subject to a limitation, donations made by providers for the direct costs of out-stationed eligibility workers); and
  - (2) impermissible health care-related taxes that exceed a specified limit (42 USC 1396(b)(w); 42 CFR section 433.57).

“Provider-related donations” are any donations or other voluntary payments (in-cash or in-kind) made directly or indirectly to a State or unit of local government by (1) a health care provider, (2) an entity related to a health care provider, or (3) an entity providing goods or services under the State plan and paid as administrative expenses. “Bona fide provider-related donations” are donations

that have no direct or indirect relationship to payments made under Title XIX (42 USC 1396 *et seq.*) to (1) that provider, (2) providers furnishing the same class of items and services as that provider, or (3) any related entity (42 CFR sections 433.58(d) and 433.66(b)).

Permissible health care-related taxes are those taxes which are broad-based taxes, uniformly applied to a class of health care items, services, or providers, and which do not hold a taxpayer harmless for the costs of the tax, or a tax program for which CMS has granted a waiver. Health care-related taxes that do not meet these requirements are impermissible health care-related taxes (42 CFR section 433.68(b)).

The provisions of Pub. L. No. 102-234 apply to all 50 States and the District of Columbia, except those States whose entire Medicaid program is operated under a waiver granted under section 1115 of the Social Security Act (42 CFR part 433; *Federal Register*, August 13, 1993, 58 FR 43156-43183).

4. Section 1927 of the Social Security Act allows States to receive rebates for drug purchases the same as other payers receive. Drug manufacturers are required to provide a listing to CMS of all covered outpatient drugs and, on a quarterly basis, are required to provide their average manufacturer's price and their best prices for each covered outpatient drug. Based on these data, CMS calculates a unit rebate amount for each drug, which it then provides to States. No later than 60 days after the end of the quarter, the State Medicaid agency must provide to manufacturers drug utilization data. Within 30 days of receipt of the utilization data from the State, the manufacturers are required to pay the rebate or provide the State with written notice of disputed items not paid because of discrepancies found.

## **E. Eligibility**

### **1. Eligibility for Individuals**

- a. The State Medicaid agency or its designee is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan (42 CFR section 431.10).
- b. There are specific requirements that must be followed to ensure that individuals meet the financial and categorical requirements for Medicaid. These include that the State or its designee shall:
  - (1) Require a written application signed under penalty of perjury and include in each applicant's case records facts to support the agency's decision on the application (42 USC 1320b-7(d); 42 CFR sections 435.907 and 435.913).

- (2) Use the income and eligibility verification system (IEVS) to verify eligibility using wage information available from such sources as the agencies administering State unemployment compensation laws, Social Security Administration (SSA), and the Internal Revenue Service to verify income eligibility and the amount of eligible benefits. With approval from HHS, States may use alternative sources for income information. States also: (a) may target the items of information for each data source that are most likely to be most productive in identifying and preventing ineligibility and incorrect payments, and a State is not required to use such information to verify the eligibility of all recipients; (b) with reasonable justification, may exclude categories of information when follow-up is not cost effective; and (c) can exclude unemployment compensation information from the Internal Revenue Service or earnings information from SSA that duplicates information received from another source (42 USC 1320b-7(a); 42 CFR sections 435.948(e) and 435.953).
- (3) Require, as a condition of eligibility, that each individual (including children) requesting Medicaid services furnish his or her social security account numbers (SSN) and the State shall utilize the SSN in the administration of the program. The State shall not deny or delay services to an otherwise eligible applicant pending issuance or verification of the individual's SSN by SSA. If the applicant cannot recall the SSN or has not been issued a SSN, the agency must assist the applicant in completing an application for an SSN and either send the application to SSA or, if there is evidence that the applicant has been previously issued a SSN, request SSA to furnish the number. A State may give a Medicaid identification number to an applicant who, because of well-established religious objections, refuses to obtain a SSN. In redetermining eligibility, if the case record does not contain the required SSN, the agency must require the recipient to furnish the SSN (42 CFR section 435.920(b)) (42 USC 1320b-7(a)(1); 42 CFR sections 435.910 and 920).
- (4) Verify each SSN of each applicant and recipient with SSA to insure that each SSN furnished was issued to that individual and to determine whether any others were issued (42 CFR sections 435.910(g) and 42 CFR 435.920).
- (5) Document qualified alien status if the applicant or recipient is not a U.S. citizen (42 USC 1320b-7d).

- (6) Redetermine the eligibility of Medicaid recipients with respect to circumstances that may change (e.g., income eligibility), at least every 12 months. The agency may consider blindness and disability as continuing until the review physician or review team determines that the recipient's blindness or disability no longer meets the definition contained in the plan. There must be procedures designed to ensure that recipients make timely and accurate reports of any changes in circumstances that may affect their eligibility. The State must promptly redetermine eligibility when it receives information about changes in a recipient's circumstances that may affect his or her eligibility (42 CFR section 435.916).
- c. Qualified aliens, as defined at 8 USC 1641, who entered the United States on or after August 22, 1996, are not eligible for Medicaid for a period of five years, beginning on the date the alien became a qualified alien, unless the alien is exempt from this five-year bar under the terms of 8 USC 1613. States must provide Medicaid to certain qualified aliens in accordance with the terms of 8 USC 1612(b)(2), provided that they meet all other eligibility requirements. States may provide Medicaid to all other otherwise eligible qualified aliens who are not barred from coverage under 8 USC 1613 (the five-year bar). All aliens who otherwise meet the Medicaid eligibility requirements are eligible for treatment of an emergency medical condition under Medicaid, as defined in 8 USC 1611(b)(1)(A), regardless of immigration status or date of entry.
- d. *Medicaid Eligibility Quality Control System (MEQC)*
  - (1) States are required to operate a MEQC system in accordance with requirements established by CMS. The MEQC system redetermines eligibility for individual sampled cases of beneficiary eligibility made by State Medicaid agencies, or their designees. Statistical sampling methods are used to select claims for review and project the number and dollar impact of incorrect payments to ineligible beneficiaries (42 USC 1396b; 42 CFR sections 431.800 through 431.865).
  - (2) However, most States are operating MEQC pilots or have been given a waiver from the traditional MEQC program described in regulation. The pilots and waivers differ from the traditional MEQC program by performing special studies, targeted reviews, or other activities that are designed to ensure program integrity or improve program administration (42 USC 1396b; 42 CFR sections 431.800 through 431.865).

The auditor will need to evaluate the reliability of the internal control provided by a particular State's MEQC program to ascertain if they can be tested and relied upon in meeting the applicable eligibility audit objectives and the extent to which other auditing procedures may be required.

- e. As discussed in the General Audit Approach for Medicaid Payments, the auditor will likely combine III.A, "Activities Allowed or Unallowed," III.B, "Allowable Costs/Cost Principles," and III.E, "Eligibility." Therefore, compliance requirements related to amounts provided to or on behalf of eligibles were combined with III.A, "Activities Allowed or Unallowed."

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

**3. Eligibility for Subrecipients - Not Applicable**

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

**1. Matching**

The State is required to pay part of the costs of providing health care to the poor and part of the costs of administering the program. Different State participation rates apply to medical assistance payments. There are also different Federal financial participation rates for the different types of costs incurred in administering the Medicaid program, such as administration (including administration of family planning services), training, computer, and other costs (42 CFR sections 433.10 and 433.15). The auditor should refer to the State plan for the matching rates.

**2. Level of Effort**

A State waiver may contain a level-of-effort requirement.

**3. Earmarking**

A State waiver may contain an earmarking requirement.

**L. Reporting**

**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable for the administrative costs of the State MFCUs. Not Applicable for all other components of the cluster.
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable



- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - The PMS-272, *Quarterly Cash Transactions Report* (OMB No. 0937-0200) is required in lieu of the SF-272.
- e. CMS-64, *Quarterly Statement of Expenditures for the Medical Assistance Program* (OMB No. 0938-0067) - Required to be used in lieu of the SF-269, *Financial Status Report*, and is required to be prepared quarterly and submitted electronically to CMS within 30 days after the end of the quarter.

**2. Performance Reporting** - Not Applicable

**3. Special Reporting** - Not Applicable

**N. Special Tests and Provisions**

**1. Utilization Control and Program Integrity**

**Compliance Requirements** - The State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have: (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials (42 CFR parts 455, 456, and 1002).

Suspected fraud should be referred to the State Medicaid Fraud Control Units (42 CFR part 1007).

The State Medicaid agency must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services. The agency must have procedures for the ongoing post-payment review, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The State Medicaid agency may conduct this review directly or may contract with a QIO.

**Audit Objectives** - To determine whether the State has established and implemented procedures to: (1) safeguard against unnecessary utilization of care and services, including long term care institutions; (2) identify suspected fraud cases; (3) investigate these cases; and (4) refer those cases with sufficient evidence of suspected fraud cases to law enforcement officials.

## Suggested Audit Procedures

- a. Obtain and evaluate the adequacy of the procedures used by the State Medicaid agency to conduct utilization reviews and identifying suspected fraud.
  - (1) Consider the qualifications of the personnel conducting the reviews and identifying suspected fraud. Ascertain that the individuals possess the necessary skill or knowledge by considering the following: (1) professional certification, license, or specialized training; (2) the reputation and standing of licensed medical professionals in the view of peers; and (3) experience in the type of tasks to be performed.
  - (2) Consider if the personnel performing the utilization review and identifying suspected fraud are sufficiently organized outside the control of other Medicaid operations to objectively perform their function.
  - (3) Ascertain if the sampling plan implemented by the State Medicaid agency or the QIO was properly designed and executed.
- b. Test a sample of the cases examined by State Medicaid agency or the QIO and ascertain if such examinations were in accordance with the agency's procedures.
- c. Test a sample of the identified suspected cases of fraud and ascertain if the agency took appropriate steps to investigate and, if appropriate, make a referral.
- d. Based on the above procedures, consider the degree of reliance that can be placed on the utilization review and identification of suspected fraud in performing tests under III.A, "Activities Allowed or Unallowed," III.B, Allowable Costs/Cost Principles," and III.E.1, "Eligibility - Eligibility for Individuals."

## 2. Inpatient Hospital and Long-Term Care Facility Audits

**Compliance Requirement** - The State Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers. The State Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. The State Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements will be established by the State Plan (42 CFR section 447.253).

**Audit Objectives** - To determine whether the State Medicaid agency performed inpatient hospital and long-term care facility audits as required.

### **Suggested Audit Procedures**

- a. Review the State Plan and State Medicaid agency operating procedures and document the types of audits performed (e.g., desk audits, field audits), the methodology for determining when audits are conducted, and the objectives and procedures of the audits.
- b. Through examination of documentation, ascertain that the sampling plan was carried out as planned.
- c. Select a sample of audits and ascertain if the audits were in compliance with the State Medicaid agency's audit procedures.
- d. Based on the above, consider the degree of reliance that can be placed on the inpatient hospital and long term-care facility audits in performing tests under III.A, "Activities Allowed or Unallowed," III.B, Allowable Costs/Cost Principles," and III.E.1, "Eligibility - Eligibility for Individuals."

### **3. ADP Risk Analysis and System Security Review**

**Compliance Requirement** - State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR section 95.621).

**Audit Objective** - To determine whether the State Medicaid agency has performed the required ADP risk analyses and system security reviews.

### **Suggested Audit Procedures**

- a. Review the State Medicaid agency's policies and procedures, and document the frequency, timing, and scope of ADP security reviews. This should include any reviews following Statement on Auditing Standards No. 70 (SAS 70) that may have been performed on outside processors.
- b. Consider the appropriateness and extent of reliance on such reviews based on the qualifications of the personnel performing the risk analyses and security reviews and their organizational independence from the ADP systems.
- c. Review the work performed during the most recent risk analysis and security review.

- d. Based on the above, consider the degree of reliance that can be placed on the ADP Risk Analysis and System Security Reviews in performing tests under III.A, III.B, and III.E.1.

#### 4. Provider Eligibility

**Compliance Requirement** - In order to receive Medicaid payments, providers of medical services furnishing services must be licensed in accordance with Federal, State, and local laws and regulations to participate in the Medicaid program (42 CFR sections 431.107 and 447.10; and section 1902(a)(9) of the Social Security Act) and the providers must make certain disclosures to the State (42 CFR part 455, subpart B (sections 455.100 through 455.106)).

**Audit Objective** - To determine whether providers of medical services are licensed to participate in the Medicaid program in accordance with Federal, State, and local laws and regulations, and whether the providers have made the required disclosures to the State.

#### Suggested Audit Procedures

- a. Obtain an understanding of the State plan's provisions for licensing and entering into agreements with providers.
- b. Select a sample of providers receiving payments and ascertain if:
  - (1) The provider is licensed in accordance with the State Plan.
  - (2) The agreement with the provider complies with the requirements of the State Plan, including the disclosure requirements of 42 CFR 455 subpart B.

#### 5. Provider Health and Safety Standards

**Compliance Requirement** - Providers must meet the prescribed health and safety standards for hospital, nursing facilities, and ICF/MR (42 CFR part 442). The standards may be modified in the State plan.

**Audit Objective** - To determine whether the State ensures that hospitals, nursing facilities, and ICF/MR that serve Medicaid patients meet the prescribed health and safety standards.

#### Suggested Audit Procedures

- a. Obtain an understanding of the State Plan provisions that ensure that payments are made only to institutions that meet prescribed health and safety standards.
- b. Select a sample of payments for each provider type (i.e., hospitals, nursing facilities, and ICF/MR) and ascertain if the State Medicaid agency has

documentation that the provider has met the prescribed health and safety standards.

## 6. Managed Care

**Compliance Requirement** - A State may obtain a waiver of statutory requirements in order to develop a system that more effectively addresses the health care needs of its population. A waiver may involve the use of a program of managed care for selected elements of the client population or allow the use of program funds to serve specified populations that would be otherwise ineligible (Sections 1115 of the Social Security Act).

**Audit Objective** - To determine whether the State is operating managed care in compliance with the approved State plan waiver.

### Suggested Audit Procedures

- a. Obtain an understanding of the State plan's managed care waiver.
- b. Perform tests to ascertain if the State has a system to handle beneficiary complaints of not receiving necessary care and provider complaints of not receiving payments for services provided to Medicaid recipients.
- c. Perform tests to ascertain if the State has a system to ensure beneficiaries have adequate access to health care from managed care organizations which are being paid premiums on the beneficiaries' behalf.

## IV. OTHER INFORMATION

### *Transfers into Medicaid (Title XIX)*

As described in Part 4, State Children's Insurance Program (SCHIP) (CFDA 93.767), III.A.1, "Activities Allowed or Unallowed," qualifying States may use up to 20 percent of their available FY 1998, 1999, 2000, or 2001 SCHIP allotments under the State's Medicaid program (CFDA 93.778). The qualifying States, determined by CMS using the criteria in Pub. L. No. 108-74 section 1(g)(2) and Pub. L. No. 108-127, section 1, are: Connecticut, Hawaii, Maryland, Minnesota, New Hampshire, New Mexico, Rhode Island, Tennessee, Vermont, Washington, and Wisconsin.

Amounts transferred into the State's Medicaid program are subject to the requirements of the Medicaid 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.

### *Hurricane Katrina Relief Program*

Funds awarded under the Hurricane Katrina Relief program (CFDA 93.776) should be audited as part of the Medicaid cluster.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES****CFDA 93.794 REIMBURSEMENT OF STATE COSTS FOR PROVISION OF PART D DRUGS****I. PROGRAM OBJECTIVES**

Effective January 1, 2006, States transitioned to Medicare Part D coverage. Under the transition to the Medicare Part D plan, some States will be receiving reimbursement for certain costs under a new demonstration project authorized under Section 402 of the Social Security Act Amendments of 1967, as amended. This demonstration project is separate from the Medicaid cluster (CFDA 93.778).

The Centers for Medicare and Medicaid Services (CMS) notified States in SMDL #06-001 dated February 2, 2006, of the demonstration program project that would allow those States that have assisted their dual-eligible and low-income subsidy-entitled populations in obtaining and accessing Medicare Part D coverage to be reimbursed for their efforts. Section 402 of the Social Security Amendments of 1967, as amended, allows CMS to make payments to States for amounts they have paid for a dual eligible's Part D drugs or a low-income subsidy-entitled Part D plan enrollee's Part D drugs, to the extent that those costs are not otherwise recoverable from a Part D plan and are not required Medicare cost-sharing on the part of the beneficiary. In addition to providing funds to reimburse amounts paid by States for Part D drugs, the demonstration would also provide payments for certain administrative costs incurred by States.

**II. PROGRAM PROCEDURES**

A State must apply for the Section 402 demonstration using a template available on the CMS website. The demonstration will reimburse the State for eligible costs between January 1, 2006 and February 15, 2006. CMS will enter into an agreement with the State describing the program and the related program requirements. Additional information is available at <http://www.cms.hhs.gov/States/> under "Repayments to States."

**III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to the individual State demonstration agreement and then to Part 7 of the Compliance Supplement to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Part 3 for the details of the requirements.**

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.889 HOSPITAL PREPAREDNESS PROGRAM

#### I. PROGRAM OBJECTIVES

The purpose of the Hospital Preparedness Program (HPP) is to enable eligible entities to improve surge capacity and capability and enhance community and hospital preparedness for public health emergencies. The primary focus of the HPP is to build medical surge capability through associated planning, personnel, equipment, training and exercise capabilities at the State and local levels. The goal is a collective vision for National preparedness, and establishes National Priorities to guide preparedness efforts at the Federal, State, local and tribal levels.

#### II. PROGRAM PROCEDURES

The HPP is administered by the Assistant Secretary for Preparedness and Response (ASPR), a Staff Division of the Department of Health and Human Services. The activities under these programs are coordinated with the Centers for Disease Control and Prevention and other Federal entities that assist in State and local public health and medical preparedness efforts.

The HPP makes cooperative agreement awards to the health departments of all 50 States, the District of Columbia, the nation's three largest municipalities (New York City, Chicago, and Los Angeles County), the Commonwealths of Puerto Rico and the Northern Mariana Islands, the territories of American Samoa, Guam and the U.S. Virgin Islands, the Federated States of Micronesia, and the Republics of Palau and the Marshall Islands. The award instrument is a cooperative agreement.

#### Source of Governing Requirements

This program is authorized by Section 319C-2 of the Public Health Service Act (42 USC 247d-3b), as amended by the Pandemic and All-Hazards Preparedness Act of 2006 (Pub. L. No. 109-417). There are no program regulations for this program.

#### Availability of Other Program Information

Additional program can be found at <http://www.hhs.gov/aspr/opec/nhpp/index.html>

#### III. COMPLIANCE REQUIREMENTS

##### A. Activities Allowed or Unallowed

Funds may be used to achieve the preparedness activities described in Pub. L. No. 109-417, Sections 2802(b)(1), (3)-(6) (42 USC 300hh-1(b)(1), (3)-(6)), which include, but are not limited to:

1. Setting up Emergency Systems for Advance Registration of Volunteer Health Professionals (ESAR VHP) systems within the State.

2. Developing statewide plans and community-wide plans for responding to public health and medical emergencies coordinated with the capacities of applicable national, State, and local health agencies and health care providers, including poison control centers.
3. Training or workforce development to enhance the operation of public health laboratories
4. Improving methods to enhance the safety of workers and workplaces in the event of any hazard.
5. Enhanced training and planning to protect the health and safety of personnel, including health care professionals, involved in responding to many different planning scenarios.
6. Training of public health and health care personnel to (1) recognize and treat the mental health consequences of all hazards, and (2) assist in providing appropriate health care for large numbers of individuals.
7. Activities to address the health security needs of children and other vulnerable populations.
8. The purchase or upgrade of equipment (including stationary or mobile communications equipment), supplies, pharmaceuticals or other priority countermeasures to enhance preparedness for and response to all hazards.
9. Conducting exercises to test the capability and timeliness of public health and medical emergency response activities.

## **C. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC-272 series of reports.

### **2. Performance Reporting** - Not Applicable

### **3. Special Reporting** - Not Applicable



## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.914 HIV EMERGENCY RELIEF PROJECT GRANTS

#### I. PROGRAM OBJECTIVES

The objective of this program is to improve access to a comprehensive continuum of high-quality community-based primary medical care and support services in metropolitan areas that are disproportionately affected by the incidence of Human Immunodeficiency Virus (HIV)/Acquired Immune Deficiency Syndrome (AIDS). The statute refers to both persons infected with HIV and those who have clinically defined AIDS. These terms are used interchangeably in this compliance supplement but refer to this total universe of eligible individuals.

Emergency financial assistance, in the form of formula-based funding and supplemental project-based funding, is provided to eligible metropolitan areas (EMAs) and, with the enactment of Pub. L. No. 109-415, transitional grant areas (TGAs) to develop, organize, and operate health and support services programs for infected individuals and their care givers. The supplemental grants are discretionary awards and are awarded, following competition, to EMAs and TGAs that demonstrate need beyond that met through the formula award. They must also demonstrate the ability to use the supplemental amounts quickly and cost-effectively. Other criteria, contained in annual application guidance documents, may also apply. All EMAs and TGAs that are receiving formula assistance are also receiving supplemental assistance.

#### II. PROGRAM PROCEDURES

##### Administration

The Health Resources and Services Administration (HRSA), a component of the Department of Health and Human Services, administers the HIV emergency relief programs. HRSA uses data reported to and confirmed by the Centers for Disease Control and Prevention (CDC) to determine eligibility (i.e., any metropolitan area for which there has been reported to and confirmed by the Director of CDC a cumulative total of more than 2,000 cases of AIDS for the most recent 5 calendar-year period for which data are available) and to establish the formula for allocation of funds. A metropolitan area is not eligible if it does not have an overall population of 50,000 or more. With respect to an EMA that received funding in fiscal year (FY) 2006, the boundaries for determining eligibility are those that were in effect for the area in FY 1994. For areas becoming eligible for funding after FY 2006, the boundaries are those in effect at the time the area first receives funding under this program.

Beginning with FY 2007 awards, at least two-thirds (66 2/3 %) of the appropriated amount is made available for the EMAs' and TGA's formula allocation and the remainder is retained by HRSA for award as discretionary supplemental project assistance on the basis of demonstrated need and other factors. EMAs and TGAs are funded for the formula allocation and project assistance on the basis of a single application and a combined award.

Funds are made available to the chief elected official of the EMA or TGA that administers the public health agency that provides outpatient and ambulatory services to the greatest number of individuals with AIDS in the jurisdiction in accordance with statutory requirements and program guidelines. Day-to-day responsibility for the grant is ordinarily delegated to the jurisdiction's public health department, and some administrative functions may be outsourced to a private entity. The chief elected official of the jurisdiction is also required to establish or designate an HIV health services planning council, which carries out a planning process, coordinating with other State, local and private planning and service organizations, and establishes the priorities for allocating funds. Newly eligible areas designated as TGAs in FY 2007 and beyond may be exempt from the requirement to establish and use an HIV health services planning council.

Consistent with funding and service priorities established through the public planning process, the receiving jurisdiction uses the funds to provide direct assistance to public entities or private non-profit or for-profit entities to deliver or enhance HIV/AIDS-related core and support services; and, within established limits, for associated administrative activities. These administrative activities include EMA or TGA oversight of service provider performance and adherence to their subgrant or contractual obligations. Most of these service providers are non-profit organizations. An EMA that received funding in FY 2006 or a TGA that was considered an EMA in FY 2006 must continue to provide the same services it provided in FY 2006.

### **Source of Governing Requirements**

This program is authorized under Title I of the Ryan White Comprehensive AIDS Resources Emergency (CARE) Act of 1990, as amended, which is codified at 42 USC 300ff-11 through 300ff-17. The latest amendments to the CARE Act are contained in Pub. L. No. 109-415, enacted December 19, 2006, and have not yet been codified. The compliance requirements in Section III are differentiated as follows: (1) for requirements unchanged by Pub. L. No. 109-415, the Pub. L. No. 109-415 citation has been added; (2) requirements changed by Pub. L. No. 109-415 are shown as "Prior to FY 2007 awards" and "Effective with FY 2007 awards;" and (3) new requirements as a result of Pub. L. No. 109-415 are shown as "Effective with 2007 awards."

There are no program regulations specific to this program.

### **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### **A. Activities Allowed or Unallowed**

##### *Activities Allowed prior to FY 2007 awards*

1. Funds may be used to provide medical treatment and support services for individuals with HIV/AIDS (42 USC 300ff-14).

2. Consistent with planning council priorities, funds may be used to deliver or enhance the following HIV/AIDS-related services: (a) outpatient and ambulatory health and support services, including case management, substance abuse treatment and mental health treatment; (b) comprehensive treatment services, including treatment education, and prophylactic treatment for opportunistic infections, for individuals and families with HIV disease; (c) inpatient case management services that prevent unnecessary hospitalization or expedite discharge, as medically appropriate, from inpatient facilities; and (d) outreach activities that are intended to identify individuals with HIV disease who know their status and are not receiving HIV-related services (42 USC 300ff-14(b)(1)).
3. Funds may be used for the operation of an HIV health services planning council established by the grantee, including: staff support to the council; costs incurred by members of the council as a result of participation in meetings and other activities, including out-of-pocket expenses (e.g., transportation and meals); costs associated with conducting needs assessment, plan development and publicizing council activities; and implementation of grievance procedures (42 USC 300ff-12(b)).
4. The EMA may use funds for routine grant administration and monitoring activities, including, but not limited to, the development of applications under this program, the receipt and disbursement of program funds, the establishment of accounting systems, the preparation of required programmatic and financial reports, and for all activities associated with the grantee's selection, award, and administration of contracts under the grant (42 USC 300ff-14(f)(2)).
5. Funds may be used for service provider (also referred to as first-line entities, including first-tier contractors) administrative activities, including normal overhead, management and oversight of specific projects, and other program support, such as quality control and quality assurance (42 USC 300ff-14(f)(3)).
6. The EMA may use funds to support program activities that are not service-oriented or administrative in nature, e.g., capacity building, technical assistance, program evaluation, and assessment of service delivery patterns, if they are established as priorities by the planning council and meet the requirements of 42 USC 300ff-12(b)(4) (A) and (E).
7. Funds may be used for outreach programs that have as their principal purpose identifying people with HIV disease so they become aware of and may be enrolled in care and treatment services, and informing low-income individuals with HIV disease of the availability of services. Funds may not be used for programs whose primary purpose is to target the general public to increase broad public awareness about HIV services, or programs that exclusively promote HIV counseling and testing and/or prevention education (42 USC 300ff-15(a)(7)(C)).

*Activities Allowed effective with FY 2007 awards*

Funds may be used only for core medical services, support services, and administrative expenses (Pub. L. No. 109-415, section 2604(a)(2)).

1. Core medical services with respect to an individual with HIV/AIDS (including co-occurring conditions, i.e., one or more adverse health conditions of an individual with HIV/AIDS, without regard to whether the individual has AIDS or whether the conditions arise from HIV) means (1) outpatient and ambulatory health services; (2) AIDS Drug Assistance Program treatments; (3) AIDS pharmaceutical assistance; (4) oral health care; (5) early intervention services meeting the requirements of Pub. L. No. 109-415, section 2604(e); (6) health insurance premium and cost sharing assistance for low-income individuals; (7) home health care; (8) medical nutrition therapy; (9) hospice services; (10) home and community-based health services; (11) mental health services; (12) substance abuse outpatient care; and (13) medical case management, including treatment adherence services (Pub. L. No. 109-415, section 2604(c)(3)).
2. Support services means services that are needed for individuals with HIV/AIDS to achieve their medical outcomes (those outcomes affecting the HIV-related clinical status of an individual with HIV/AIDS) (for example, respite care for persons caring for individuals with HIV/AIDS, outreach services, medical transportation, linguistic services, referrals for health care and support services, and such other services specified by HRSA) ((Pub. L. No. 109-415, section 2604(d)).
3. Administrative expenses at the grantee level include activities related to (1) routine grant administration and monitoring (for example, development of applications, receipt and disbursement of program funds, development and establishment of reimbursement and accounting systems, development of a clinical quality management program, preparation of routine programmatic and financial reports, and compliance with grant conditions and audit requirements); (2) contract development, solicitation review, award, monitoring, and reporting; and (3) activities carried out by the HIV health services planning council (Pub. L. No. 109-415, section 2604(h)(3)).
4. Subcontractor administrative expenses include usual and recognized overhead activities, management oversight of funded activities, and other types of program support such as quality assurance, quality control, and related activities (Pub.L. No. 109-415, section 2604(h)(4)).

*Activities Unallowed for FY 2007 and prior awards*

1. Funds may not be used to make payment for any item or service if payment has already been made or can reasonably be expected to be made under any State compensation program, under an insurance policy or any Federal or State health benefits program, or by an entity that provides health services on a pre-paid basis (42 USC 300ff-15(a)(6); Pub. L. No. 109-415, section 2605(a)(6) makes an exception for programs administered by or providing the services of the Indian Health Service).
2. Funds may not be used to purchase or improve land or to purchase, construct or make permanent improvement to any building. Minor remodeling is allowed (42 USC 300ff-14(g); Pub. L. No. 109-415, section 2604(i)).
3. Funds may not be used to make cash payments to recipients of services (42 USC 300ff-14(g); Pub. L. No. 109-415, section 2604(i)).
4. Funds may not be used to provide individuals with hypodermic needles or syringes (42 USC 300ff-1).
5. Funds may not be used for AIDS programs, or to develop materials, designed to promote or encourage, directly, intravenous drug use or sexual activity, whether homosexual or heterosexual (42 USC 300ff-78; Pub. L. No. 109-415, section 2684).

**E. Eligibility****1. Eligibility for Individuals**

Eligible beneficiaries are individuals or families of individuals with HIV/AIDS. To the maximum extent practicable, services are to be provided to eligible individuals regardless of their ability to pay for the services and their current or past health condition. (42 USC 300ff-14(b) and 15(a)(7)(A); Pub. L. No. 109-415, sections 2604(c) and (d) and 2605(a)(7)(A)).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable****3. Eligibility of Subrecipients**

The EMA or TGA may make funds available to public or private non-profit entities or to private for-profit entities if they are the only available providers of quality HIV care in the area. (42 USC 300ff-14(b)(2); Pub. L. No. 109-415, section 2604(b)(2)).

**G. Matching, Level of Effort, Earmarking****1. Matching - Not Applicable****2.1 Level of Effort - *Maintenance of Effort***

Each political subdivision within the metropolitan area is required to maintain its level of expenditures for HIV-related services to individuals with HIV disease (or, effective with FY 2007 awards, core and support services) at a level equal to its level of such expenditures for the preceding fiscal year. Political subdivisions within the EMA or TGA may not use funds received under the HIV grants to maintain the required level of HIV-related services (42 USC 300ff-15(a)(1)(B) and (C); Pub. L. No. 109-415, sections 2605(a)(1)(B) and (C)).

**2.2 Level of Effort - *Supplement Not Supplant* - Not Applicable****3. Earmarking**

*Prior to FY 2007 awards*

- a. Not more than five percent of the amounts awarded to the EMA may be used for administration at that level. Program support and planning council support are not considered administration for purposes of this limitation. If the EMA contracts with a third party for the performance of any part of its administrative activities, the five percent limitation applies to the combined total of administrative expenditures by the EMA and the contractor(s) (42 USC 300ff-14(f)).

*For FY 2007 and prior awards*

- a. Unless waived by the Secretary, HHS (or designee), for the purpose of providing health and support services to women, youth, infants, and children with HIV disease, including treatment measures to prevent the perinatal transmission of HIV, an EMA or TGA shall use for services to each of these populations an amount not less than the percentage of grant funds made available in a fiscal year constituted by the ratio of the population involved (women, youth, infants, or children) in such area with HIV/AIDS, to the metropolitan area's overall population with HIV/AIDS (42 USC 300ff-14(b)(4); Pub. L. No. 109-415, section 2604(f)).
- b. Not more than 10 percent, in the aggregate, of amounts allocated by the EMA or TGA to first-line entities may be used for administrative expenses (42 USC 300ff-14(f); Pub. L. No. 109-415, section 2604(h)(2)).

- c. An EMA or TGA shall establish a clinical quality management program to determine whether the services are consistent with the most recent Public Health Service guidelines for the treatment of HIV/AIDS and related opportunistic infection and, as applicable, to develop strategies for ensuring that such services are consistent with the guidelines for improvement in the access to and quality of HIV health services. Expenditures for this purpose may not exceed the lesser of 5 percent of the amount received under the grant, or \$3,000,000 and are not considered administrative expenses for purposes of the limitation on administrative expenses (42 USC 300ff-14(c)(2); (Pub. L. No. 109-415, section 2604(h)(5)).

*Effective with FY 2007 awards*

- a. Unless waived by the Secretary, HHS (or designee), not less than 75 percent of the amount remaining after reserving amounts for EMA or TGA administration and a clinical quality management program shall be used to provide core medical services to eligible individuals in the eligible area (including services regarding the co-occurring conditions of those individuals) (Pub. L. No. 109-415, section 2604(c)(1)).
- b. Not more than 10 percent of the amounts awarded to the EMA or TGA may be used for administration at that level (Pub. L. No. 109-415, section 2604(h)(1)).

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

*Prior to FY 2007 awards*

Funds are available for the budget period designated on the Notice of Grant Award. Funds carried forward from prior years may not be used for administration (42 USC 300ff-13(a)(3)(E)).

*Effective with FY 2007 awards*

Funds made available under a grant award for a fiscal year are available for obligation through the end of the one-year period beginning on the date in the fiscal year on which funds first became available, i.e., the beginning date of the budget period shown on the Notice of Grant Award. Funds made available under the formula portion of the award that remain unobligated at the end of this period will be cancelled unless a waiver allowing for carryover of the funds is approved by the Secretary, HHS or designee. If carryover is approved, the funds remain available for a one-year period beginning on the ending date of the budget period under which the funds were awarded. Funds awarded for supplemental grants that remain unobligated at the end of the budget period for which awarded may not be carried over (Pub. L. No. 109-415, section 2603(c)).

**J. Program Income**

Providers may impose charges for the provision of services only as follows (42 USC 300ff-15(e)(1) and (2); Pub. L. No. 109-415, sections 2605(e)(1) and (2)):

<b>INDIVIDUAL'S INCOME LEVEL</b>	<b>PERMISSIBLE AGGREGATE CHARGES</b>
Less than or equal to 100 percent of official poverty line	No charges may be imposed
Greater than 100 percent of the official poverty line	Charges must be imposed according to a publicly available sliding scale fee schedule, BUT
Greater than 100 percent of the official poverty line and not exceeding 200 percent of that poverty line	A provider may not, for any calendar year, impose aggregate charges in an amount exceeding 5 percent of the annual gross income of the individual involved.
Greater than 200 percent of the official poverty line and not exceeding 300 percent of that poverty line	A provider may not, for any calendar year, impose aggregate charges in an amount exceeding 7 percent of the annual gross income of the individual involved.
Greater than 300 percent of the official poverty line	A provider may not, for any calendar year, impose aggregate charges in an amount exceeding 10 percent of the annual gross income of the individual involved.

The poverty guidelines are available on the Internet at <http://aspe.hhs.gov/poverty/> and are also published each year in the *Federal Register*.

The term "aggregate" applies to the annual charges imposed for all without regard to whether they are characterized as enrollment fees, premiums, deductibles, cost sharing, co-payments, coinsurance, or other charges for services (42 USC 300ff-15(e)(3); Pub. L. No. 109-415, section 2605(e)).

**L. Reporting****1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable



- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
  - d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PSC-272-E, *Major Program Statement*.
- 2. Performance Reporting** - Not Applicable
- 3. Special Reporting** – Not Applicable

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.917 HIV CARE FORMULA GRANTS

#### I. PROGRAM OBJECTIVES

The objective of this program is to assist States and territories in improving the quality, availability, and organization of health care and support services for individuals with Human Immunodeficiency Virus (HIV) disease /Acquired Immunodeficiency Syndrome (AIDS) and their families. These objectives may be accomplished through provision of services by the State or HIV/AIDS care consortia in a home or community setting, or by paying health insurance premiums that would not otherwise be available to ensure continuity of care.

#### II. PROGRAM PROCEDURES

##### Administration and Services

Grants are awarded annually, on a formula basis, to all 50 States, the District of Columbia, Puerto Rico, and territories of the Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, the Republic of Palau, the Federated States of Micronesia, and the Republic of the Marshall Islands following submission of an application to and approval by the HIV/AIDS Bureau, Health Resources and Services Administration (HRSA), a component of the Department of Health and Human Services. The responsible State agency, usually the State health department, is designated by the Governor.

The application addresses how the State plans to address each of the five specified program components: (1) HIV care consortia; (2) home and community-based care; (3) health insurance continuation program; (4) provision of treatments; and (5) State direct services. This includes the State's plans for the AIDS Drug Assistance Program (ADAP). ADAP is earmarked funding provided to the State as a separate amount in addition to the base formula grant amount, which includes supplemental funding.

States may use a variety of service delivery mechanisms. States may provide some or all services directly, or may enter into agreements with local HIV care consortia, associations of public and non-profit health care and support service providers, and community-based organizations that plan, develop, and deliver services for individuals with HIV/AIDS. The State also may delegate some of its authority to monitor provider agreements to a "lead agency" (fiscal agent) within the consortium, with specific responsibilities contained in a formal agreement between the State and that agency.

##### Source of Governing Requirements

The HIV CARE formula grant program is authorized under Part B of the Ryan White HIV/AIDS Treatment Modernization Act of 2006, which is codified at 42 USC 300ff-21 through 300ff-28. The latest amendments are contained in Pub. L. No. 109-415, enacted December 19, 2006. The compliance requirements in Section III are differentiated as follows: (1) for requirements unchanged by Pub. L. No. 109-415, the Pub. L. No. 109-415 citation has been added; (2) requirements changed by Pub. L. No. 109-415 are shown as "Prior to FY 2007 awards" and

“Effective with FY 2007 awards;” and (3) new requirements as a result of Pub. L. No. 109-415 are shown as “Effective with 2007 awards.”

There are no regulations specific to this program.

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

Further information about this program is available on the Internet at <http://www.hab.hrsa.gov/>.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should look first to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

#### *Activities Allowed prior to FY 2007 awards*

1. Funds may be used to provide outpatient and ambulatory health services, including case management services; medical, nursing services, substance abuse treatment, mental health treatment, and dental care services; diagnostics; monitoring; prophylactic treatment for opportunistic infections; treatment education to take place in the context of health care delivery; medical follow-up services; mental health, developmental, and rehabilitation services; home health and hospice care, whether such services are provided directly by the State or by eligible consortia or other service providers under agreement with the State (42 USC 300ff-22(1) and 300ff-23(a)(2)(A)).
2. Funds may be used for support services, such as transportation services, attendant care, homemaker services, day or respite care, benefits advocacy, advocacy services provided through public and non-profit private entities, and services that are incidental to the provision of services for PLWH, including nutrition services, housing referral services, and child welfare and family services (including foster care and adoption services) whether such services are provided directly by the State or by eligible consortia or other service providers under agreement with the State (42 USC 300ff-23(a)(2)(B)).
3. Funds may be used to provide inpatient case management services that prevent unnecessary hospitalization or that expedite discharge, as medically appropriate, from inpatient facilities (42 USC 300ff-14(b)(1)(B) and 22(1)).

*Activities Allowed for FY 2007 and prior awards*

1. Funds may be used to provide home- and community-based care services for individuals with HIV/AIDS, including durable medical equipment, homemaker (removed with enactment of Pub. L. No. 109-415) or home health aide services and personal care services furnished in the individual's home, day treatment or other partial hospitalization services; home intravenous and aerosolized drug therapy (including prescription drugs administered as part of such therapy); routine diagnostic testing administered in the individual's home; and appropriate mental health, developmental, and rehabilitation services, whether such services are provided directly by the State or by eligible consortia or other service providers under agreement with the State (42 USC 300ff-22(3) and 42 USC 300ff-24; Pub. L. No. 109-415, section 2614(a)).
2. Funds may be used to provide assistance to ensure the continuity of health insurance coverage or receipt of medical benefits under a health insurance program, including risk pools, by eligible low-income individuals with HIV/AIDS (42 USC 300ff-22(a)(4), 300ff-25(a), and 300ff-27(b)(6)(a); Pub. L. No. 109-415, section 2615(a)).
3. Funds may be used to provide therapeutics to treat HIV/AIDS (42 USC 300ff-22(5); Pub. L. No. 109-415, section 2616).
4. Funds may be used for administration, including routine grant administration and monitoring activities, and activities associated with the grantee's contract award procedures. For first-line entities (consortia or service providers funded directly by the State), these activities may include usual and recognized overhead, including established indirect rates for agencies, management oversight of the specific programs funded by the grant, and other types of program support, such as quality assurance, quality control, and related activities (42 USC 300ff-28(b)(4); Pub. L. No. 109-415, sections 2618(b)(3)(C), (D), and (E)).

*Activities Allowed effective with FY 2007 awards*

Funds may be used for core medical services and support services for individuals with HIV/AIDS (Pub. L. No. 109-415, sections 2612 and 2684).

1. Core medical services with respect to an individual infected with HIV/AIDS (including co-occurring conditions, i.e., one or more adverse health conditions of an individual with HIV/AIDS, without regard to whether the individual has AIDS or whether the conditions arise from HIV) means (1) outpatient and ambulatory health services; (2) AIDS Drug Assistance Program treatments; (3) AIDS pharmaceutical assistance; (4) oral health care; (5) early intervention services meeting the requirements of Pub. L. No. 109-415, section 2612(d); (6) health insurance premium and cost sharing assistance for low-income individuals; (7) home health care; (8) medical nutrition therapy; (9) hospice services; (10) home and community-based health services; (11) mental health services;

- (12) substance abuse outpatient care; and (13) medical case management, including treatment adherence services (Pub. L. No. 109-415, section 2612(b)(3)).
2. Support services means services that are needed for individuals with HIV/AIDS to achieve their medical outcomes (those outcomes affecting the HIV-related clinical status of an individual with HIV/AIDS) (for example, respite care for persons caring for individuals with HIV/AIDS, outreach services, medical transportation, linguistic services, referrals for health care and support services, and such other services specified by HRSA). Expenditures for or through consortia are considered support services (Pub. L. No. 109-415, sections 2612(c) and 2613(f)).

#### *Activities Unallowed*

1. Funds may not be used to purchase or improve land, or to purchase, construct, or permanently improve (other than minor remodeling) any building or other facility (42 USC 300ff-28(b)(7); Pub. L. No. 109-415, sections 2612(f) and 2618(b)(6)).
2. Funds may not be used to make payments to recipients of services (42 USC 300ff-28(b)(7); Pub. L. No. 109-415, section 2612(f)).
3. Funds may not be used to make payments for any item or service to the extent that payment has been made or can reasonably be expected to be made for that item or service under any State compensation program, under an insurance policy, or under any Federal or State health benefits program (effective with FY 2007 awards, a program administered by or providing the services of the Indian Health Service) or by an entity that provides health services on a prepaid basis (42 USC 300ff-27(b)(6)(F); Pub. L. No. 109-415, section 2617(b)(7)(F)).
4. Funds may not be used for inpatient hospital services, or nursing home or other long-term care facilities (42 USC 300ff-24(c)(3); Pub. L. No. 109-415, section 2614(c)(3)).
5. Funds may not be used to pay any costs associated with creation, capitalization, or administration of a liability risk pool (other than those costs paid on behalf of individuals as part of premium contributions to existing liability risk pools) or to pay any amount expended by a State under Title XIX of the Social Security Act (Medicaid) (42 USC 300ff-25(b); Pub. L. No. 109-415, section 2615(b)(2)).
6. Funds may not be used for AIDS programs, or to develop materials, designed to promote or encourage, directly, intravenous drug use or sexual activity, whether homosexual or heterosexual (42 USC 300ff-78; Pub. L. No. 109-415, section 2684).
7. None of the funds made available under this Act, or an amendment made by this Act, shall be used to provide individuals with hypodermic needles or syringes so that individuals may use illegal drugs (42 USC 300-ff-1).

**E. Eligibility****1. Eligibility for Individuals**

To be eligible to receive assistance in the form of therapeutics, an individual must have a medical diagnosis of HIV/AIDS and be a low-income individual, as defined by the State (42 USC 300ff-26(b); Pub. L. No. 109-415, section 2616(b)).

**2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable****3. Eligibility for Subrecipients**

- a. Eligible subrecipients are consortia of one or more public and one or more nonprofit private (or private for-profit providers or organizations if such organizations are the only available providers of quality HIV/AIDS care in the area) health care and support service providers and community-based organizations operating within areas determined by the State to be most affected by HIV/AIDS (42 USC 300ff-23(a); Pub. L. No. 109-415, section 2613(a)).
- b. To receive funding from the State, consortia must agree to provide, directly or through agreements with other service providers, essential health and support services, and must meet specified application and assurance requirements. These include conducting a needs assessment within the geographic area served and developing a plan (consistent with the State's comprehensive plan required by 42 USC 300ff-27(b)(4) or Pub. L. No. 109-415, section 2617(b)(4)) to meet identified service needs following a consultation process (42 USC 300ff-23(b) and (c); Pub. L. No. 109-415, sections 2613(b) and (c)).
- c. For consortia otherwise meeting these requirements, the State shall give priority first to consortia that are receiving assistance from HRSA for adult and pediatric HIV-related care demonstration projects and then to any other existing HIV care consortia (42 USC 300ff-23(e); Pub. L. No. 109-415, section 2613(e)).

**G. Matching, Level of Effort, Earmarking****1. Matching**

- a. States and territories (excluding Puerto Rico) with greater than 1 percent of the aggregate number of national cases of HIV/AIDS in the 2-year period preceding the Federal fiscal year in which the State is applying for a grant must, depending on the number of years in which this threshold requirement has been met, provide matching funds as follows (42 USC 300ff-27(d)(1) and (3); Pub. L. No. 109-415, section 2617(d)(1)):

<b>Year(s) in Which Matching Required</b>	<b>Minimum Percentage of Non-Federal Matching</b>	<b>Ratio of Non-Federal to Federal Expenditures</b>
First	16 2/3	\$1 non-Federal/\$5 Federal
Second	20	\$1 non-Federal/\$4 Federal
Third	25	\$1 non-Federal/\$3 Federal
Fourth and subsequent	33 1/3	\$1 non-Federal/\$2 Federal

*Effective with FY 2007 awards*

- b. The matching requirement applies to the combined total of the base allocation and ADAP funds unless for ADAP the Secretary (or designee) requires non-Federal contributions in an amount equal to \$1 for every \$4 of Federal funds (Pub. L. No. 109-415, section 2618(a)(2)(F)(ii)(III)).
- c. For entities not subject to the matching requirements in paragraph 1.a. above, non-Federal contributions in an amount equal to \$1 for every \$4 of Federal funds are required for ADAP funds (Pub. L. No. 109-415, section 2618(a)(2)(F)(ii)(III)).

### **2.1 Level of Effort - Maintenance of Effort**

The State will maintain HIV-related activities at a level that is equal to not less than the level of such expenditures by the State for the 1-year period preceding the fiscal year for which the State is applying for Title II/Part B funds (42 USC 300ff-27(b)(6)(E); Pub. L. No. 109-415, section 2616(b)(7)(E)).

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

### **3. Earmarking**

*Effective for FY 2007 and prior awards*

- a. The State may not use more than 10 percent of the amounts received under the grant for planning and evaluation activities (42 USC 300ff-28(b)(3); Pub. L. No. 109-415, section 2618(b)(2)).
- b. The State may not use more than 10 percent of the funds amounts received under the grant for administration (42 USC 300ff-28(b)(4); Pub. L. No. 109-415, section 2618(b)(3)(A)).
- c. A State may not use more than a total of 15 percent of the amounts received for the combined costs for administration, planning, and evaluation. States and territories that receive a minimum allotment (between \$200,000 and \$500,000) may expend up to the amount required to support one full-time equivalent employee for any or all of these

purposes (42 USC 300ff-28(a)(1), 28(b)(5), and 28(b)(6); Pub. L. No. 109-415, sections 2618(b)(4) and (b)(5)).

- d. The aggregate of expenditures for administrative expenses by entities and subcontractors (including consortia) funded directly by the State from grant funds (“first-line entities”) may not exceed 10 percent of the total allocation of grant funds to the State (without regard to whether particular entities spend more than 10 percent for such purposes) (42 USC 300ff-28(c)(4)(A); Pub. L. No. 109-415, section 2618(b)(3)(B)).
- e. For the purpose of providing health and support services to women, youth, infants, and children with HIV disease, including treatment measures to prevent the perinatal transmission of HIV, a State shall use for each of these populations not less than the percentage of Title II or Part B funds in a fiscal year constituted by the ratio of the population involved (women, youth, infants, or children) in the State with AIDS to the general population in the State of individuals with AIDS (42 USC 300ff-21(b); Pub. L. No. 109-415, section 2612(e)). This information is provided to the State by HRSA in the annual application guidance (Appendix II, Estimated Number/Percent of Women, Infants, and Children Living with AIDS in States and Territories).
- f. A State shall use a portion of the funds awarded to establish a program to provide therapeutics to treat HIV/AIDS or prevent the serious deterioration of health arising from HIV/AIDS in eligible individuals, including measures for the prevention and treatment of opportunistic infections. The amount of this specific earmark for ADAP will be provided in the grant agreement. Of the amount earmarked in the grant agreement for this purpose, the State may use not more than 5 percent to encourage, support, and enhance adherence to and compliance with treatment regimens (including related medical monitoring) unless the Secretary (or designee) approves a 10 percent limit (42 USC 300ff-26(a); Pub. L. No. 109-415, sections 2616(a) and (c)(6)).
- g. A State shall establish a quality management program to determine whether the services provided under the grant are consistent with the most recent Public Health Service guidelines for the treatment of HIV disease and related opportunistic infection and, as applicable, to develop strategies for bringing these services into conformity with the guidelines. Funds used for this purpose may not exceed the lesser of 5 percent of the amount received under the grant or \$3,000,000, and are not considered administrative expenses for purposes of the limitation under paragraph 3.b above (42 USC 300ff-22(d); Pub. L. No. 109-415, sections 2618(b)(3)(E)(ii)).



*Prior to FY 2007 awards*

Not less than 75 percent of the amounts received by a State shall be obligated to specific programs and projects and made available for expenditure no later than 120 days after receipt by the State (budget period beginning date as shown on the Notice of Grant Award issued by HRSA) (42 USC 300ff-28)(c)).

*Effective with FY 2007 awards*

Unless waived by the Secretary, HHS (or designee), not less than 75 percent of the amount remaining after reserving amounts for State administration and a clinical quality management program shall be used to provide core medical services to eligible individuals with HIV/AIDS (including services regarding the co-occurring conditions of those individuals) (Pub. L. No. 109-415, section 2612(b)(1)).

**H. Period of Availability of Federal Funds***Effective with FY 2007 awards*

1. Not less than 75 percent of the amounts received by a State shall be obligated to specific programs and projects and made available for expenditure not later than 150 days after receipt by the State (budget period beginning date as shown on the Notice of Grant Award issued by HRSA) in the case of the first fiscal year for which amounts are received and, in the case of succeeding fiscal years, 120 days after receipt. Any portion of a grant that has not been obligated during these time frames ceases to be available to the State for expenditure (Pub. L. No. 109-415, sections 2618(c) and (d)).
2. Funds are available for obligation by the State through the end of the one-year period beginning on the date on which funds from the award first became available to the State unless an extension is approved by the Secretary (or designee) for an additional one-year period beginning on the date on which the grant would have expired ((Pub. L. No. 109-415, section 2622(c)).

**J. Program Income**

Providers may impose charges for the provision of services only as follows (42 USC 300ff-27(c); Pub. L. No. 109-415, section 2617(c)):

<b>INDIVIDUAL'S INCOME LEVEL</b>	<b>PERMISSIBLE AGGREGATE CHARGES</b>
Less than or equal to 100 percent of official poverty line	No charges may be imposed
Greater than 100 percent of the official poverty line	Charges must be imposed according to a publicly available sliding scale fee schedule, BUT
Greater than 100 percent of the official poverty line and not exceeding 200 percent of that poverty line	A provider may not, for any calendar year, impose aggregate charges in an amount exceeding 5 percent of the annual gross income of the individual involved.
Greater than 200 percent of the official poverty line and not exceeding 300 percent of that poverty line	A provider may not, for any calendar year, impose aggregate charges in an amount exceeding 7 percent of the annual gross income of the individual involved.
Greater than 300 percent of the official poverty line	A provider may not, for any calendar year, impose aggregate charges in an amount exceeding 10 percent of the annual gross income of the individual involved.

The poverty guidelines are available on the Internet at <http://aspe.hhs.gov/poverty/> and are also published each year in the *Federal Register*.

The term “aggregate” applies to the annual charges imposed for all without regard to whether they are characterized as enrollment fees, premiums, deductibles, cost sharing, co-payments, coinsurance, or other charges for services (42 USC 300ff-27; Pub. L. No. (c)(3); 2617)(3)).

These requirements apply to all service providers from which an individual receives Title II/Part B-funded services. The State shall waive this requirement for an individual service provider in those instances when the provider does not impose a charge or accept reimbursement available from any third-party payer, including reimbursement under any insurance policy or any Federal or State health benefits program (42 USC 300ff-27(c)(4)(A); Pub. L. No. 109-415, section 2617(c)(4)(A)).

*Effective with FY 2007 awards*

Any drug rebates received on drugs purchased from funds provided to establish a program of therapeutics must be used to support the types of activities otherwise eligible for funding under this program, with priority given to activities related to providing therapeutics (Pub. L. No. 109-415, sections 2616(g) and 2622(d)).

**L. Reporting****1. Financial Reporting**

- a. *SF-269, Financial Status Report* - Applicable
- b. *SF-270, Request for Advance or Reimbursement* - Not Applicable
- c. *SF-271, Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. *SF-272, Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PSC-272 series of reports.

**2. Performance Reporting** - Not Applicable**3. Special Reporting** - Not Applicable

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.918 GRANTS TO PROVIDE OUTPATIENT EARLY INTERVENTION SERVICES WITH RESPECT TO HIV DISEASE (Ryan White HIV/AIDS Program Part C)

#### I. PROGRAM OBJECTIVES

The objective of this program is to provide, on an outpatient basis, high-quality, early intervention services and primary care related to the Human Immunodeficiency Virus (HIV). This is accomplished by increasing the present capacity of eligible ambulatory health service providers to provide a continuum of HIV prevention for at-risk individuals, and care for individuals who are HIV-infected, including when applicable, perinatal care.

#### II. PROGRAM PROCEDURES

##### Administration and Services

This program is administered at the Federal level by the HIV/Acquired Immunodeficiency Syndrome (AIDS) Bureau, Health Resources and Services Administration (HRSA), a component of the Department of Health and Human Services.

Grants are awarded to public and non-profit private entities, including federally qualified health centers under section 1905(1)(2)(B) of the Social Security Act. Grants are also awarded to non-State family planning organizations, comprehensive hemophilia diagnostic and treatment centers, rural health clinics, health facilities operated by or pursuant to a contract with the Indian Health Service, community-based organizations, clinics, hospitals, and other health facilities that provide early intervention services to those persons infected with HIV/AIDS through intravenous drug use, or to nonprofit private entities that provide comprehensive primary care services to populations at risk of HIV/AIDS, including faith-based and community-based organizations. Those providers must be qualified Medicaid-participating providers unless an exception is granted by HRSA (42 USC 300ff-52(a)(1)(A) through (G) and 42 USC 300ff-52(b)).

The early intervention services (EIS) program enables primary health care providers to include a range of services from risk assessment, and HIV counseling, testing, and referral services to clinical care for people with HIV. Many of these providers receive other Federal funding, e.g., community and migrant health centers, but this categorical funding allows them to provide adequate funding for these services.

Services may be provided directly by the grantee or through contractual agreements with other service providers.

##### Source of Governing Requirements

The HIV EIS grant program is authorized under Part C of Title XXVI of the PHS Act, as amended by the Ryan White HIV/AIDS Treatment Modernization Act of 2006 (Ryan White Program), and is codified at 42 USC 300ff-51 through 300ff-67. The program has no specific program regulations.

## Availability of Other Program Information

Further information about this program is available at <http://www.hab.hrsa.gov/>.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should look first to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

##### 1. *Activities Allowed*

- a. Funds may be used for counseling (whether or not associated with testing) and testing for HIV (42 USC 300ff-51(e)(1)(A) and (B) and 42 USC 300ff-62(f)).
- b. Funds may be used to provide diagnostic and therapeutic measures for preventing and treating the deterioration of the immune system and related conditions (including STD, hepatitis C, and tuberculosis). This includes periodic medical evaluations, appropriate treatment of HIV infection, prophylactic, and treatment interventions for complications of HIV infection (including opportunistic infections, opportunistic malignancies, and other AIDS-defining conditions) (42 USC 300ff-51(e)(1)(D) and (E)).
- c. Funds may be used to refer clients to sub-specialty or consultant services, and to related evaluation, diagnostic, and treatment services. This includes, but is not limited to, infectious diseases, oncology, dermatology, ophthalmology, pulmonary and oral health specialists as well as outpatient mental health and substance abuse services and nutrition assessment and counseling related to living with HIV/AIDS (42 USC 300ff-51(e)(2)(A-C)).
- d. Funds may be used for core medical services for an individual with HIV/AIDS, including the co-occurring conditions of the individual, defined as outpatient and ambulatory health services; AIDS Drug Assistance Program treatments defined under 42 USC 300ff-16; AIDS pharmaceutical assistance; oral health care; early intervention services described in 42 USC 300ff-51(e); health insurance premium and cost sharing assistance for low-income individuals in accordance with 42 USC 300ff-15; home health care; medical nutrition therapy; hospice services; home and community-based health services as defined under 42 USC 300ff-14(c); mental health services, substance abuse outpatient care; and medical case management including treatment adherence services (42 USC 300ff-51(c)(3)).

- e. Funds may be used to pay the costs of providing support services that are needed for individuals with HIV/AIDS to achieve their medical outcomes. These services include, but are not limited to, respite care for persons caring for individuals with HIV/AIDS, outreach services, medical transportation, translation, and referrals for health care and support services (42 USC 300ff-51(b)(1)(B)).
- f. Funds may be used for the establishment of a clinical quality management program to assess the extent to which medical services are consistent with the most recent Public Health Service guidelines for the treatment of HIV/AIDS and related opportunistic infections, to develop strategies for insuring that such services are consistent with the guidelines and to ensure that improvements in the access to and quality of HIV health services are addressed. (42 USC 300ff-64(g)(5))
- g. Funds may be used for administrative expenses. Indirect costs under a federally negotiated indirect cost rate are considered to be administrative expenses. (42 USC 300ff-51(b)(1)(C)).

## 2. *Activities Unallowed*

- a. Funds may not be used to make payments for any item or service to the extent that payment has been made or can reasonably be expected to be made for that item or service under any State compensation program, under an insurance policy (except for a program administered by or providing the services of the Indian Health Service), or under any Federal or State health benefits program or by an entity that provides health services on a prepaid basis (42 USC 300ff-64(f)(1)).
- b. Funds may not be awarded to for-profit entities to carry out required early intervention services unless they are the only available providers of quality HIV care in the area (42 USC 300ff-51(e)(3)(A)).
- c. Grant funds may not be used for AIDS programs, or to develop materials, designed to promote or encourage, directly, intravenous drug abuse or sexual activity, homosexual or heterosexual (42 USC 300ff-84).
- d. None of the funds made available under this Act, or an amendment made by this Act, shall be used to provide individuals with hypodermic needles or syringes so that individuals may use illegal drugs (42 USC 300ff-1 (as enacted in Pub. L. No. 101-381, sec. 422)).
- e. Funds received under this grant will not be expended for any purpose other than the purposes for which the grant was awarded (42 USC 300ff-64(g)(1)).

**G. Matching, Level of Effort, Earmarking****1. Matching – Not Applicable****2.1 Level of Effort - *Maintenance of Effort***

A grantee must maintain its expenditures for early intervention services at a level equal to not less than the level of expenditures for such services for the fiscal year preceding the fiscal year for which the applicant is applying to receive the grant (42 USC 300ff-64(d)).

**2.2. Level of Effort - *Supplement Not Supplant* - Not Applicable****3. Earmarking**

a. A minimum of 50 percent of the funds awarded must be spent on providing the following early intervention services to individuals with HIV disease: testing, referrals, other clinical and diagnostic services, periodic medical evaluations, and therapeutic measures—directly and on-site or at sites where other primary care services are rendered (42 USC 300ff-51(b)(2), (e)(1) and (2), and (e)(3)(A) and (B)).

b. Unless waived, a minimum of 75 percent of the funds remaining after clinical quality management and administration are deducted must be spent on core medical services for an individual with HIV/AIDS, including the co-occurring conditions of the individual. (42 USC 300ff-51(c)(1)).

(1) Core medical services are defined as outpatient and ambulatory health services; AIDS Drug Assistance Program treatments defined under 42 USC 300ff-16; AIDS pharmaceutical assistance; oral health care; early intervention services described in 42 USC 300ff-51(e); health insurance premium and cost sharing assistance for low-income individuals in accordance with 42 USC 300ff-15; home health care; medical nutrition therapy; hospice services; home and community-based health services as defined under 42 USC 300ff-14(c); mental health services; substance abuse outpatient care; and medical case management including treatment adherence services. (42 USC 300ff-51(c)(3)).

(2) A grantee may have applied for and received a waiver of the 75 percent requirement for core medical services if it is determined that, within the service area of the grantee, there are no waiting lists for the AIDS Drug Assistance Program and that core medical services are available to all individuals with HIV/AIDS identified and eligible under the Ryan White HIV/AIDS Program. (42 USC 300ff-51(c)(2))

- c. Not more than 10 percent of the approved Federal grant funds may be used for administrative expenses, including planning and evaluation, except that the costs of a clinical quality management program may not be considered administrative expenses for purposes of such limitation (42 USC 300ff-64(g)(3)).

**J. Program Income**

Providers may impose charges for the provision of services only as follows (42 USC 300ff-64(e)):

INDIVIDUAL’S INCOME LEVEL	PERMISSIBLE AGGREGATE CHARGES
Less than or equal to 100 percent of official poverty line	No charges may be imposed
Greater than 100 percent of the official poverty line	Charges must be imposed according to a publicly available sliding scale fee schedule, BUT
Greater than 100 percent of the official poverty line and not exceeding 200 percent of that poverty line	A provider may not, for any calendar year, impose aggregate charges in an amount exceeding 5 percent of the annual gross income of the individual involved.
Greater than 200 percent of the official poverty line and not exceeding 300 percent of that poverty line	A provider may not, for any calendar year, impose aggregate charges in an amount exceeding 7 percent of the annual gross income of the individual involved.
Greater than 300 percent of the official poverty line	A provider may not, for any calendar year, impose aggregate charges in an amount exceeding 10 percent of the annual gross income of the individual involved.

The poverty guidelines are published each year in the *Federal Register*. HHS also maintains this information at <http://aspe.hhs.gov/poverty/>.

The term “aggregate charges” applies to the annual charges without regard to whether they are characterized as enrollment fees, premiums, deductibles, cost sharing, co-payments, coinsurance, or other charges for services (42 USC 300ff-64 (e)(4)).

The charges shall be made on the basis of a publicly available schedule of charges and may, at the grantee’s discretion, be assessed at an alternate lesser amount (42 USC 300ff-64(e)(1) and (3)).

The requirement for an individual service provider to impose a charge will be waived by HRSA in those instances when the provider does not impose a charge or accept reimbursement available from any third-party payer, including reimbursement under any insurance policy or any Federal or State health benefits program and a waiver has been granted by HRSA under 42 USC 300ff-52(b)(2) (42 USC 300ff-64(e)(5)).



**L. Reporting****1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Applicable only for grantees on restricted drawdown as described on the Notice of Grant Award.
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PSC-272 series of reports.

**2. Performance Reporting – Not Applicable****3. Special Reporting – Not Applicable**

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.958 BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH SERVICES

#### I. PROGRAM OBJECTIVES

The objective of the Community Mental Health Services (CMHS) Block Grant program is to provide funds to States and territories to enable them to carry out their respective plans for providing comprehensive community-based mental health services for adults with serious mental illness and children with serious emotional disturbances. To insure creative and cost effective delivery of services, States are encouraged to develop solutions to address the specific mental health concerns of their local communities.

#### II. PROGRAM PROCEDURES

##### Administration and Services

The Substance Abuse and Mental Health Services Administration (SAMHSA), an operating division of the Department of Health and Human Services (HHS), administers the block grant program. Examples of CMHS Block Grant funded activities include: (1) a comprehensive, community-based system of mental health care for adults who have a serious mental illness and children and youth who have a serious emotional disturbances, including case management, treatment, rehabilitation, employment, housing, education, medical, dental, and other support services that enable individuals to function in the community and reduce the rate of psychiatric hospitalization; (2) outreach for homeless individuals who also suffer from serious mental illness and the development of special services for individuals with serious illness living in rural areas; and (3) systemic integration of social, educational, juvenile justice, and substance abuse services with health and mental health services for children with a serious emotional disturbance to ensure that care is appropriate to their multiple needs (including services provided under the Individuals with Disabilities Act).

CMHS funds are allocated to the States according to a formula legislated by Congress. States may then distribute these funds to cities, counties, or service providers within their jurisdictions. Funds may only be used for carrying out the State plan, evaluating programs and services carried out under the plan, or planning, administration, and education activities relating to providing services under the plan.

##### State Plan

The State must submit to SAMHSA an annual application that includes a plan to meet the community mental health services objectives described above and signed assurances required by the Act. The State plan addresses how the State intends to comply with the various requirements of Title XIX, Part B, Subparts I and III of the Public Health Service Act (42 USC 300x) and its program objectives by addressing the five criteria listed in the statute.

## Source of Governing Requirements

This program is authorized under Title XIX, Part B, Subparts I and III of the Public Health Service Act (42 USC 300x *et seq.*). Criteria for the State plan may be found at 42 USC 300x-1. 45 CFR part 96 provides regulations for the general administrative requirements for the covered block grant programs. These regulations are in lieu of 45 CFR part 92 (the HHS implementation of the A-102 Common Rule). In addition, States are to administer the CMHS program according to the plans that they submitted to SAMHSA.

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 CMHS. 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 CMHS program, within very broad Federal guidelines. States must administer their CMHS program according to their approved plan and any amendments and in conformance with their own implementing rules and policies.

## Availability of Other Program Information

SAMHSA published a notice in the *Federal Register* on July 6, 2001 (66 FR 35658) that details approval requirements for non-recurring expense exclusions from maintenance-of-effort calculations. A second SAMHSA *Federal Register* notice, published on November 23, 2001 (66 FR 58746-58747) addresses retroactive application of the non-recurring expense exclusion.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. Services provided with grant funds shall be provided only through appropriate, qualified community programs (which may include community mental health centers, child mental health programs, psychosocial rehabilitation programs, mental health peer support programs and mental health primary consumer-directed programs). Services under the plan will be provided through community mental health centers only if the services are provided as follows:
  - a. Services principally to individuals residing in a defined geographic area (service area);
  - b. Outpatient services, including specialized outpatient services for children, the elderly, individuals with serious mental illness, and residents of the

- centers who have been discharged from inpatient treatment at a mental health facility;
- c. 24-hours-a-day emergency care services;
  - d. Day treatment and other partial hospitalization services or psychosocial rehabilitation services; or
  - e. Screening for patients being considered for admission to State mental health facilities to determine the appropriateness of such admission (42 USC 300x-2(b) and (c)).
2. The State shall not use grant funds to:
- a. Provide inpatient hospital services. An inpatient is a person who is formally admitted to the inpatient service of a hospital for observation, care, diagnosis, or treatment;
  - b. Make cash payments to intended recipients of health services;
  - c. Purchase or improve land, purchase, construct, or permanently improve (other than minor remodeling) any building or any other facility, or purchase major medical equipment;
  - d. Satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funding; or
  - e. Provide financial assistance to any entity other than a public or non-profit entity. A State is not precluded from entering into a procurement contract for services, since payments under such a contract are not financial assistance to the contractor (42 USC 300x-5(a)).

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

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, CMHS is exempt from the provisions of OMB cost principles circulars. State cost principles requirements apply to CMHS (45 CFR section 96.30).

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

### **1. Matching - Not Applicable**

#### **2.1 Level of Effort - *Maintenance of Effort***

- a. The State shall for each fiscal year maintain aggregate State expenditures for community mental health centers at a level that is not less than the average level of such expenditures maintained by the State for the two State fiscal years preceding the fiscal year of the grant. Expenditures for

the two previous fiscal years are reported in the State plan. The Secretary may exclude from the aggregate State expenditures funds appropriated to the principal agency for authorized activities which are of a non-recurring nature and for a specific purpose (42 USC 300x-4(b); *Federal Register*, July 6, 2001 (66 FR 35658) and November 23, 2001 (66 FR 58746-58747) as specified in II, "Program Procedures - Availability of Other Program Information").

- b. The State shall for each fiscal year expend an amount not less than an amount equal to the amount expended in fiscal year 1994 for systems of integrated services for children with serious emotional disturbance (42 USC 300x-2(a)(1)(C)). FY 1994 expenditures are reported in the State plan.

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

**3. Earmarking**

The State may not expend more than 5 percent of grant funds for administrative expenses with respect to the grant (42 USC 300x-5(b)).

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

Any amounts paid to the State for a fiscal year shall be available for obligation and expenditure until the end of the fiscal year following the fiscal year for which the amounts were paid (42 USC 300x-62).

**L. Reporting**

**1. Financial Reporting**

- a. SF-269A, *Financial Status Report* - Applicable beginning with the Federal fiscal year ending on September 30, 2002 (45 CFR section 96.30(b)).
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC-272 series of reports.

**2. Performance Reporting - Not Applicable**

**3. Special Reporting - Not Applicable**

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

### **Independent Peer Reviews**

**Compliance Requirement** - The State must provide for independent peer reviews that assess the quality, appropriateness, and efficacy of treatment services provided to individuals. At least 5 percent of the entities providing services in the State shall be reviewed annually. The entities reviewed shall be representative of the entities providing the services (42 USC 300x-53(a))

**Audit Objectives** - Determine whether (1) the required number of entities was peer reviewed, (2) the selection of entities for peer review was representative of entities providing services, and (3) the State ensured that the peer reviewers were independent.

### **Suggested Audit Procedures**

- a. Ascertain the number of entities providing treatment services in the State.
- b. Ascertain if the number of entities reviewed was at least 5 percent of the entities providing treatment services.
- c. Ascertain if the selection of entities for peer review was representative of entities providing services.
- d. From a sample of peer reviews performed, ascertain if the State ensured that the peer reviewers were independent.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.959 BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

#### I. PROGRAM OBJECTIVES

The objective of the Substance Abuse Prevention and Treatment (SAPT) Block Grant program is to provide funds to States, territories, and one Indian Tribe for the purpose of planning, carrying out and evaluating activities to prevent and treat Substance Abuse (SA) and other related activities as authorized by the statute.

The SAPT Block Grant is the primary tool the Federal government uses to fund State SA prevention and treatment programs. While the SAPT Block Grant provides Federal support to addiction prevention and treatment services nationally, it empowers the States to design solutions to specific addiction problems that are experienced locally.

#### II. PROGRAM PROCEDURES

##### Administration and Services

The Substance Abuse and Mental Health Services Administration (SAMHSA), an operating division of the Department of Health and Human Services (HHS), administers the block grant program. For purposes of this guidance, the term “State” includes the 50 States, the District of Columbia, American Samoa, Guam, the Marshall Islands, the Federated States of Micronesia, the Commonwealth of the Northern Marianas, Palau, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, and the Red Lake Band of Chippewa Indians. The States generally subaward funds for the provision of services to public and non-profit organizations. Service providers may include for-profit organizations but for-profits may not receive financial assistance.

Examples of SAPT activities are:

- a. *Alcohol Treatment and Rehabilitation* - Direct services to patients experiencing primary problems for alcohol, such as outreach, detoxification, outpatient counseling, residential rehabilitation, hospital based care (not inpatient hospital services), abuse monitoring, vocational counseling, case management, central intake, and program administration.
- b. *Drug Treatment and Rehabilitation* - Direct services to patients experiencing primary problems with illicit and licit drugs, such as outreach, detoxification, methadone maintenance and detoxification, outpatient counseling, residential rehabilitation, including therapeutic communities, hospital based care (not inpatient hospital services), vocational counseling, case management central intake, and program administration.
- c. *Primary Prevention Activities* - Education, counseling, and other activities designed to reduce the risk of substance abuse.

The SAPT funds are allocated to the States according to a formula legislated by Congress. States may then distribute these funds to cities, counties, or service providers within their jurisdictions based on need. Of the SAPT funds dispensed to each State annually, Congress has specified that the State will expend not less than 20 percent for programs for individuals who do not require treatment for substance abuse. The programs should (1) educate and counsel the individuals on such abuse and (2) provide for activities to reduce the risk of such abuse by the individuals. SAPT Block Grant statutory “set asides” were established to fund programs targeting special populations, such as services for women, especially pregnant and postpartum women and their children, and, in certain States, for screening for human immunodeficiency virus (HIV).

### **State Plan**

The State must submit to SAMHSA for approval, an annual application which includes a State plan for SA prevention and treatment services objectives described above and signed assurances required by the Act and implementing regulations. The entire application, including the plan, must be reviewed by SAMHSA to ensure that all of the requirements of the law and regulations are met.

The State plan addresses how the State intends to comply with the various requirements of Title XIX, Part B, Subparts II and III of the Public Health Service Act (42 USC 300x) and its program objectives and specific allocations by: (1) conducting State and local demand and need assessments; (2) establishing statewide prevention and treatment improvement plans with specific multi-year goals for narrowing identified service gaps, implementing training efforts, and fostering coordination among SA treatment, primary health care, and human service agencies; and (3) addressing human resource requirements, clinical standards and identified treatment improvement goals, and ensuring coordination of all health and human services for addicted individuals.

The State shall make the plan public within the State in such a manner as to facilitate comment from any person (including any Federal or other public agency) during development of the plan (including any revisions) and after submission of the plan to SAMHSA.

### **Source of Governing Requirements**

This program is authorized under Title XIX, Part B, Subparts II and III of the Public Health Service Act (42 USC 300x). Implementing regulations are published at 45 CFR part 96. Those regulations include general administrative requirements for the covered block grant programs in lieu of 45 CFR part 92 (the HHS implementation of the A-102 Common Rule)). Requirements specific to SAPT are in 45 CFR sections 96.120 through 96.137. In addition, grantees are to administer their SAPT programs according to the plan that they submitted to SAMHSA.

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 SAPT. 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).



## Availability of Other Program Information

SAMHSA published a notice in the *Federal Register* on July 6, 2001 (66 FR 35658) that details approval requirements for non-recurring expense exclusions from maintenance-of-effort calculations. A second SAMHSA *Federal Register* notice, published on November 23, 2001 (66 FR 58746-58747) addresses retroactive application of the non-recurring expense exclusion.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. The State shall not use grant funds to provide inpatient hospital services except when it is determined by a physician that: (a) the primary diagnosis of the individual is SA and the physician certifies this fact; (b) the individual cannot be safely treated in a community based non-hospital, residential treatment program; (c) the service can reasonably be expected to improve an individual's condition or level of functioning; and (d) the hospital based SA program follows national standards of SA professional practice. Additionally, the daily rate of payment provided to the hospital for providing the services to the individual cannot exceed the comparable daily rate provided for community based non-hospital residential programs of treatment for SA and the grant may be expended for such services only to the extent that it is medically necessary (i.e., only for those days that the patient cannot be safely treated in a residential community based program) (42 USC 300x-31(a) and (b); 45 CFR sections 96.135(a)(1) and (c)).
2. Grant funds may be used for loans from a revolving loan fund for provision of housing in which individuals recovering from alcohol and drug abuse may reside in groups. Individual loans may not exceed \$4000 (45 CFR section 96.129).
3. Grant funds shall not be used to make cash payments to intended recipients of health services (42 USC 300x-31(a); 45 CFR section 96.135(a)(2)).
4. Grant funds shall not be used to purchase or improve land, purchase, construct, or permanently improve (other than minor remodeling) any building or any other facility, or purchase major medical equipment. The Secretary may provide a waiver of the restriction for the construction of a new facility or rehabilitation of an existing facility, but not for land acquisition (42 USC 300x-31(a); 45 CFR sections 96.135(a)(3) and (d)).
5. The State shall not use grant funds to satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funding (42 USC 300x-31(a); 45 CFR section 96.135(a)(4)).

6. Grant funds may not be used to provide financial assistance (i.e., a subgrant) to any entity other than a public or non-profit entity. A State is not precluded from entering into a procurement contract for services, since payments under such a contract are not financial assistance to the contractor (42 USC 300x-31(a); 45 CFR section 96.135 (a)(5)).
7. The State shall not expend grant funds to provide individuals with hypodermic needles or syringes so that such individuals may use illegal drugs (42 USC 300ee-5; 45 CFR section 96.135 (a)(6) and Pub. L. No. 106-113, section 505).
8. Grant funds may not be used to enforce State laws regarding sale of tobacco products to individuals under age of 18, except that grant funds may be expended from the primary prevention set-aside of SAPT under 45 CFR section 96.124(b)(1) for carrying out the administrative aspects of the requirements such as the development of the sample design and the conducting of the inspections (45 CFR section 96.130 (j)).
9. No funds provided directly from SAMHSA or the relevant State or local government to organizations participating in applicable programs may be expended for inherently religious activities, such as worship, religious instruction, or proselytization (42 USC 300x-65 and 42 USC 290kk; 42 CFR section 54.4).

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

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

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

### **1. Matching - Not Applicable**

#### **2.1 Level of Effort - *Maintenance of Effort***

- a. The State shall for each fiscal year maintain aggregate State expenditures for authorized activities by the principal agency at a level that is not less than the average level of such expenditures maintained by the State for the two State fiscal years preceding the fiscal year for which the State is applying for the grant. The “principal agency” is defined as the single State agency responsible for planning, carrying out and evaluating activities to prevent and treat SA and related activities. The Secretary may exclude from the aggregate State expenditures funds appropriated to the principal agency for authorized activities which are of a non-recurring nature and for a specific purpose (42 USC 300x-30; 45 CFR sections 96.121 and 96.134; and *Federal Register*, July 6, 2001 (66 FR 35658) and November 23, 2001 (66 FR 58746-58747) as specified in II, “Program Procedures - Availability of Other Program Information”).

- b. The State must maintain expenditures at not less than the calculated fiscal year 1994 base amount for SA treatment services for pregnant women and women with dependent children. The fiscal year 1994 base amount was reported in the State's fiscal year 1995 application (42 USC 300x-27; 45 CFR section 96.124(c)).
- c. Designated States shall maintain expenditures of non-Federal amounts for HIV services at a level that is not less than the average level of such expenditures maintained by the State for the 2-year period preceding the first fiscal year for which the State receives such a grant. A designated State is any State whose rate of cases of HIV is 10 or more such cases per 100,000 individuals (as indicated by the number of such cases reported to and confirmed by the Director of the Centers for Disease Control and Prevention for the most recent calendar year for which the data are available.) (42 USC 300x-30; 45 CFR sections 96.128 (b) and (f)).
- d. The State shall maintain expenditures of non-Federal amounts for tuberculosis services at a level that is not less than an average of such expenditures maintained by the State for the 2 year period preceding the first fiscal year for which the State receives such a grant (42 USC 300x-24; 45 CFR section 96.127).

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

### **3. Earmarking**

- a. The State shall expend not less than 20 percent of SAPT for primary prevention programs for individuals who do not require treatment of SA. The programs should educate and counsel the individuals on such abuse and provide for activities to reduce the risk of such abuse by the individuals (42 USC 300x-22; 45 CFR sections 96.124 (b)(1) and 96.125).
- b. Designated States shall expend not less than 2 percent and not more than 5 percent of the award amount to carry out one or more projects to make available to individuals early intervention services for HIV disease at the sites where the individuals are undergoing SA treatment. If the State carries out two or more projects, the State will carry out one such project in a rural area of the State unless the Secretary waives the requirement (42 USC 300x-24; 45 CFR section 96.128(a)(1) and (d)).
- c. The State may not expend more than 5 percent of the grant to pay the costs of administering the grant (42 USC 300x-31; 45 CFR section 96.135 (b)(1)).
- d. The State may not expend grant funds for providing treatment services in penal or correctional institutions in an amount more than that expended for such programs by the State for fiscal year 1991 (42 USC 300x-31; 45 CFR section 96.135(b)(2)).

## H. Period of Availability of Federal Funds

Any amounts awarded to the State for a fiscal year shall be available for obligation and expenditure until the end of the fiscal year following the fiscal year for which the amounts were awarded (42 USC 300x-62).

## L. Reporting

### 1. Financial Reporting

- a. SF-269A, *Financial Status Report* - Applicable beginning with Federal fiscal years ending on or after September 30, 2002 (45 CFR section 96.30(b)).
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PSC-272 series of reports.

### 2. Performance Reporting - Not Applicable

### 3. Special Reporting

*Substance Abuse Prevention and Treatment (SAPT) Block Grant Application - Form 06B, Summary of Tobacco Results by State Geographic Sampling Unit (OMB No. 0930-0080)* - This form is part of the overall application for the SAPT Block Grant and it summarizes the tobacco inspection activities.

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

- (3) *No. of Outlets Randomly Inspected.*
- (4) *No. of Outlets Found in Violation During Random Inspections.*

## N. Special Test and Provisions

### Independent Peer Reviews

**Compliance Requirement** - The State must provide for independent peer reviews which assess the quality, appropriateness, and efficacy of treatment services provided to individuals. At least 5 percent of the entities providing services in the State shall be reviewed. The entities reviewed shall be representative of the entities providing the services. The State shall ensure that the peer reviewers are independent by ensuring that the peer review does not involve reviewers reviewing their own programs and the peer

review is not conducted as part of the licensing or certification process (42 USC 300x-53(a); 45 CFR section 96.136).

**Audit Objectives** - Determine whether (1) the required number of entities was peer reviewed, (2) the selection of entities for peer review was representative of entities providing services, (3) the State ensured that the peer reviewers were independent.

#### **Suggested Audit Procedures**

1. Ascertain the number of entities providing treatment services in the State.
2. Ascertain if the number of entities reviewed was at least 5 percent of the entities providing treatment services.
3. Ascertain if the selection of entities for peer review was representative of entities providing services.
4. Select a sample of peer reviews and ascertain if the State ensured that the peer reviewers were independent.

#### **IV. OTHER INFORMATION**

As described in Part 4, Social Services Block Grant (SSBG) program (CFDA 93.667), III.A, "Activities Allowed or Unallowed," a State may transfer up to 10 percent of its annual allotment under SSBG to this and other specified block grant programs.

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.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.991 PREVENTIVE HEALTH AND HEALTH SERVICES BLOCK GRANT

#### I. PROGRAM OBJECTIVES

The purpose of the Preventive Health and Health Services Block Grant (PHHSBG) is to provide States with the resources to improve the health status of the population of each grantee through: (1) activities leading to the accomplishment of the year 2000/2010 objectives for the nation; (2) rodent control and community-school fluoridation activities; (3) specified emergency medical services excluding most equipment purchases; (4) services for sex offense victims including prevention activities; and (5) for related administration, education, monitoring and evaluation activities.

#### II. PROGRAM PROCEDURES

##### Administration and Services

The PHHSBG program is administered by the Centers for Disease Control and Prevention (CDC), a component of the Department of Health and Human Services (HHS). After receiving and reviewing a State's grant application, the CDC awards funds to the State according to a two-part formula prescribed at 42 USC 300w-1(a)(1) and 300w-1(b).

##### Source of Governing Requirements

The PHHSBG is authorized under Title X of the Public Health Service Act, as amended, and is codified as 42 USC 300 et seq. 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 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.

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 PHHSBG. 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 grantee is responsible for designing and implementing its own PHHSBG program, within very broad Federal guidelines. Grantees must administer their PHHSBG program according to their approved plan and any amendments and in conformance with the grantee's own implementing rules and policies.

##### Availability of Other Program Information

The PHHSBG web page provides general information about this program (<http://www.cdc.gov/nccdphp/blockgrant/index.htm>).

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

##### 1. *Activities Allowed*

- a. Activities consistent with making progress towards achieving the objectives established by the Secretary for the health status of the population of the United States for the year 2000/2010 (42 USC 300w-3(a)(1)(A)).
- b. Preventive health service programs for the control of rodents and for community and school-based fluoridation programs (42 USC 300w-3(a)(1)(B)).
- c. Feasibility studies and planning for emergency medical services systems and the establishment, expansion, and improvement of such systems. Amounts for such systems may not be used for the costs of the operation of the systems or the purchase of equipment for the systems, except that such amounts may be used for the payment of not more than 50 percent of the costs of purchasing communications equipment for the systems. Amounts may be expended for feasibility studies or planning for the trauma-care components of such systems only if the studies or planning, respectively, is consistent with the requirements of 42 USC 300d-13(a) ((42 USC 300w-3(a)(1)(C)).
- d. Providing services to victims of sex offenses and for prevention of sex offenses (42 USC 300w-3(a)(1)(D)).
- e. Related planning, administration, educational, monitoring, and evaluation activities (42 USC 300w-3(a)(1)(E) and 3(a)(1)(F)).
- f. A State may transfer up to 7 percent of its annual allotment to the following block grants: Block Grants for Community Mental Health Services (CFDA 93.958) and the Maternal and Child Health Services Block Grant to the States (CFDA 93.994). At any time in the first three quarters of the fiscal year a State may transfer not more than 3 percent of the State's allotment and in the last quarter of a fiscal year a State may transfer the remainder (42 USC 300w-3(c)).

2. *Activities Unallowed*
  - a. Inpatient services (42 USC 300w-3(b)(1)).
  - b. Cash payments to intended recipients of health services (42 USC 300w-3(b)(2)).
  - c. Purchase or improve land, purchase, construct, or permanently improve (other than minor remodeling) any building or other facility, or purchase major medical equipment (42 USC 300w-3(b)(3)).
  - d. Satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funds (42 USC 300w-3(b)(4)).
  - e. Provide financial assistance to any entity other than a public or non-profit entity (42 USC 300w-3(b)(5)).

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

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

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

### **1. Matching - Not Applicable**

#### **2.1 Level of Effort - *Maintenance of Effort***

The State must maintain State expenditures for activities under 42 USC 300w-3 at a level that is not less than the average level of such expenditures maintained by the State for the proceeding 2-year period (42 USC 300w-4(c)(6)).

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

### **3. Earmarking**

- a. The State shall not use more than 10 percent paid from each of its allotments for administering the funds. The State will pay from non-Federal sources the remaining cost of administering such funds (42 USC 300w-3(d)).
- b. The notice of Block Grant Awards may provide that specific amounts are earmarked for services to victims of sex offenses (42 USC 300w-3(a)(2)).

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

PHHSBG funds must be expended by the State in the fiscal year allotted or in the succeeding fiscal year (42 USC 300w-2(a)(2)).



**L. Reporting****1. Financial Reporting**

- a. SF-269A, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

**2. Performance Reporting** - Not Applicable**3. Special Reporting** - Not Applicable**IV. OTHER INFORMATION***Transfers into PHHSBG*

A State may transfer up to 10 percent of its annual allotment under SSBG to this and other specified block grant programs for support of health services, health promotion and disease prevention activities, low-income home energy assistance, or any combination of these activities.

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.

*Transfers out of PHHSBG*

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

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.994 MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT TO THE STATES

#### I. PROGRAM OBJECTIVES

The objective of the program of grants to States under the Maternal and Child Health (MCH) Block Grant program is to provide funds to the 50 States, the District of Columbia, the Virgin Islands, Puerto Rico, Guam, American Samoa, the Federated States of Micronesia, Palau, the Marshall Islands, and the Northern Marianas (States) for improvement of the health of all mothers and children consistent with applicable health status goals and national health objectives established under the Social Security Act.

Specifically, MCH Block Grants are intended to: (1) provide and assure mothers and children (especially those with low income or limited availability of services) access to quality maternal and child health services; (2) reduce infant mortality and the incidence of preventable diseases and disabling conditions among children; (3) reduce the need for inpatient and long-term care services; (4) increase the number of children appropriately immunized against disease and the number of low-income children receiving health assessments and follow-up diagnostic and treatment services; (5) promote the health of mothers and infants by providing prenatal, delivery, and postpartum care for low-income, at-risk pregnant women; (6) promote the health of children by providing preventive and primary care services for low-income children; (7) provide rehabilitation services for blind and disabled individuals under sixteen years of age receiving benefits under Title XVI of the Social Security Act (Supplemental Security Income) to the extent medical assistance for such services is not provided under Title XIX (Medicaid); and (8) provide and promote family-centered, community-based, coordinated care for children with special health care needs and to facilitate the development of community-based systems of services for those children and their families.

#### II. PROGRAM PROCEDURES

##### Administration and Services

The MCH Block Grant program was created by the Omnibus Budget Reconciliation Act (OBRA) of 1981. Under that legislation, a number of categorical grants programs were consolidated into the single MCH Block Grant program. These were maternal and child health services for children with special health care needs; supplemental security income for children with disabilities; lead-based paint poisoning prevention programs; genetic disease programs; sudden infant death syndrome programs; and adolescent pregnancy grants. Extensive amendments to the authorizing statute in 1989 increased State programmatic and fiscal accountability under the program. These include requirements for States to define health status measures and to develop measurable objectives for program efforts as well as to report progress on key maternal and child health indicators.

The program is administered by the Division of State and Community Health, Maternal and Child Health Bureau (MCHB), Health Resources and Services Administration (HRSA), a component of the Department of Health and Human Services (HHS). MCH Block Grant funds are awarded to States in accordance with a preestablished formula after submission to and approval of their applications by HRSA. The application addresses how the State plans to implement prioritized tasks based on a statewide needs assessment (required to be conducted every five years) for all mothers and children, including those with special health care needs. The State health agency is responsible for overall program administration according to its approved plan but services may be carried out by the recipient or by local non-profit agencies that are funded in accordance with an allocation methodology determined by the recipient (and approved by HRSA).

### **Source of Governing Requirements**

The MCH Block Grant program is authorized under the 1981 Omnibus Budget Reconciliation Act, as amended, and is codified at 42 USC 701 through 709. The implementing regulations for this and other HHS block grant programs are published at 45 CFR part 96. Those regulations include both specific requirements and general administrative requirements for the covered block grant programs in lieu of 45 CFR part 92 (the HHS implementation of the A-102 Common Rule).

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

Further information about this program is available on the Internet at <http://www.mchb.hrsa.gov/>.

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should look first to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### **A. Activities Allowed or Unallowed**

1. *Activities Allowed*
  - a. Funds may be used to provide health services and related activities, including planning, administration, education, and evaluation (42 USC 704(a)).
  - b. Funds may be used to purchase technical assistance from public or private entities if required to develop, implement, or administer the MCH Block Grant (42 USC 704(c)).
  - c. Funds may be used for salaries and other related expenses of National Health Service Corps personnel assigned to the State (42 USC 704(a)).

- d. Funds may be used to continue funding of special projects in the State funded under Title V of the Social Security Act prior to the enactment of the MCH Block Grant program on August 31, 1981 (42 USC 705(a)(5)(C)(i)).

## 2. *Activities Unallowed*

- a. Funds may not be used to purchase or improve land, to purchase, construct, or permanently improve buildings or facilities (other than minor remodeling), or to purchase major medical equipment unless a waiver has been granted by HRSA (42 USC 704(b)(3)).
- b. Funds may not be used to make cash payments to intended recipients of services (42 USC 704(b)(2)).
- c. Funds may not be provided for research or training to any entity other than a public or non-profit private entity (42 USC 704(b)(5)).
- d. Funds may not be used for inpatient services, other than for children with special health care needs or high-risk pregnant women and infants or other inpatient services approved by the Associate Administrator for Maternal and Child Health (42 USC 704(b)(1)). Infants are defined as persons less than one year of age (42 USC 706(a)(2)(E)).
- e. Funds may not be used to make payments for any item or service (other than an emergency item or service) furnished by an individual or entity excluded under Titles V, XVIII (Medicare), XIX (Medicaid), or XX (Social Services Block Grant) of the Social Security Act (42 USC 704(b)(6)).
- f. MCH Block Grant funds may not be transferred to other block grant programs (42 USC 702(a)(3) and 705(a)(5)(B)).

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

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

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

### **1. Matching**

Federal funds expended for the program must be matched 75 percent by State funds (42 USC 703(a)).

**2.1. Level of Effort - Maintenance of Effort**

The State must maintain the level of funds provided solely by the State for maternal and child health programs at a level at least equal to the level provided in FY 1989 (42 USC 705(a)(4)).

**2.2. Level of Effort - Supplement Not Supplant - Not Applicable****3. Earmarking**

- a. Unless a lesser percentage is established in the State's notice of award for a given fiscal year, the State must use at least 30 percent of payment amounts for preventive and primary care services for children (42 USC 705(a)(3)(A)).
- b. Unless a lesser percentage is established in the State's notice of award for a given fiscal year, the State must use at least 30 percent of payment amounts for services for children with special health care needs (42 USC 705(a)(3)(B)).
- c. A State may not use more than 10 percent of allotted funds for administrative expenses (42 USC 704(d)).

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

Funds available to States from their allotment for any fiscal year are available for obligation by the State in that fiscal year or in the succeeding fiscal year. No payment may be made to a State from allotments for a fiscal year for expenditures made after the end of the following fiscal year (42 USC 703(b)).

**J. Program Income**

Charges imposed by a State for services under this program must be pursuant to a published schedule of charges and adjusted to reflect the income, resources, and family size of the recipients. No charges may be imposed for low-income mothers or children (42 USC 705(a)(5)(D)). The official poverty guideline, as revised annually by HHS, shall be used to determine whether an individual is considered low-income for this purpose. The poverty guidelines are issued each year in the *Federal Register*. HHS maintains a page on the Internet that provides the poverty guidelines (<http://aspe.hhs.gov/poverty/>).

**L. Reporting****1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS, Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PSC-272 series of reports.

**2. Performance Reporting** - Not Applicable

**3. Special Reporting**

- a. *Title V Application/Annual Report (OMB No. 0915-0172)* - The State must submit an annual report by July 15 of each year (at the time it submits the annual application). The reporting forms and instructions are contained in a document entitled "Guidance and Forms for the Title V Application/Annual Report." Reports are prepared electronically.

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

Number of Individuals Served and Proportion with Health Coverage:

Form 6 Number and Percentage of Newborns and Others Screened, Confirmed and Treated

Form 7 *Number of Individuals Served (Unduplicated) Under Title V*

Form 8 *Deliveries and Infants Served by Title V and Entitled to Benefits under Title XIX*

Amounts Spent Under Title V on Each Type of Service by Class of Individuals Served for the current year:

Form 3 *State MCH Funding Profile, "Expended" column*

Form 4 *Budget Details by Types of Individuals Served, Items I.a.-g.*

Form 5 *State Title V Program Budget and Expenditures by Types*

**IV. OTHER INFORMATION**

Federal funds from other block grant programs (e.g., Social Services Block Grant (CFDA 93.667), and Preventive Health and Health Services Block Grant (CFDA 93.991)) may be transferred into the MCH Block Grant program. MCH Block Grant funds, however, may not be transferred to other block grant programs (42 USC 702(a)(3) and 705(a)(5)(B)). Funds transferred into the MCH Block Grant 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.

## **CORPORATION FOR NATIONAL AND COMMUNITY SERVICE**

### **CFDA 94.006 AMERICORPS**

#### **I. PROGRAM OBJECTIVES**

The AmeriCorps national service program provides funds to national and locally based organizations to address educational, public safety, human and environmental needs in communities throughout the United States.

#### **II. PROGRAM PROCEDURES**

The Corporation for National and Community Service (Corporation) distributes approximately two-thirds of the funds available for AmeriCorps programs to Commissions on National and Community Service in the various States (one-third on a formula basis and at least one-third on a competitive basis). The State Commissions then award grants to approved applicants for community service programs within their states. The Corporation directly awards the remaining one-third of available AmeriCorps program funds to approved applicants (unless the amount available for this purpose is limited by appropriations acts), with one percent of the funds being set aside for Indian Tribes and one percent for grantees in U.S. Territories.

In addition to grants to fund AmeriCorps programs, State Commissions also receive grants from the Corporation to finance their administrative operations. These grants are made under a program titled State Commissions (CFDA 94.003), which is not included in Part 4 of this Supplement. Also not included in this Supplement are AmeriCorps programs funded under Subtitle H of the National and Community Service Act of 1990, as amended (42 USC 12653 through 12653d).

AmeriCorps grantees recruit and train individuals as AmeriCorps members. Full-time AmeriCorps members receive a living allowance and are eligible for health insurance and childcare benefits (if they are not otherwise covered while participating in the program). After completing the required term of service and satisfactorily completing the program, the AmeriCorps members receive a voucher crediting them with a post-service educational benefit, which may be used to pay off qualified student loans or pay qualified education costs. The Corporation's National Service Trust Fund records the Federal liability for an AmeriCorps member's education benefit, and, upon application from the AmeriCorps member and the lender or educational institution, transmits the funds to the lender or institution. AmeriCorps members who successfully complete a term of service are also eligible for the payment of interest on qualified student loans that accrue during a period of national service forbearance.

#### **Source of Governing Requirements**

The AmeriCorps program is authorized under the National and Community Service Act of 1990 (42 USC 12501 *et seq.*) and the implementing regulations found in 45 CFR parts 2510 through 2529.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. Funding is provided to carry out a full- or part-time national service program. Activities allowed include recruiting, training and supervising AmeriCorps members, paying living allowances to AmeriCorps members, paying health insurance premiums and child-care benefits for eligible AmeriCorps members, paying certain employment-related taxes, paying staff and other costs for program management, internal evaluations, and reimbursement of grantee administrative costs (42 USC 12572, 12574, and 12594; 45 CFR sections 2520 to 2529; 2540 to 2543; and 2545 to 2550).
2. Among restrictions governing Corporation assistance, grant funds may not be used to provide a direct benefit to any business organization organized for profit, labor union, religious activities, i.e. provide religious instructions, conduct worship services or proselytizing, or assist or deter union organizing, impair existing contracts for services, organize protests or petitions, or finance the outcome of an election to Federal, State or local public office (42 USC 12584 and 12634; 45 CFR section 2520.65).

#### E. Eligibility

##### 1. Eligibility for Individuals

AmeriCorps members must be citizens, nationals, or lawful permanent resident aliens of the United States, and must be not less than 17 years old at the time of enrollment into the program. The statute does, however, permit certain types of programs to enroll participants who are out of school youths at least 16 years of age (42 USC 12591; 45 CFR section 2522.200). The regulations (45 CFR sections 2522.200(c), (d), and (e)) describe acceptable documentation for determining status as a citizen, national, or lawful permanent resident alien of the United States.

Living allowances are paid on the basis of an AmeriCorps member's selection and enrollment as a full-time participant in a program. The living allowance that an AmeriCorps member receives is not to be considered or treated as a wage or a salary. The installment payments of living allowances are not dependent upon the actual number of hours actually spent on service. Most full-time AmeriCorps members are to receive a living allowance during the installment period of at least 100 percent, but not more than 200 percent, of the total average annual subsistence allowance provided to VISTA volunteers. For particular program



years, the limits on the living allowances are as follows (42 USC 4955 and 12594; 45 CFR section 2522.240):

<b><u>Program Year</u></b>	<b><u>Minimum Allowance</u></b>	<b><u>Maximum Allowance</u></b>	
2005-2006		\$10,600	\$21,200
2006-2007		\$11,100	\$22,200
2007-2008		\$11,400	\$22,800

Current information on the minimum and maximum amounts of AmeriCorps living allowances is available from the Office of the Director of AmeriCorps at the Corporation's Headquarters at (202) 606-6926.

While most full-time AmeriCorps members cannot receive a living allowance higher than the maximum amount set forth above, the statute permits professional corps members to receive a living allowance in excess of the maximum allowance authorized in the statute. However, in this instance, Corporation funds may not be used to pay for any portion of the living allowance (42 USC 12594(c); 45 CFR section 2522.240).

An AmeriCorps member who is authorized to serve a reduced term of service may be provided a prorated living allowance for that authorized reduced term of service (42 USC 12593 and 12594; 45 CFR sections 2522.220 and 2522.240).

2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients** - Not Applicable

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

### **1. Matching**

- a. *Operational Costs* - Except for living allowances, child-care allowances (if applicable), health insurance premiums (if applicable), and certain employment-related taxes, the Corporation's share of the cost of activities carried out under the grant cannot exceed 75 percent. However, the terms of AmeriCorps program grants often require programs to provide higher operational matching amounts than 25 percent. The program must provide its matching amount in the form of cash, or in kind, fairly evaluated, including facilities, equipment, or services. The program may provide for its operational matching amount through State sources, local sources, or other Federal sources. The Corporation may waive, in whole or in part, the minimum match requirement (25 percent) in any fiscal year if the Corporation determines that such a waiver would be equitable due to a

lack of available financial resources at the local level (42 USC 12571(e); 45 CFR section 2521.45 and 2521.70).

- b. *Member Support Costs* - The Federal share, including Corporation and other Federal funds, of the living allowance provided to an AmeriCorps member may not exceed 85 percent of the minimum required living allowance. The grantee must provide the remaining funding for living allowances from non-Federal cash sources. The Corporation will pay up to 85 percent of the cost of health care coverage that includes the minimum benefits specified by the Corporation. The Corporation specifies the minimum benefits required as part of its grant provisions (42 USC 12594(a) and (d); 45 CFR sections 2522.240(b)(5) and 2522.250(b)).
- c. Beginning in FY 2006, unless the Corporation grants a waiver, the grantee's required share of program costs, including member support and operating costs, will incrementally increase to a 50 percent overall share by the tenth year and any year thereafter that it receives a grant without a break in funding of 5 years or more (45 CFR sections 2521.60 and 2521.80). The timetable is included in 45 CFR section 2521.60(a). Other requirements that govern matching are included in 45 CFR sections 2521.35, 2521.40, 2521.45, and 2521.50.
- d. For grants funded from the Corporation's FY 2008 appropriations, grantees are required to meet an overall minimum share requirement of 24 percent for the first three years that they receive AmeriCorps funding. Grantees in their fourth or subsequent years of funding will be required to meet the overall minimum share requirements specified in 45 CFR section 2521.60. The Corporation coordinates the implementation of this provision for those grantees that were covered under its minimum share requirements implemented by regulation in 2005 (paragraph III.G.1.c, above). These overall matching requirements override the separate member support and operating expense matching requirements specified in paragraphs III.G.1.a and III.G.1.b, above. Grantees may apply for and receive a waiver of the overall matching requirements under 45 CFR section 2521.70 (Pub. L. No. 110-161, Division G, Section 407).

**2. Level of Effort** - Not Applicable

**3. Earmarking**

No more than five percent of assistance provided by the Corporation can be used for the combined administrative expenses of the grantee and its subgrantees (42 USC 12571(d); 45 CFR sections 2521.30(h) and 2540.110).

## **L. Reporting**

### **1. Financial Reports**

- a. SF-269A - *Financial Status Report* (Short Form) - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PSC-272 series of reports.

**2. Performance Reports** - Not Applicable

**3. Special Reports**

The following two forms are submitted to the Corporation for each AmeriCorps member and are used by the Corporation to support the member's eligibility for a post-service education benefit. A roster of members enrolled/completed during the period should be obtained from the Corporation, to assure that the universe of forms submitted, as provided by the entity, is complete. Rosters may be obtained by contacting the Corporation's Director of Trust Operations at **(202) 606-7546**

- a. *National Service Enrollment Form (OMB No. 3045-0006)* - This form is used by the Corporation to enroll participants in the AmeriCorps program and the National Service Trust. Enrollment is necessary for the AmeriCorps member to receive a post-service education benefit upon successful completion of their term of service.

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

Part 3 - *AmeriCorps member enrollment information.*

- b. *Corporation for National Service End of Term/Exit Form (OMB No. 3045-0015)* - This form is used by grantees to certify to the Corporation the number of service hours that each AmeriCorps member has completed, and whether the AmeriCorps member is eligible for a post-service education benefit. The Corporation's National Service Trust relies on this information to record the Federal liability for an AmeriCorps member's education benefit (42 USC 12593 and 12603; 45 CFR sections 2522.220 and 2522.230, and 45 CFR part 2525).

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

Part 3 - *Service hours completed by an AmeriCorps member, and the AmeriCorps member's entitlement to an education benefit.*



## **CORPORATION FOR NATIONAL AND COMMUNITY SERVICE**

### **CFDA 94.011 FOSTER GRANDPARENT PROGRAM CFDA 94.016 SENIOR COMPANION PROGRAM**

#### **I. PROGRAM OBJECTIVES**

Foster Grandparent Program grants are awarded to allow participants to serve as mentors, tutors, and caregivers for children and youth with special or exceptional needs. Foster Grandparents serve in community organizations such as schools, Head Start programs, and youth centers.

Senior Companion Program grants are awarded to allow participants to provide assistance and friendship to older persons with special needs who are homebound and usually living alone. By taking care of simple chores, providing transportation to medical appointments, and offering contact to the outside world, Senior Companions often provide the essential services that keep older persons from having to enter nursing homes. They also assume the duties of informal caretakers for short periods of time to give the caretakers a respite from their duties.

#### **II. PROGRAM PROCEDURES**

The Corporation for National and Community Service (Corporation) awards Foster Grandparent and Senior Companion program grants only to State and local public agencies and private nonprofit organizations that have the capability to administer such grants. These sponsors are legally responsible for all programmatic and fiscal aspects of the project, and may not delegate or contract this responsibility to another entity. Consequently, the program has no subrecipients (42 USC 5011(a) and 5013(a); 45 CFR sections 2551.22 and 2552.22).

In both programs, participants aged 60 and older serve from 15 to 40 hours per week and, if they meet income eligibility requirements, may receive small stipends and other direct benefits to help offset the costs of serving. In addition, participants who do not meet the income eligibility requirements may serve as non-stipended Foster Grandparents or Senior Companions. Those participants receive all direct benefits, other than the stipend, to offset the costs of serving (42 USC 5011(a) and 5013(a); 45 CFR sections 2551.102 and 2552.102).

Prospective sponsors submit applications for Foster Grandparent or Senior Companion grants to the Corporation, which reviews them and makes final funding decisions (45 CFR sections 2551.91 and 2552.91).

#### **Source of Governing Requirements**

These programs are authorized under the Domestic Volunteer Service Act of 1973, Title II (42 USC 5000 *et seq.*) and their implementing regulations found in 45 CFR parts 2251 and 2552.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. Grant funds may be used for stipends for participants who meet income levels set by the Corporation (42 USC 5011(a) and (d) and 5013(a) and (b); 45 CFR sections 2551.45 and 2552.45).
2. Grant funds can also be used for other direct benefits for stipended Foster Grandparents and Senior Companions, such as: transportation costs; physical examinations; accident, liability, and excess automobile insurance covering participants during their volunteer activities; meals; and, costs for recognition of participants' volunteer efforts. Grant funds are also available for budgeted amounts of staff, office space, staff travel, and other administrative costs of the organization sponsoring the program (42 USC 5011(a) and (d) and 5013(a) and (b); 45 CFR sections 2551.45 and 2552.45).
3. No Federal or required non-Federal funds can be used to pay any costs, including direct benefits or administrative costs, associated with non-stipended Foster Grandparents and Senior Companions (42 USC 5011(f)(4) and 5013(b); 45 CFR sections 2551.104 and 2552.104).
4. Foster Grandparent and Senior Companions grant funds may not be used to influence the outcome of any election to public office, to facilitate voter registration, or to provide voters or prospective voters with transportation to the polls. Grant funds may not be used by the non-Federal entity in any activity for the purpose of influencing the passage or defeat of legislation or proposals by initiative petition, except (a) when a legislative body or committee requests a program sponsor or participant to draft, review or testify regarding measures or make representations to the legislative body or committee, or (b) in connection with an authorization or appropriations measure directly affecting the operation of the Foster Grandparent Program and/or Senior Companion Program (42 USC 5043(c); 45 CFR sections 2551.121 and 2552.121).
5. No Foster Grandparent or Senior Companion grant funds shall be directly or indirectly used to finance labor union or anti-labor union organization or related activity (42 USC 5044(d); 45 CFR sections 2551.121(d) and 2552.121(d)).

## **E. Eligibility**

### **1. Eligibility for Individuals**

- a. Foster Grandparents and Senior Companions who are paid stipends must be at least 60 years old, meet applicable income guidelines, and be physically, mentally, and emotionally capable of serving on a person-to-person basis. Income eligibility is based on the applicant's total annual income (including the total annual income of the applicant's spouse), less allowable medical expenses. To be eligible, an applicant's income must fall below eligibility levels specified by the Corporation (generally set at 125 percent of the poverty level annually established by the Department of Health and Human Services). Eligibility levels vary by geographic area. The annual eligibility levels for all areas are available at Senior Corps web site (<http://seniorscorps.org>) under "Manage Current Grants" and from the Corporation's State Offices or the National Senior Service Corps at the Corporation's headquarters at (202) 606-5000. Stipends for Foster Grandparents and Senior Companions are \$2.65 per hour effective April 1, 2002. This may be increased by the Corporation from time to time. Current information on the amount of the hourly stipend is also available from the Corporation's State Offices or from the National Senior Service Corps at the Corporation's headquarters (42 USC 5011 and 5013; 45 CFR sections 2551.42 and 2552.42).

Foster Grandparents and Senior Companion programs may enroll persons who are at least 60 years old, but who do not meet the income guidelines as non-stipended Foster Grandparents or Senior Companions (45 CFR 2551 subpart J and 2552 subpart J).

- b. As of November 23, 2007, grantees must perform criminal history checks for all candidates to become Foster Grandparents, Senior Companions and/or to be employed as grant-funded staff who will have contact on a recurring basis with children, frail adults, persons with disabilities, or other potentially vulnerable individuals. For these individuals, grantees must conduct State criminal registry checks and National Sex Offender Public Registry (NSOPR) checks. For Foster Grandparents, Senior Companions and covered grantee staff who are serving as of November 23, 2007, only the NSOPR check is required. The NSOPR check on these volunteers and staff must be completed by February 22, 2008. An individual who is registered, or required to be registered, on a State sex offender registry, is ineligible to serve. Grantees may adopt other disqualifying offenses. An individual who refuses to consent to a criminal registry check is also ineligible to serve (45 CFR sections 2551.26 through 2551.32, 2551.42, 2552.26 through 2552.32, and 2552.42).

### **2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**

**3. Eligibility for Subrecipients - Not Applicable**

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

**1. Matching**

The non-Federal entity is required to contribute at least 10 percent of the total cost of a project from non-Federal sources or authorized Federal sources, unless the Notice of Grant Award specifies a lower percentage (42 USC 5011(a) and 5013(a); 45 CFR sections 2551.92(a) and 2552.92(a)).

**2. Level of Effort - Not Applicable**

**3. Earmarking**

An amount equal to 80 percent of the Federal share of a Foster Grandparent or Senior Companion program grant must be used for stipend and other direct benefits for Foster Grandparents or Senior Companions, unless the Notice of Grant Award specifies a different percentage. Direct benefits for Foster Grandparents and Senior Companions include stipends, insurance, transportation, meals, physical examinations, recognition, and uniforms, if necessary (45 CFR sections 2551.92(e) and 2552.92(e)).

**L. Reporting**

**1. Financial Reporting**

- a. SF-269A, *Financial Status Report* (Short Form) - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - For grantees, payments under this program are made by the Department of Health and Human Services, Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PSC-272 series of reports.

**2. Performance Reports - Not Applicable**

**3. Special Reports - Not Applicable**



## SOCIAL SECURITY ADMINISTRATION

### CFDA 96.001 SOCIAL SECURITY--DISABILITY INSURANCE (DI) CFDA 96.006 SUPPLEMENTAL SECURITY INCOME (SSI)

#### I. PROGRAM OBJECTIVES

The Social Security Administration (SSA) is responsible for disability determinations under the Disability Insurance (DI) and the Supplemental Security Income (SSI) programs. The DI program was established in 1954 under Title II of the Social Security Act and provides benefits to disabled wage earners and their families in the event the family wage earner becomes disabled (Section 221 of the Social Security Act). In 1974, Congress enacted Title XVI, the SSI program, which provides benefits to financially needy individuals who are aged, blind or disabled (Section 1633 of Social Security Act).

#### II. PROGRAM PROCEDURES

The disability process begins when a person, referred to as a claimant, completes a claim for DI or SSI benefits. SSA field office staff verifies the claimant's non-medical eligibility. The claim is then forwarded to the State Disability Determination Services (DDS) for a medical determination of disability. To assist in making proper disability determinations, the DDS is authorized to purchase medical examinations, x-rays and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA pays the DDS for 100 percent of the costs incurred in making disability determinations. Each year the State DDS submits a budget request to SSA for review and approval. The DDS is notified of budget approval by Form SSA-872, *State Agency Budget Approval for SSA Disability Programs*. Once approved, the DDS is allowed to withdraw Federal funds through the Department of the Treasury's Automated Standard Application for Payment system to meet immediate program expenses. At the end of each quarter of each fiscal year, the DDS submits a Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, to account for program disbursements and obligations and a Form SSA-4514, *Time Report of Personnel Services for Disability Determination Services*, to account for employee time.

#### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

## A. Activities Allowed or Unallowed

DDSs make disability determinations based on the law and regulations and on written guidelines issued by SSA. Each State making disability determinations is entitled to receive from the Trust funds reimbursement for the cost of making those disability determinations for SSA. Activities shall be in accordance with the budget request approved by SSA. Purchased medical services, such as Medical Evidence of Record (MER) and Consultative Examinations (CE), must be in accordance with the DDS's fee schedule for purchased medical services. Activities allowed under the disability programs include personnel services, purchased medical services, indirect costs and other non-personnel costs (42 USC 421 (e) and (f); 20 CFR section 404.1626).

## B. Allowable Costs/Cost Principles

1. *Direct Costs* - The SSA Program Operations Manual System (POMS) contains guidance on direct costs for both the DI and SSI programs. Personnel services (POMS DI 39518) include personnel costs and employee benefits. Purchased medical services (POMS DI 39545) include MER and CE. Other non-personnel costs include travel (POMS DI 39524), space (POMS DI 39527), equipment (POMS DI 39530), and contracted services (POMS DI 39542).
2. *Indirect Costs* - Indirect costs which may be charged to the disability program generally arise from three sources: (a) administrative costs of the parent agency related to DDS; (b) business costs associated with the accounting, billing, and procurement services provided by the parent agency for the DDS; and (c) automated services provided to the DDS that are operated by the parent agency. Indirect costs charged to the disability program should be based on the rate approved by the cognizant Federal agency as evidenced by a written agreement.
3. *Non-SSA Work* - Some DDSs make disability determinations for claims not related to SSA benefits. When a DDS performs non-SSA work, a Memorandum of Understanding should exist between the State and the SSA Regional Commissioner that outlines the specifics of the non-SSA work. The SSA should not be charged the costs on the non-SSA program work (POMS DI 39563).

## L. Reporting

### 1. Financial Reporting

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

- e. SSA-4513, *State Agency Report of Obligations for SSA Disability Programs (OMB No. 0960-0421)* - This report is due quarterly for each fiscal year still open in order to account for program disbursements and unliquidated obligations (20 CFR section 404.1625(a); POMS DI 39506.202).
- f. SSA-4514, *Time Report of Personnel Services (OMB No. 0960-0421)* - This report is due quarterly to account for employee time (POMS DI 39506.230).

**2. Performance Reporting** - Not Applicable

**3. Special Reporting** - Not Applicable

#### **IV. OTHER INFORMATION**

Disbursements for the DI and SSI programs are not accounted for separately. Expenditures for both programs should be reported on the Schedule of Expenditures of Federal Awards under DI (CFDA 96.001).

**DEPARTMENT OF HOMELAND SECURITY****CFDA 97.008 URBAN AREAS SECURITY INITIATIVE****I. PROGRAM OBJECTIVES**

The Urban Areas Security Initiative (UASI) is intended is to create a sustainable national model program to enhance security and overall preparedness to prevent, respond to, and recover from acts of terrorism. In general, the UASI provides financial assistance to States to address the unique equipment, training, planning, and exercise needs of large urban areas, and to assist them in building an enhanced and sustainable capacity to prevent, respond to, and recover from threats or acts of terrorism. It also includes awards to (1) selected State and local governmental entities and commercial companies to develop plans and approaches to ensuring the safety and protection of the Nation's ports, and (2) selected State and local governmental entities to develop plans and approaches to ensuring the safety and protection of the Nation's transit systems.

**II. PROGRAM PROCEDURES**

UASI funding is provided to the States by the Office of Domestic Preparedness (ODP), Department of Homeland Security (DHS). ODP was transferred to DHS from the Department of Justice (DOJ) on March 1, 2003, but DOJ's Office of Justice Programs (OJP) continues to serve as the DHS agent for awarding and managing these grants.

During FY 2003, funding was provided to the States pursuant to different UASI funding opportunity announcements, each with separate program guidance. There were four announcements: Urban Area Security Initiative I, Urban Area Security Initiative II, Urban Area Security Initiative - Port Security, and Urban Area Security Initiative - Transit System Security. In general, the basic requirements of the program are the same among the individual program guidances for these initiatives but may vary based on the language in the applicable appropriation (e.g., the FY 03 supplemental appropriation). Funding under each initiative was accomplished by a separate grant award. Recipients may not use funds provided under an award pursuant to one funding opportunity announcement to support activities under an award for another of the announcements. In FY 2004, ODP issued a single funding opportunity announcement for this program.

The State Administering Agency (SAA), as the direct recipient of grant funds, is expected to pass through a specified percentage of funds to local jurisdictions, whether identified urban areas or mass transit authorities. See the program guidance, as referenced in the "Availability of Other Program Information" below, for a list of these urban areas and transit authorities.

**Source of Governing Requirements**

This program is authorized under section 430 of the Homeland Security Act of 2002; Section 1014 of USA PATRIOT Act of 2001 (Pub. L. No. 107-56, 42 USC 3714); Title I, Chapter 6, Wartime Supplemental Appropriations Act of 2003 (Pub. L. No. 108-11); Title III, FY 2004 Department of Homeland Security Appropriations Act, Pub. L. No. 108-90; and Title III, FY 2005 Department of Homeland Security Appropriations Act (Pub. L. No. 108-334) (see CFDA 97.067 for FY 2005).

## Availability of Other Program Information

Additional information, including the program guidance, is available from the ODP website at <http://www.fema.gov/government/grant/index.shtm>.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

1. Funds may be used for terrorism prevention activities (Title I, Chapter 6, Pub. L. No. 108-11; 117 Stat 583; Title III, Pub. L. No. 108-90).
2. Funds may be used for operational costs, including personnel overtime as needed (Title I, Chapter 6, Pub. L. No. 108-11, 117 Stat 583).
3. Funds may be used for operational costs, including personnel overtime and overtime associated with the Office for Domestic Preparedness certified training, as needed (Title III, Pub. L. No. 108-90).
4. Funds may be used for management and administration (42 USC 3714(c)(2); Title III, Pub. L. No. 108-90) (see section III.G.3.a for a limitation).
5. Funds may not be used for the construction or renovation of facilities (Title I, Chapter 6, Pub. L. No. 108-11, 117 Stat 583; Title III, Pub. L. No. 108-90).

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

1. **Matching** - Not Applicable
2. **Level of Effort** – Not Applicable
3. **Earmarking**
  - a. Not more than three percent of the grant funds made available to a State may be used for costs of management and administration (42 USC 3714(c)(2)).
  - b. The SAA must obligate at least 80 percent of the funding to designated mass transit agency headquarters or urban areas (Title I, Chapter 6, Pub. L. No. 108-11, 117 Stat 583; Title III, Pub. L. No. 108-90).

#### I. Procurement and Suspension and Debarment

Funds must be used consistent with the applicable provisions of the Buy American Act (41 USC 10a *et seq.*) (Section 518, Pub. L. No. 108-90).

## L. Reporting

### 1. Financial Reporting

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

### 2. Performance Reporting - Not Applicable

### 3. Special Reporting – Not Applicable

## N. Special Tests

### Subgrant Awards

**Compliance Requirement** - States must obligate funding for subgrants to designated mass transit agency headquarters and urban areas within 60 days of their receipt of funds from ODP<sup>4</sup> (Title I, Chapter 6, Pub. L. No. 108-11, 117 Stat 583; Title III, Pub. L. No. 108-90) unless, based on written agreements with all affected urban areas in the State, the State retains the funding and makes purchase on behalf of the urban areas. Obligate” has the same meaning as in Federal appropriations law, i.e., there must be an action by the State to establish a firm commitment; the commitment must be unconditional on the part of the State; there must be documentary evidence of the commitment, and the award terms must be communicated to the subgrantee and, if applicable, accepted by the grantee.

**Audit Objectives** - To determine if (1) the State (other than a State operating under a written agreement to retain and spend funds on behalf of the affected urban areas in that State) complied with the requirement to obligate funds for subgrants within 60 days after the date of the grant award and (2) subgrantees were able to draw down funds immediately following State obligation of funds.

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<sup>4</sup> For FY 03, the funds were required to be obligated by the State within 45 days of the Federal award (Title I, Chapter 6, Pub. L. 108-11).

### **Suggested Audit Procedures**

- a. Determine if the State has written procedures for making subgrant awards, including any standards for administrative lead-time for obligation of funds and issuance of awards.
- b. Review the State's written procedures, if any, for consistency with the compliance requirement.
- c. Determine if the subgrant amounts were obligated in a timely manner, consistent with UASI requirements and the State's own procedures.
- d. Select a sample of subgrant awards under this program and review the subrecipients' payment requests to determine if funds were disbursed by the State to the subgrantee consistent with the dates of their awards.

### **IV. OTHER INFORMATION**

When completing the Schedule of Expenditures of Federal Awards, recipients should record their expenditures using the CFDA number(s) shown on the notice of award for the period in which the funds were awarded. Expenditures identified under CFDA 97.008 in audit periods may be attributable to awards made in prior years under individual program specific or other CFDA numbers. The current and previous CFDA numbers are shown in the following table.

Recipients' 2003 funding for UASI was awarded under CFDA 16.011; their 2004 UASI funding included supplemental funding under CFDA 16.011 as a result of Pub. L. No. 108-11 (Emergency Wartime Supplemental Appropriations Act, 2003) and funds awarded under CFDA 97.008. Recipients' 2005, 2006 and 2007 funding for UASI is part of the consolidated Homeland Security Grant Program under CFDA 97.067 (see program supplement for CFDA 97.004/97.067) and should be audited with that program. Subawards issued by the primary grantee are legally binding agreements and, therefore, CFDA numbers cited by the grantee in the subgrant award must be used by the subgrantee as the CFDA reference in the Schedule of Expenditures of Federal Awards.

## DEPARTMENT OF HOMELAND SECURITY

### CFDA 97.036 PUBLIC ASSISTANCE GRANTS

#### I. PROGRAM OBJECTIVE

The objective is to provide assistance to States, local governments, and selected non-profit organizations under the Public Assistance Grants (PA) program.

#### II. PROGRAM PROCEDURES

Following a Presidential declaration of a major disaster or an emergency, the Federal Emergency Management Agency (FEMA), Department of Homeland Security (DHS), awards grants for public assistance to States. The State may use the funds to restore its own disaster-damaged projects and to provide subgrants to local governments (including Indian tribes, authorized tribal organizations, and Alaskan native villages and organizations) and selected private non-profit facilities.

The PA program is administered by the State (e.g., the State Emergency Agency) in accordance with a FEMA-State Agreement to provide assistance that may be available under an emergency or major disaster declaration. The State acts as the grant administrator for all funds provided under the PA program. The grant administrator's responsibility includes providing technical advice and assistance to eligible subgrantees, providing State support for damage survey activities, ensuring that all potential applicants are aware of assistance available, and submission of documents necessary for grant awards (44 CFR sections 206.200 through 206.349). In certain circumstances an Indian Tribe may be a grantee.

For purposes of the PA program, the following terms will be used:

*State* - The State Agency that is defined as the grantee under FEMA regulations and acts as the grant administrator for the program.

*Subgrantee* - The government or other legal entity to which a subgrant is awarded and which is accountable to the grantee for the use of the funds provided (44 CFR section 206.201(1)). (For example, in explaining this program, a State Highway Agency is considered a subgrantee of a State Emergency Agency even though both agencies may be included in the same Statewide single audit.)

*RA* - The FEMA Regional Administrator.

PA program awards are made based upon a Project Worksheet (PW) prepared by a project formulation team. The project formulation team normally includes a representative of FEMA, the State, and the subgrantee. The PW documents the project formulation team's determination of the eligible scope of work and cost estimate. The PA program will fund a part of this eligible work in accordance with the FEMA-State Agreement. Each PW has a control number and any supplemental PWs will be referenced to the original PW.



Projects are classified as large or small projects according to the cost of the eligible work for the individual project. FEMA sets a dollar cost threshold annually for distinguishing large from small projects. Projects with costs that equal or exceed this threshold are large projects; projects that cost less than the threshold are small projects. The threshold is adjusted each October to reflect changes in the Consumer Price Index. The threshold is \$55,500 for the period October 1, 2004, through September 30, 2005; \$57,500 for the period October 1, 2005, through September 30, 2006; \$59,700 for the period October 1, 2006, through September 30, 2007; and \$60,900 for the period October 1, 2007, through September 30, 2008. The date the disaster is declared by the President determines the threshold in use for that project.

### **Small Projects**

Applicants are encouraged to make their own estimates for small projects and prepare PWs to be submitted to FEMA. FEMA will then take a 20 percent sample of the small projects prepared by the applicant and verify that the scope of the work is eligible and the cost estimate reasonable. If the sample passes this validation, FEMA accepts all small project PWs from the applicant and obligates the funds. If the sample fails, a second 20 percent is reviewed. If the second sample also fails, FEMA assigns a specialist to assist the applicant in reformulating and resubmitting all small projects to FEMA. A FEMA specialist is assigned to formulate an applicant's small projects, when an applicant elects not to do so.

For small projects, final payment of the Federal share of eligible costs is made upon approval of the project. The amount awarded for small projects based on the PW generally will not change except under unusual circumstances, such as failure to complete the work, an unexpected insurance recovery, or an obvious error in calculation. At closeout of the disaster contract, the State is required to certify that all projects were properly completed and that the State cost-sharing contribution, as specified in the FEMA-State Agreement, was paid. However, this certification does not specify the amount spent by a subgrantee on small projects. If the actual cost for small projects is less than the estimated cost on the PW and the scope of work is completed, FEMA will not ask for a refund. Similarly, FEMA generally will not provide additional funding when actual costs exceed the PW estimate. However, provision is made that, when a subgrantee has significant overruns, an appeal may be made to FEMA for additional funding based upon the total final costs for all small projects (44 CFR sections 206.204(e) and 206.205(a)).

### **Large Projects**

For large projects, the State must make an accounting to FEMA of eligible costs for each approved large project. In submitting the accounting, the State must certify that reported costs were incurred in the performance of eligible work, that the approved work was completed, that the project is in compliance with the FEMA-State Agreement, and that payments for the project have been made in accordance with 44 CFR section 13.21 requirements for payment. The subgrantee is required to make similar accounting and certifications to the State. If actual costs are less than the approved amount, then the FEMA share will be based upon the actual costs. The subgrantee may request additional funding for eligible cost overruns on large projects. For additional funding, these requests must include a written recommendation from the State and approval of the RD (44 CFR sections 206.204(e) and 206.205).

## Improved Projects

If a subgrantee desires to make improvements, but still restore the pre-disaster function of a damaged facility, State approval must be obtained. Federal funding for an improved project is limited to the Federal share of the approved estimate of the eligible costs. The Federal share will only restore the pre-disaster capacity of the damaged or destroyed facility. For example, if eligible work to restore the pre-disaster capacity is \$100,000, and the subgrantee chooses to rebuild an improved facility that costs \$200,000, then the FEMA share is only based on the \$100,000. However, if the actual cost is less than the eligible work of \$100,000 (e.g., construction costs are much lower than expected), then a FEMA adjustment is required (44 CFR section 206.203).

## Alternate Projects

In a case where the subgrantee determines that the public welfare would not be best served by restoring a damaged public facility, the State may request that FEMA approve an alternate project. This option is available only for permanent, restorative work. Funds contributed for alternate projects may be used to repair or expand other selected public facilities, to construct new facilities, or to fund hazard mitigation measures. These funds may not be used to pay the non-Federal share of any project or for any operating expense (44 CFR section 206.203(d)(2)).

Funds approved for an alternate project can be used only for alternate projects specifically approved by FEMA. While the States and subgrantees have flexibility to propose the type and size of alternate projects they wish to construct, FEMA must review such proposed projects to ensure compliance with environmental and other special concerns (44 CFR section 206.203).

## Administrative Costs

FEMA also provides funding for costs incurred by States and their subgrantees in administering the PA program. For disaster or emergency declarations prior to November 13, 2007, the State receives a statutory administrative cost allowance determined according to a formula based on percentages of the aggregate Federal share of funding provided to subgrantees for approved projects. State administrative costs not covered by this allowance may also be allowed with FEMA prior approval. The State awards administrative cost allowances to subgrantees according to a formula based on percentages of the subgrantees' net eligible project costs. All administrative costs must be supported with source documentation. For disaster or emergency declarations on or after November 13, 2007, the State is eligible for management costs to administer the PA program. Management costs are defined as indirect costs, administrative expenses, and any other expenses not directly chargeable to a specific project. The available funding for management costs is based on a 3.34 percentage rate for disaster declarations and a 3.90 percentage rate for emergency declarations. The rate is applied to the projected Federal share of project funding. The State's request for management costs is subject to FEMA approval. A subgrantee may use management cost funding made available by the State, as prescribed in the State administrative plan, to administer PA projects (interim final rule, 44 CFR parts 206 and 207, effective November 13, 2007, 72 FR 57876 through 57878, October 11, 2007).

## Source of Governing Requirements

This program is authorized by 42 USC 5121 *et seq.* Program regulations issued by FEMA are codified at 44 CFR sections 206.200 through 206.349.

## Availability of Other Program Information

Additional program information is available on the FEMA web site at <http://www.fema.gov/government/grant/pa/index.shtm>.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

The allowed activities for the PA program are for the approved project as described on the PW and supporting documentation. The approved project may be repair of the damaged facility, an improved project, or an alternate project (44 CFR section 206.203).

### B. Allowable Costs/Cost Principles

1. *Equipment Usage* - The PA program restricts eligible direct costs for applicant-owned equipment used to perform eligible work to reasonable rates that were established under State guidelines, or when the hourly rate exceeds \$75, rates may be determined on a case-by-case basis by FEMA. When local guidelines are used to establish equipment rates, reimbursement is based on those rates or rates in a Schedule of Equipment Rates published by FEMA, whichever is lower. Provision is also made when no rates are established or the entity wishes to claim an equipment rate that exceeds the FEMA Schedule (44 CFR section 206.228(a)(1)).

2. *Administrative Costs*

- a. *Grantee*

For disaster or emergency declarations before November 13, 2007, a State may use funds made available by FEMA under its administrative cost allowance only for extraordinary direct costs of preparing PWs, final inspection reports, project applications, etc., and for making final audits and related field inspections. Specific cost items allowable for such purposes include overtime pay, per diem and travel expenses for State employees, but not regular (straight time) salaries. Cost items not eligible for funding from the State's administrative cost allowance, but still related to managing the program, may be funded from the grant if prescribed in an approved PW. A State may recover regular (straight time) salaries and

certain other administrative costs in this way (44 CFR sections 206.228(a)(2), (a)(3) and interim final rule, 44 CFR section 207.9, effective November 13, 2007, 72 FR 57878, October 11, 2007).

For disaster or emergency declarations on or after November 13, 2007, a State may request funds from FEMA for management costs which includes indirect costs, administrative expenses, and any other expenses not directly chargeable to a specific project that are reasonably incurred in administering and managing the program within dollar ceilings and timeframes established by regulation (interim final rule, 44 CFR parts 206 and 207, effective November 13, 2007, 72 FR 57876 through 57878, October 11, 2007).

b. *Subgrantee* –

For disaster or emergency declarations prior to November 13, 2007, a subgrantee may use funds made available in its administrative cost allowance for necessary costs of requesting, obtaining, and administering its subgrant. No other direct or indirect costs are allowable at the subgrantee level (44 CFR sections 206.228(a)(2), (a)(3) and Federal Register Vol. 72, No 196 page 57878 §207.9).

For disaster or emergency declarations on or after November 13, 2007, a subgrantee may use management cost funding made available by the State, as prescribed in the State administrative plan, to administer PA projects (interim final rule, 44 CFR parts 206 and 207, effective November 13, 2007, 72 FR 57876 through 57878, October 11, 2007).

3. *Force Account Labor Costs* - The straight- or regular-time salaries and benefits of a subgrantee's permanently employed personnel are not eligible in calculating the cost of eligible work for emergency protective services or debris removal under sections 403 and 407 of the Stafford Act (42 USC 5170b and 5173, respectively). For performance of eligible permanent restoration under section 406 of the Stafford Act (42 USC 5172), straight-time salaries and benefits of a subgrantee's permanently employed personnel are eligible (44 CFR section 206.228(a)(4)).
4. *Insurance and Other Recoveries* - Auditors are advised that there are likely to be amounts from insurance settlements, salvage, or other sources which must be considered in determining allowable costs because allowable costs must be net of applicable credits.

**E. Eligibility**

1. **Eligibility for Individuals** - Not Applicable
2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable

### 3. Eligibility for Subrecipients

A State may award subgrants under this program to the following types of entities:

- a. State and local governments;
- b. Private non-profit organizations or institutions which own or operate a private non-profit facility, such as (but not limited to) an educational, medical, or custodial care facility, or other facility providing essential governmental type services to the public; and
- c. Indian tribes or authorized tribal organizations and Alaskan Native villages or organizations (but not Alaskan Native Corporations, the ownership of which is vested in private individuals) (44 CFR sections 206.221 and 206.222).

## G. Matching, Level of Effort, Earmarking

### 1. Matching

Costs must be on a shared basis, as specified in the FEMA-State Agreement. In general, the minimum Federal share is 75 percent of eligible costs. The matching split between the State and each subgrantee may vary. The accountability for meeting the matching requirement resides with the State and is determined at the time of project accounting as part of project closeout (i.e., the State match does not have to be met until the end of the project).

However, matching requirements for alternate projects vary from this general rule and fall into one of two categories:

- a. Public facilities. Eligible costs for public facilities are 90 percent of the approved Federal estimate of eligible repair/replacement costs of the damaged facility or the actual fixed cost of completing the alternate project(s), whichever is less. The appropriate Federal share will then be applied to the lesser amount.

Basic Calculation:

\$100,000 – Eligible damage

\_\_\_\_\_ ×.75 - % Federal Cost Share

\$ 75,000 – Subtotal

\_\_\_\_\_ ×.90 – of Federal Cost Share

\$ 67,500 – Maximum amount subgrantee may receive.

In this example, the subgrantee must spend at least \$75,000 on the approved alternate project to receive \$67,500. If the subgrantee spends less than the alternate project amount, then the Federal cost share would be 75 percent of the actual amount spent.

- b. Private non-profit facilities (PNP). Eligible costs for PNPs are 75 percent of the approved Federal estimate of eligible repair/replacement costs of the damaged facility or the actual fixed cost of completing the alternate project(s), whichever is less. The appropriate Federal share will then be applied to the lesser amount.

Basic Calculation:

\$100,000 – Eligible damage

\_\_\_\_\_ ×.75 - % Federal Cost Share

\$ 75,000 – Subtotal

\_\_\_\_\_ ×.75 – of Federal Cost Share

\$ 56,250 – Maximum amount subgrantee may receive.

In this example, the subgrantee must spend at least \$75,000 on the approved alternate project to receive \$56,250. If the subgrantee spends less than the alternate project amount, then the Federal cost share would be 75 percent of the actual amount spent.

**2. Level of Effort** - Not Applicable

**3. Earmarking**

For disaster or emergency declarations prior to November 13, 2007, the State makes funding available to subgrantees for their direct costs of requesting, obtaining, and administering public assistance projects according to the following formula: (a) three percent of the subgrantee's first \$100,000 of net eligible project costs; (b) two percent of the subgrantee's next \$900,000 of such costs; (c) one percent of the subgrantee's next \$4 million of such costs; and (d) one-half of one percent of the subgrantee's net eligible costs over \$5 million (44 CFR section 206.228(a)(2) and interim final rule, 44 CFR section 207.9, effective November 13, 2007, 72 FR 57878, October 11, 2007).

For disaster or emergency declarations on or after November 13, 2007, the State makes management cost funding available to subgrantees, as prescribed in the State administrative plan, to administer PA projects (interim final rule, 44 CFR parts 206 and 207, effective November 13, 2007, 72 FR 57876 through 57878, October 11, 2007).

**L. Reporting****1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Optional
- b. SF-270, *Request for Advance or Reimbursement* - Applicable only to those non-Federal entities who do not utilize the Department of Health and Human Services, Payment Management System.
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Applicable
- e. FEMA 20-10, *Financial Status Report (OMB No. 1660-0025)* - This form is generally used in lieu of the SF-269.

**2. Performance Reporting** - Not Applicable**3. Special Reporting** - Not Applicable**N. Special Tests and Provisions****Project Accounting**

**Compliance Requirement** - For large projects, the State is required to make an accounting to FEMA of eligible costs. Similarly, the subgrantee must make an accounting to the State. In submitting the accounting, the entity is required to certify that reported costs were incurred in performance of eligible work, that the approved work was completed, that the project is in compliance with the provisions of the FEMA-State Agreement, and that payments for that project were made in accordance with the 44 CFR section 13.21 payment provisions. For improved and alternate projects, if the total cost of the projects does not equal or exceed the approved eligible costs, then the auditor should expect to see an adjustment to reduce eligible costs (44 CFR section 206.205).

**Audit Objective** - Determine whether ongoing and completed projects were accounted for in accordance with the required certification.

**Suggested Audit Procedures**

*Projects not completed* - Select a sample of ongoing large projects and ascertain if costs submitted for reimbursement were in compliance with the requirements for eligible work under the applicable PW. Testing should consider the differences in the requirements and approvals required of improved and alternate projects.

*Completed projects* - Select a sample of large projects completed during the audit period and ascertain if the entity's files document the total costs as allowable costs and if the costs are for allowable activities under the applicable PW. This testing should consider the differences in the requirements and approvals required of improved and alternate projects.

#### **IV. OTHER INFORMATION**

Effective March 1, 2003, FEMA became part of DHS. Since recipients' funding periods may not coincide with the change in CFDA number, recipients should include the CFDA number shown on their notices of award (whether 83.544 and/or 97.036) in completing the Schedule of Expenditures of Federal Awards (SEFA). When awards from both CFDA 97.036 and CFDA 83.544 are present, they should be combined when determining Type A programs. If the program was a major program under the legacy CFDA number in either of the previous two years, the provision in the risk-based approach for prior audits is considered to have been met. On the SEFA, both the DHS CFDA number and the legacy agency's corresponding CFDA number should be presented separately.

See Appendix VI for information related to Hurricane Katrina.



## DEPARTMENT OF HOMELAND SECURITY

### CFDA 97.039 HAZARD MITIGATION GRANT (HMGP)

#### I. PROGRAM OBJECTIVES

The Hazard Mitigation Grant Program (HMGP) is a cost-shared program administered by the Federal Emergency Management Agency (FEMA), Department of Homeland Security. The program's purpose is to mitigate the vulnerability of life and property to future disasters during the recovery and reconstruction process following an actual disaster. To accomplish this purpose, FEMA assists States to avoid or lessen the impact of natural hazards through such strategies as safer building practices and the improvement of existing structures and supporting infrastructure.

#### II. PROGRAM PROCEDURES

##### Program Administration

FEMA awards HMGP grants to States, which in turn may award subgrants to other State agencies, local governments, Indian tribal organizations, and other eligible entities. Each State administers the HMGP according to a FEMA-State Agreement, a comprehensive Standard or Enhanced State Mitigation Plan, and a State HMGP Administration Plan. These plans must be approved by FEMA before funds are awarded to the State. FEMA is responsible for assisting the State, approving or denying project applications, and reviewing the State's quarterly and final reports.

FEMA also provides funding for costs incurred by States and their subgrantees in administering the HMGP. For Federal disasters declared prior to November 13, 2007, the State receives a statutory administrative cost allowance determined according to a formula based on percentages of the aggregate Federal share of funding provided to subgrantees for hazard mitigation projects. State management costs not covered by the allowance may be allowed with FEMA prior approval. The State awards statutory administrative cost allowances to subgrantees according to a formula based on percentages of the subgrantee's net eligible project costs. If requested, management costs are awarded as a part of the HMGP ceiling.

For Federal disasters declared on or after November 13, 2007, FEMA makes available funds for costs incurred by States and their subgrantees in administering and managing the HMGP. These costs are now termed "management costs" and include any indirect costs, administrative expenses, and any other expenses not directly chargeable to a specific project that are reasonably incurred by a State or local community in the administration and management of the HMGP. A flat rate of 4.89 percent of the projected eligible program costs is used to calculate the Management Costs available to States and federally recognized Indian tribal governments. The States must make available a percentage or amount of pass-through funds for management costs to their subgrantees. The basis, criteria, or formula for equitable distribution is determined by the State and must be included in the FEMA-approved State Administrative Plan before funds for management costs can be awarded. Management costs are not subject to the Federal funding limits for for HMGP projects (see III.G.1, "Matching").

## Application and Award Process

After determining that disaster relief and recovery needs cannot be met with resources available within the State, the Governor requests a Presidential declaration designating the State a disaster area. States have up to 12 months from the date the disaster is declared to review and submit applications for disasters declared on or after February 26, 2002. Disasters declared before February 26, 2002, have an application period of 18 months. The application must identify the specific mitigation measure(s) for which the State requests funding, and any entities to which the State intends to award subgrants.

In addition to submitting applications and supporting documents to FEMA, the Governor's Authorized Representative appoints a State Hazard Mitigation Officer. This official ensures that all potential applicants are made aware of the assistance available under the HMGP, and provides technical advice and assistance to eligible subgrantees. Indian tribal organizations can receive HMGP assistance as subgrantees of States or apply directly to FEMA. Where FEMA awards a grant directly to an Indian tribal government, the two entities enter into a FEMA-Tribal agreement modeled on the FEMA-State agreement.

## Source of Governing Requirements

The HMGP is authorized by section 404 of the Stafford Act (42 USC 5170c). Program regulations are codified at 44 CFR parts 80 201; 206, subpart N (Hazard Mitigation Grant Program); and 207.

## Availability of Other Program Information

Additional program information and the HMGP *Desk Reference* are available at <http://www.fema.gov/government/grant/hmgp/index.shtm>.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

The activities allowed for an HMGP project are those described in the grant application approved by FEMA and the supporting documentation (44 CFR section 206.436(d)). Within these parameters, they may be of any nature that will result in the protection of life and property from natural hazards. All projects funded must otherwise conform to the State's comprehensive Hazard Mitigation Plan. Eligible projects include, but are not limited to (44 CFR section 206.434(d)):

1. Structural hazard control or protection projects;
2. Construction activities that will result in protection from hazards;

3. Retrofitting of facilities;
4. Property acquisition or relocation;
5. Development of State or local mitigation standards;
6. Development of comprehensive mitigation programs with implementation as an essential component; and
7. Development or improvement of warning systems.

**B. Allowable Costs/Cost Principles**

1. *Direct Administrative Costs for Federal disasters declared prior to November 13, 2007*
  - a. *Grantee* - A State may use funds made available by FEMA under its administrative cost allowance only for extraordinary direct costs of preparing applications and quarterly reports, and making final audits and related field inspections. Specific cost items allowable as direct administrative costs include overtime pay, per diem and travel expenses for State employees, but not their regular (straight-time) salaries. Cost items not eligible for funding from the State's administrative cost allowance, but still related to managing the program, may be funded from the grant if FEMA gives prior approval. Regular (straight-time) salaries may be funded in this way. In the case of staffing costs for the State's Disaster Field Office, FEMA gives prior approval by approving the State's staffing plan (44 CFR section 206.439(b)).
  - b. *Subgrantee* - A subgrantee may use funds made available by the grantee in its administrative cost allowance only for direct costs of requesting, obtaining, and administering its subgrants (44 CFR section 206.439(b)).
2. *Indirect Costs* - Grantee indirect costs identified in accordance with the Federal cost principles are allowable. Indirect costs at the subgrantee level are unallowable (44 CFR section 206.439(c)).

3. *Management Costs for Federal disasters declared on or after November 13, 2007*
  - a. *Grantee-* A State may use funds made available by FEMA under its management cost allowance for any indirect costs, any administrative expenses, and any other expenses not directly chargeable to a specific project that are reasonably incurred in administering and managing the HMGP. Specific cost items identified in B.1.a., regular time salaries and other cost items, such as equipment purchases that are necessary for the administration and management of the HMGP are allowable as long as they are approved FEMA prior to the award of funds for management costs (44 CFR section 207.6).
  - b. *Subgrantee-* A subgrantee may use funds made available for management costs for any indirect costs, administrative expenses, and other expenses not directly chargeable to a specific project that are reasonably incurred in administering and managing the HMGP subaward (44 CFR section 207.6).

## **E. Eligibility**

1. **Eligibility for Individuals** - Not Applicable
2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients**

The following types of entities are eligible to apply to the State for HMGP subgrants:

- a. State and local governments;
- b. Private non-profit organizations or institutions that own or operate a private non-profit facility as defined at 44 CFR section 206.221(e); and
- c. Tribes or authorized tribal organizations and Alaskan Native villages or organizations (44 CFR section 206.434(a)).

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

### **1. Matching**

The Federal and non-Federal shares of a project's cost are established in the State's FEMA-State Agreement. While the non-Federal share may exceed the Federal share, it may never be less than 25 percent of the cost of a project approved for disasters declared after June 10, 1993. (That is, the Federal share may never exceed 75 percent.) The Federal share may not exceed 50 percent for projects approved for disasters declared before that date. For Federal disasters declared prior to November 13, 2007, funds made available to a State or subgrantee in its administrative cost allowance are not subject to this limitation, i.e., funding for those costs may exceed 75 percent. Likewise, for Federal disasters declared on or after November 13, 2007, funds made available to a State for management costs or to a subgrantee for management costs that are not directly related to a specific project are not subject to this limitation (44 CFR section 206.432(c)).

### **2. Level of Effort - Not Applicable**

### **3. Earmarking**

- a. *Subgrantees* – For Federal disasters declared prior to November 13, 2007, the State makes funding available to subgrantees for their direct costs of requesting, obtaining, and administering HMGP projects according to the following formula: (a) three percent of the subgrantee's first \$100,000 of net eligible project costs; (b) two percent of the subgrantee's next \$900,000 of such costs; (c) one percent of the subgrantee's next \$4 million of such costs; and (d) one-half of one percent of the subgrantee's net eligible project costs over \$5 million (44 CFR section 206.439(b)(1)(ii)). For Federal disasters declared on or after November 13, 2007, the State makes funds for management cost available to the subgrantees in accordance with their FEMA-approved State administrative plan.
- b. *Planning* - Up to 7 percent of the State's HMGP grant may be used to develop State, tribal, or local mitigation plans to meet the planning criteria outlined in 44 CFR part 201 (44 CFR section 206.434(d)(1)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Applicable

- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Applicable, but not required unless the State has a grant for direct construction.
- d. SF-272, *Federal Cash Transactions Report*- Applicable
- e. FEMA Form 20-10, *Financial Status Report (OMB No. 3067-0206)* - This form may be used in lieu of the SF-269, as determined by the grantee and the FEMA regional office. Once this determination is made, the State uses the selected form for all its reporting on FEMA programs.
- f. FEMA Form 20-18, *Report of Government Property (OMB No. 3067-0206)* - This form is submitted upon completion work under a grant, cooperative agreement, or contract. It provides an inventory of equipment purchased by the grantee or provided by the Federal Government. FEMA and the grantee use this information to determine the disposition of the equipment.
- g. FEMA Form 20-19, *Reconciliation of Grants and Cooperative Agreements (OMB No. 3067-0206)* - This report captures a State's program transactions and related unobligated balances of Federal funds, cash drawdowns, and undrawn cash balances. It is used to reconcile awards, outlays, and drawdowns during and at the completion of a HMGP grant.

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

B. History of Transactions:

- 1. Column (b) - *Description of Transaction*
- 2. Column (d) - *Total Federal Share*
- 3. Column (f) - *Amount (of cash drawdown)*

**2. Performance Reporting** – Not Applicable

**3. Special Reporting** - Not Applicable

**IV. Other Information**

*Subgrants to Other State Agencies*

In the administration of this grant, the State may “subgrant” funds to another part of the State (e.g., a State agency). If the other part of the State receiving the subgrant is included in the audit of the State, such as a State-wide audit, then for purposes of determining Type A programs and reporting on the Schedule of Expenditures of Federal Awards, these “subgrants” within the single audit reporting entity should be eliminated.

However, all Federal awards expended under this program by the State (including a part of the State receiving a subgrant from the State) should be subject to the State's OMB Circular A-133 audit.

*Transfer to Department of Homeland Security*

Effective March 1, 2003, FEMA became part of the Department of Homeland Security (DHS). Since recipients' funding periods may not coincide with this change in the CFDA number, recipients should include the CFDA number shown on their notices of award (whether 83.548 and/or 97.039) in completing the Schedule of Expenditures of Federal Awards (SEFA). When awards from both CFDA 97.039 and CFDA 83.548 are present, they should be combined when determining Type A programs. If the program was a major program under the legacy CFDA number in either of the previous two years, the provision in the risk-based approach for prior audits is considered to have been met. On the SEFA, both the DHS CFDA number and the legacy agency's corresponding CFDA number should be presented separately.

*Waiver for Disasters Declared for Hurricanes Katrina and Rita*

A waiver from prior-approval requirements in OMB Circular A-87 applicable to pre-award costs has been granted for HMGP funding provided to the States of Louisiana and Mississippi for the specific disasters declared for Hurricanes Katrina and Rita. Information is posted on [www.dhs.gov](http://www.dhs.gov) "Open for Business." Also see Appendix VI.

**DEPARTMENT OF HOMELAND SECURITY****CFDA 97.067      HOMELAND SECURITY GRANT PROGRAM  
CFDA 97.004      STATE DOMESTIC PREPAREDNESS EQUIPMENT SUPPORT  
PROGRAM (State Homeland Security Grant Program)****I. PROGRAM OBJECTIVES**

The Homeland Security Grant Program (HSGP) is intended to improve and significantly enhance the ability of the Nation to prevent, deter, respond to and recover from, threats and incidents of terrorism and to enhance regional preparedness. The HSGP provides financial assistance to the States (and through the States to local governments) to support activities such as planning, equipment, training, and exercises to address critical resource gaps identified in the assessments and priorities outlined within each States' Homeland Security Strategy. States are encouraged to develop regional approaches to planning and preparedness and to adopt, as appropriate, regional response structures.

**II. PROGRAM PROCEDURES**

HSGP funding is provided to the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, U. S. Territories, and select urban areas, by Federal Emergency Management Agency (FEMA)/Grant Programs Directorate (GPD). The grants are awarded to a State Administering Agency (SAA), who must pass through a specific percentage of the funds to local governments. GPD, formerly Grants and Training, is responsible for this program. GPD's Financial Accountability and Oversight Division, provides fiscal support and oversight of this grant program, however GPD uses DOJ/Office of Justice Programs (OJP) systems for awarding grants and making grant payments under these programs.

**Multiple Funding Streams**

For awards made in FY 2004, funding for the State Homeland Security Program (SHSP), Citizen Corps Program (CCP) and the Law Enforcement Terrorism Prevention Program (LETPP) were combined in a single award under the HSGP. For awards made in FY 2005, the HSGP included the SHSP, CCP, LETPP, Urban Areas Security Initiative (UASI), Emergency Management Performance Grant (EMPG), and the Metropolitan Medical Response System (MMRS). For awards made in FY 2006 and 2007, the HSGP program includes the same programs as in FY 2005 except for EMPG; EMPG was awarded as a stand-alone program beginning in FY 2006 (CFDA 97.042). Under the combined program, although States are advised of their funding allocations using the legacy CFDA numbers for each of the programs (see Section IV), the awards and subawards (and reports based on them) should carry the CFDA number shown on the legal award document for the period in which the funds were awarded.



The several funding streams and their objectives are as follows:

*State Homeland Security Program (SHSP)* provides funds to enhance the capability of State and local jurisdictions to prepare for and respond to terrorist acts, including events of terrorism involving weapons of mass destruction and biological, nuclear, radiological, incendiary, chemical, and explosive devices.

*Citizens Corps Program (CCP)* provides support to establish and operate Citizen Corps Councils to play a role in public outreach, education, and training to make States and local communities better prepared to respond in the event of an emergency.

*Law Enforcement Terrorism Prevention Program (LETPP)* provides funds to law enforcement communities to support critical terrorism prevention activities such as establishing and enhancing fusion centers.

*Urban Areas Security Initiative (UASI)* provides financial assistance to address the unique multi-discipline planning, operations, equipment, training, and exercise needs of high-threat Urban Areas (for FY 2003 and 2004 awards, see the program supplement for CFDA 97.008).

*Emergency Management Performance Grants (EMPG)* assist States and local jurisdictions in the development, maintenance, and improvement of State and local emergency management capabilities, which are key components of a comprehensive national emergency management system for disasters and emergencies that may result from natural disasters or accidental or man-caused events.

*Metropolitan Medical Response Systems (MMRS)* funding is intended to help U.S. cities prepare for a rapid, coordinated medical response by emergency first responders, public health systems, and hospitals to large-scale public emergencies. .

See section IV of this program supplement for additional information (including the CFDA numbers under which awards for the several funding streams were made in FY 2003).

### **Source of Governing Requirements**

These programs are authorized under Section 430 of the Homeland Security Act of 2002; Section 1014 of USA PATRIOT Act of 2001 (Pub. L. No. 107-56, 42 USC 3714); Title I, Chapter 6 of Pub. L. No. 108-11, the Wartime Supplemental Appropriations Act of 2003; Title III of the FY 2004 Department of Homeland Security Appropriations Act (Pub. L. No. 108-90); Title III of the FY 2005 Department of Homeland Security Appropriations Act ((Pub. L. No. 108-334); Title III of the FY 2006 Department of Homeland Security Appropriations Act (Pub. L. No. 109-90); the FY 2007 Department of Homeland Security Appropriations Act (Pub. L. No. 109-295); and the Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended (42 USC 5196 and 5196(b), 42 USC 5196 and 5196(b), and 42 USC 5121-5206). There are no program regulations. The applicable program guidance is incorporated by reference into awards and becomes part of the terms and conditions of award.

## Availability of Other Program Information

Additional information is available at <http://www.fema.gov/government/grant/index.shtm>.

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

##### 1. *Activities Allowed - General.*

- a. Funds may be used to enhance the capability of State and local jurisdictions to prepare for and respond to terrorist acts including events of terrorism involving weapons of mass destruction and biological, nuclear, radiological, incendiary, chemical, and explosive devices. Allowable activities include purchase of needed equipment and provision of training and technical assistance to State and local first responders (42 USC 3714(b)).
- b. Funds may be used for management and administration (42 USC 3714(c)(2); Title III, Pub. L. No. 108-334; Title III, Pub. L. No. 109-90) (see section III.G.3.a. for a limitation).

##### 2. *Activities Allowed - FY 2003*

Funds for critical infrastructure protection under the SHSP are available for operational costs to include personnel overtime as needed (Title I, Chapter 6, Pub. L. No. 108-11, 117 Stat 583).

##### 3. *Activities Allowed - FYs 2004, 2005, 2006 and 2007*

Funds for LETPP and UASI<sup>1</sup> may be used for operational costs, including personnel overtime and overtime associated with ODP (G&T) certified training (Title III, Pub. L. No. 108-90; Title III, Pub. L. No. 108-334; Title III, Pub. L. No. 109-90; Pub. L. No. 109-295).

##### 4. *Activities Unallowed - FYs 2003 and 2004*

SHSP and LETPP funds may not be used for the construction or renovation of facilities (Title I, Chapter 6, Pub. L. No. 108-11, 117 Stat 583; Title III, Pub. L. No. 109-90).

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<sup>1</sup> See CFDA 97.008 for UASI FY 03 and 04.

5. *Activities Unallowed - FY 2005*

SHSP, LETPP, and UASI funds may not be used for construction or renovation other than for a minor perimeter security project not to exceed \$1 million (Title III, Pub. L. No. 108-334).

6. *Activities Unallowed – FY 2006 and 2007*

SHSP, UASI, LETPP funds shall not be used for the construction or renovation of facilities, except for a minor perimeter security project, not to exceed \$1,000,000, as determined necessary by the Secretary of Homeland Security. The erection of communication towers, which are included in a jurisdiction's interoperable communications plan, does not constitute construction (Conference Report 109-241 to the FY 2006 Department of Homeland Security Appropriations Act [Pub. L. No. 109-90], Title III, State and Local Programs; Title III, Pub. L. No. 109-295).

7. *Activities Unallowed- FY 2004, FY 2005, FY 2006 and FY 2007*

HSGP funds may not be used to support the hiring of sworn public safety officers for purposes of fulfilling traditional public safety duties or to supplant traditional public safety positions and responsibilities.

**C. Cash Management**

Beginning in FY 2005, HSGP awards to States were exempted from the provisions of 31 USC 6503(a) (the Cash Management Improvement Act (CMIA)) (Sec. 521, Pub. L No. 108-334). In accordance with Pub .L. No. 109-241, the DHS FY 2006 Appropriations Act, and notwithstanding any other provision of law, this exemption became permanent.

Grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. All other requirements of OMB Circulars A-102 and A-110 (FY 2006 and previous fiscal years, as implemented by DOJ at 28 CFR section 66.23 and 28 CFR section 70.22, respectively; for FY 2007 grants, as implemented by FEMA at 44 CFR section 13.21 and 44 CFR section 13.23, respectively) or the Cash Management Improvement Act (31 USC 6503; 31 CFR part 205), as applicable, related to the retention and payment of interest apply.

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

1. **Matching** - Not Applicable

2. **Level of Effort** - Not Applicable

### 3. Earmarking

- a. Not more than five percent of the FY 2006 and FY 2007 grant funds (three percent for 2005) made available to a State may be used for costs of management and administration (42 USC 3714(c)(2); Title III, Pub. L. No. 108-334; Conference Report 109-241 to the FY 2006 Department of Homeland Security Appropriations Act (Pub. L. No. 109-90)). For FY 2005, any portion of the three percent retained by the State for this purpose must be included within the maximum twenty percent of total funds retained by the State for the SHSP, LETPP, and UASI programs (Conference Report 108-774 to the FY 2005 Department of Homeland Security Appropriations Act (Pub. L. No. 108-334)).
- b. Each State shall obligate not less than 80 percent of grant funds under the SHSP, LETPP, and UASI<sup>2</sup> programs to local units of government within 60 days of receipt of funds (Title I, Chapter 6, Pub. L. No. 108-11, 117 Stat 583, April 16, 2003; Title III, Pub. L. No. 108-90; Title III, Pub. L. No. 108-334, Title III, Pub. L. No. 109-90; Title III, Pub. L. No. 109-295).

## L. Reporting

### 1. Financial Reporting

- a. *SF-269, Financial Status Report* - Applicable
- b. *SF-270, Request for Advance or Reimbursement* - Not Applicable
- c. *SF-271, Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- d. *SF-272, Federal Cash Transactions Report* - Not Applicable

### 2. Performance Reporting – Not Applicable

### 3. Special Reporting - Not Applicable

## N. Special Tests and Provisions

### Subgrant Awards

**Compliance Requirement** – Under the SHSP, LETPP and UASI programs, States must obligate funds for subgrants within 60 days after the date of the grant award (Title III, Pub L. No. 108-90; Title III, Pub. L. No. 108-334; Title III, Pub. L. No. 109-90; Title III, Pub. L. No 109-295). “Obligate” has the same meaning as in Federal

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<sup>2</sup> See CFDA 97.008 for UASI in FY 03 and 04.

appropriations law, i.e., there must be an action by the State to establish a firm commitment; the commitment must be unconditional on the part of the State; there must be documentary evidence of the commitment, and the award terms must be communicated to the subgrantee and, if applicable, accepted by the grantee.

**Audit Objectives** - To determine if (1) the State complied with the requirement to obligate funds for subgrants within 60 days after the date of the grant award and (2) subgrantees were able to draw down funds immediately following State obligation of funds.

#### **Suggested Audit Procedures**

- a. Determine if the State has written procedures for making subgrant awards, including any standards for administrative lead-time for obligation of funds and issuance of awards.
- b. Review the State's written procedures, if any, for consistency with the compliance requirement.
- c. Determine if subgrant amounts were obligated by the State in a timely manner, consistent with HSGP requirements and the State's own procedures.
- d. Select a sample of subgrant awards under this program and review the subrecipients' payment requests to determine if funds were disbursed by the State to the local government consistent with the dates of their awards.

#### **IV. OTHER INFORMATION**

When completing the Schedule of Expenditures of Federal Awards, recipients should record their expenditures using the CFDA number(s) shown on the legal award document for the period in which the funds were awarded. Expenditures identified under the Homeland Security Cluster in the current audit period may be attributable to awards made in both the current or prior years under other CFDA numbers. Subawards issued by the primary grantee are legally binding agreements, and, therefore, CFDA numbers cited by the grantee in the subgrant award must be used by the subgrantee as the CFDA reference in the Schedule of Expenditures of Federal programs.

The current and previous CFDA numbers are shown in the following table. Expenditures under the CDFA numbers shown in the table should be combined when determining Type A programs. If a program(s) was a major program under the CFDA number shown in the table in either of the previous two years, the provision in the risk-based approach for prior audits is considered to have been met.

The following exceptions should be noted:

1. Urban Areas Security Initiative grants, which are part of the Homeland Security Grant Cluster for 2005, 2006 and 2007 awards, should be evaluated separately in making the major program determination for previous years (see program supplement for CFDA 97.008).
2. Although activities under CFDA 97.004, 97.005, and 97.006 were folded into the SHSP and, subsequently, the HSGP, these CFDA numbers continue to be used in awards other than the SHSP or HSGP. Expenditures for awards under CFDA 97.004, State Domestic Preparedness Equipment Support Program, should not be included in the audit of this cluster, with the exception of FY 2003 supplemental funding and FY2004 funding as identified in the following table. Expenditures under CFDA 97.005, State and Local Domestic Preparedness Training Program, and CFDA 97.006, State and Local Domestic Preparedness Exercise Support, unless received from a pass-through entity, should not be included in the audit of this cluster.
3. Expenditures under EMPG and CCP awards that predated assignment of DHS numbers for these programs should not be included in the audit of this cluster.

<i>Year of Grant</i>	<i>SHGP</i>	<i>CCP</i>	<i>LETPP</i>	<i>EMPG</i>	<i>MMRS</i>
2003	16.007	97.053	N/A	97.042	N/A
2004	16.007 (supplemental award)* 97.004	97.004*	97.004	97.042	97.071
2005	97.067**	97.067	97.067***	97.067	97.067
2006 and 2007	97.067	97.067	97.067	N/A (no longer part of the cluster)	97.067

\* Pub. L. No. 108-11 (Emergency Wartime Supplemental Appropriations Act, 2003) appropriated supplemental FY 2003 funds. The appropriations legislation made funds available until December 31, 2003 and awards from this supplemental were made under CFDA 16.007.

\*\* At the subgrantee level, this CFDA number may have been listed as 97.073 and should be included in this cluster.

\*\*\* At the subgrantee level, this CFDA number may have been listed as 97.074 and should be included in this cluster.

It also should be noted that, except as otherwise provided by statute, DHS awards of property and/or equipment are subject to the requirements of OMB Circular A-133. A DHS policy statement that addresses this requirement is available at [http://www.dhs.gov/xopnbiz/grants/gc\\_1162481125903.shtm](http://www.dhs.gov/xopnbiz/grants/gc_1162481125903.shtm).

**DEPARTMENT OF HOMELAND SECURITY****CFDA 97.109      DISASTER HOUSING ASSISTANCE GRANT****I.      PROGRAM OBJECTIVES**

The Disaster Housing Assistance Program (DHAP) is administered by the U.S. Department of Housing and Urban Development (HUD) under an interagency agreement between the Department of Homeland Security (DHS)/Federal Emergency Management Agency (FEMA)/ and HUD. The purpose of this program is to provide temporary housing assistance to low-income families who were displaced by Hurricanes Katrina and Rita. DHAP provides rental assistance through housing subsidies to families displaced by the hurricanes.

**II.      PROGRAM PROCEDURES****Program Administration**

On July 26, 2007, DHS/FEMA and HUD executed an interagency agreement establishing the DHAP, a temporary housing rental assistance and case management program for identified individuals and households displaced by Hurricanes Katrina and Rita. The program will be administered through HUD's existing network of Public Housing Agencies (PHAs). The PHAs have the necessary local housing market knowledge and expertise in assisting families through a tenant-based subsidy program. In addition, through their administration of both the Katrina Disaster Housing Assistance Program (KDHAP) and Disaster Voucher Program (DVP), the PHAs are experienced in working with significant numbers of families that have been displaced by disasters.

**Application and Award Process**

PHAs enter into grant agreements with FEMA to provide rent subsidies to eligible families for a period not to exceed 16 months commencing November 1, 2007 and ending March 1, 2009. To be eligible for DHAP, a family must have been displaced by Hurricane Katrina or Rita and, consequently, is either receiving or is eligible to receive rental assistance administered by FEMA. FEMA, not the PHA, determines if the family is initially eligible to receive assistance under the DHAP. The PHA verifies that FEMA has determined that a family is eligible for the DHAP through HUD's web-based Disaster Information System (DIS).

**Source of Governing Requirements**

DHAP is based on DHS's general grant authority under section 102(b)(2) of the Homeland Security Act (6 USC 112) and Sections 408 (b)(1), 426 and 306(a) of the Robert T. Stafford Act (42 USC 5174(B)(1), 5189d and 5149(a), respectively).

**Availability of Other Program Information**

Additional program information is available from the FEMA web site at: [www.fema.gov](http://www.fema.gov) and [www.hud.gov](http://www.hud.gov)

### III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

#### A. Activities Allowed or Unallowed

DHAP funding is for the purpose of rental subsidies to eligible families for a period not to exceed 16 months commencing November 1, 2007 and ending March 1, 2009. DHAP funding may not be used for other activities or costs, and remains separate and distinct from the PHA's regular voucher program and the DVP in terms of the source and use of the funding. PHAs must ensure that these funds are used for eligible purposes.

1. Funds may be used for administering DHAP up to 15 percent of the initial DHAP rent subsidy payment.
2. *Monthly Rent.* The monthly rent specified in the lease is the total monthly rent payable to the owner under the lease for the unit. The monthly rent specified under the lease covers payment for any housing services, maintenance, and utilities that the owner is required to provide and pay for.
  - a. *FEMA Rental Assistance Family Transitioning to DHAP In-Place:* the monthly rent subsidy for that unit equals the lesser of: the monthly rent specified in the lease or the greater of:
    - (1) The applicable Fair Market Rents (FMR) published for the area where the unit is located.
    - (2) The applicable payment standard for the PHA's HCV program.
    - (3) The amount of monthly assistance the family received under the FEMA
  - b. *All Other Families:* the monthly rent subsidy equals the lesser of: the monthly rent specified in the lease; or the greater of:
    - (1) The applicable FMR published for the area where the unit is located.
    - (2) The applicable payment standard for the PHA's HCV program.
  - c. *Incremental Rent Transition:* On March 1, 2008, families participating in the DHAP will be required to pay a portion of the rent (in addition to any existing family share in cases where the monthly rent already exceeds the monthly rent subsidy) in preparation towards self-sufficiency when the DHAP ends on March 1, 2009. PHAs will implement the incremental rent



transition by reducing the rental subsidy payment by \$50 for the March 2008 rent subsidy payment. This reduction will be incrementally increased by an additional \$50 each month thereafter until the family's participation in DHAP ends or March 1, 2009, whichever is earlier.

**B. Allowable Costs/Cost Principles**

DHAP has been granted a waiver from OMB for the cost principles and administrative requirements outlined in OMB Circular A-87 and the A-102 common rule; however, these funds are governed by financial management compliance requirements contained in HUD's authorizing law and regulations. DHAP will be governed using the financial management requirements of HUD's Section 8 program; therefore, the program supplement for CFDA 14.871 should be used when determining compliance.

**E. Eligibility**

**1. Eligibility for Individuals**

PHAs may provide assistance only to families determined to be eligible by FEMA.

**2. Eligibility for Group of Individuals or Area of Service Delivery – Not Applicable**

**3. Eligibility for Subrecipients – Not Applicable**

**L. Reporting**

**1. Financial Reporting**

a. SF-269, *Financial Status Report* - Not Applicable

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

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

d. SF-272, *Federal Cash Transactions Report* - Not Applicable

**2. Performance Reporting – Not Applicable**

**3. Special Reporting – Not Applicable**

**N. Special Tests and Provisions**

**Identification of Expenditures under the DHAP Program**

**Compliance Requirements** – The PHA is required to maintain records that allow for the easy identification of families assisted under DHAP, and must report actual monthly

leasing and expenditure for such families separately from housing choice voucher and DVP families under the Voucher Management System (VMS). The PHA must maintain a separate DHAP register to record and control assistance payments for DHAP rent subsidies.

**Audit Objective** – Determine whether PHAs are maintaining separately identifiable records of payments under DHAP.

**Suggested Audit Procedures**

- a. Review PHA procedures related to creation and maintenance of records for individuals assisted under DHAP.
- b. Select a sample of DHAP payments and determine whether records related to those payments are separately identified from other PHA-administered programs.

## UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

### CFDA 98.007 FOOD FOR PEACE DEVELOPMENT ASSISTANCE PROGRAM CFDA 98.008 FOOD FOR PEACE EMERGENCY PROGRAM

#### I. PROGRAM OBJECTIVES

The United States Agency for International Development (USAID) donates agricultural commodities to foreign countries under Title II of the Agricultural Trade Development and Assistance Act of 1954 (Pub. L. No. 480, Title II) (7 USC 1691 through 1738r). These programs include donated commodities, monetization proceeds from the sale of commodities, and cash assistance (referred to as Section 202(e) funding (7 USC 1722(e)), and International Transportation, Storage and Handing (ITSH) funding (7 USC 1736 and 1736a).

#### II. PROGRAM PROCEDURES

##### General Overview

As the primary conduit of humanitarian assistance for USAID, the Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA) is charged with the overall responsibility for USAID's response to humanitarian crises, both natural and complex. The Office of Food for Peace (FFP) manages Pub. L. No. 480, Title II (7 USC 1721 through 1726(b)) provision of agricultural commodities channeled to foreign countries as food assistance. Food assistance is also authorized and delivered under Titles I and III of Pub. L. No. 480, as well as under other legislation. This supplement covers only food assistance authorized and delivered under Title II.

USAID may transfer agricultural commodities to address famine or other urgent or extraordinary relief requirements; combat malnutrition, especially in children and mothers; carry out activities that attempt to alleviate the causes of hunger, mortality and morbidity; promote economic and community development; promote sound environmental practices; and carry out feeding programs. Agricultural commodities may be provided to meet emergency food needs through foreign governments and private or public organizations, including intergovernmental organizations. Agricultural commodities also may be provided for non-emergency assistance through private voluntary organizations or cooperatives which are, to the extent practicable, registered with USAID, and through intergovernmental organizations.

“Cooperating Sponsor” is the term used to define the organization entering into an agreement with USAID for the use of agricultural commodities or funds. Cooperating Sponsors may include governments and public or private agencies, including intergovernmental organizations such as the World Food Program, and non-governmental organizations. Non-governmental Cooperating Sponsors include private voluntary organizations and cooperatives. Title II assistance is provided to Cooperating Sponsors for emergency and non-emergency programs. Activities include direct distribution as well as food assistance for programs that support smallholder agriculture, market liberalization through policy change, nutrition and other child survival programs, community development, such as water and sanitation and environmental restoration, and small-scale infrastructure development. A portion of Title II commodities can be monetized (sold to obtain cash for use in US assistance programs) by Cooperating Sponsors to fund complementary interventions to enhance the impact of food programs and contribute to

food security. Monetization of food aid under emergency programs occurs to fund complementary activities such as distribution, repackaging, and wet feeding in refugee camps.

## **Program Operation**

### *General*

Each Cooperating Sponsor is required to submit for USAID approval a program description for each of the programs it proposes to implement. The program description includes program purposes and goals; criteria for measuring program effectiveness; a description of the activities for which commodities, monetized proceeds, or program income will be provided or used; and other specific provisions as required by USAID. If a Cooperating Sponsor submits a multi-year Operational Plan that is approved by USAID, the Operational Plan provided with an Annual Estimate of Requirements (AER) each subsequent year will only cover those components which require updating or the Cooperating Sponsor proposes to change. Operational Plans are required for all non-governmental Cooperating Sponsors' emergency programs along with the AER; however, emergency situations may not permit the same degree of detail and certainty of analysis that is expected in planning Title II development programs (22 CFR section 211.5).

USAID uses Transfer Authorization to make an award for commodities and supporting costs.

### *Host Country Food for Peace Program Agreement (HCFFPA)*

Each non-governmental Cooperating Sponsor is required to enter into a separate, written agreement with the foreign government of each country for which Title II commodities are transferred to the Cooperating Sponsor. The agreement must establish terms and condition needed by the non-governmental Cooperating Sponsor to conduct a Title II program in accordance with 22 CFR part 211. When this is not appropriate or feasible, the USAID mission or diplomatic post may instead provide assurance to FFP that the program can be effectively implemented in compliance with 22 CFR part 211 without a HCFFPA (22 CFR section 211.3(b)).

### *Recipient Agencies*

A Cooperating Sponsor may enter into agreements with Recipient Agencies (e.g., schools, institutions, welfare agencies, disaster relief organizations, and public or private agencies) for the delivery of program services. Such an agreement must be in place prior to the transfer of any commodities, monetized proceeds, or program income to the recipient agency. The agreement must require the recipient agency to compensate the Cooperating Sponsor for any assets generated by the foregoing sources that are not used for purposes expressly provided for in the agreement, or that are lost, damaged, or misused as the result of the recipient agency's failure to exercise reasonable care (22 CFR sections 211.2(s) and 211.3(c)).

### *Monetization*

Monetization is a critical resource for Cooperating Sponsors. The Cooperating Sponsor remains responsible for the commodities, monetized proceeds, and program income in accordance with the Operational Plan or Transfer Authorization (22 CFR section 211.3(c)(3)).

## Other Resources

In addition to commodities (including ocean and inland freight costs) and monetization proceeds, cash resources, known as 202(e) funds, are made available to Cooperating Sponsors for establishing new programs and meeting the specific administrative, management, and personnel costs of programs (7 USC 1722 (e), as well as ITSH costs of the program pursuant to (7 USC 1736(b) and 7 USC 1736a(c)).

## Source of Governing Requirements

This program is authorized under Title II of the Agricultural Trade Development and Assistance Act of 1954 (Pub. L. No. 480; 7 USC 1691 through 1738r). Implementing regulations are found at 22 CFR part 211.

## Availability of Other Program Information

USAID maintains on the Internet a page with information on the “Food for Peace” program, including laws, regulation and other information at ([http://www.usaid.gov/our\\_work/humanitarian\\_assistance/ffp/](http://www.usaid.gov/our_work/humanitarian_assistance/ffp/)).

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. *Use of Funds*
  - a. *General* - The Operational Plan and Transfer Authorization set forth the description of the activities for which commodities, monetized proceeds, or program income shall be used.
  - b. *Program Management (Section 202(e) Funds)* – Cash resources provided by USAID under this provision of Title II may be used for activities including: (1) direct program costs of a Title II program—administrative, management, distribution, and other program implementation costs; (2) improving the impact of food aid—feasibility assessments, baseline studies and technical assistance; and (3) costs of implementing audit and evaluation recommendations (7 USC 1722 (e) and (f)).
  - c. *Internal Transportation, Storage and Handling* - Emergency and eligible non-emergency programs to cover ITSH costs (7 USC 1736 and 7 USC 1736a(c)).

2. *Use of Commodities and Monetization Proceeds*
  - a. Except as USAID may otherwise agree in writing, agricultural commodities donated by USAID shall not be distributed, handled, or allocated by any military forces (22 CFR section 211.5(e)).
  - b. Within the limits of the total amount of commodities, monetized proceeds, and program income as approved by USAID in the Operational Plan or Transfer Authorization, the Cooperating Sponsor may increase or decrease by not to exceed 10 percent the amount of commodities, monetized proceeds, or program income allocated to approved program categories or components of the Operational Plan (22 CFR section 211.5(a)).
  - c. A Cooperating Sponsor is required to provide proper storage, care, and handling of commodities. In determining whether there was a proper exercise of the Cooperating Sponsor's responsibility, USAID considers normal commercial practices in the country of distribution and the problems associated with carrying out programs in developing countries (22 CFR section 211.9(d)).
  - d. Cooperating Sponsors are not required to monitor, manage, report on, or account for the distribution or use of commodities after title to the commodities has passed to buyers or other third parties pursuant to a sale under a monetization program and all sales proceeds have been fully deposited in the special interest-bearing account established by the Cooperating Sponsor for monetized proceeds (22 CFR section 211.5 (j)).
  - e. Monetized proceeds may not be used to pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions (22 CFR section 211.5 (k)(4)).

## **J. Program Income**

Program income means gross income earned by the Cooperating Sponsor from activities supported under the approved program during the program period, including, but not limited to, interest earned on deposits of monetized proceeds, revenue from income generating activities, funds accruing from the sale of containers and nominal voluntary contributions by recipients made on the basis of ability to pay. Monetized proceeds are not considered program income (22 CFR section 211.2(s)).

Program income may be used by Cooperating Sponsors for activities specified in 22 CFR section 211.5 (k), including the transport and distribution of the donated commodities; implementing income-generating community development, health, nutrition, and other developmental activities; making investments with USAID approval; and improving their financial and other management systems (22 CFR section 211.5 (k)).

Program income may not be used to pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions (22 CFR section 211.5 (k)(4)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Applicable

### **2. Performance Reporting** - Not Applicable

### **3. Special Reporting** - Not Applicable

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

### **Recipient Agencies**

**Compliance Requirement** - Cooperating Sponsors are responsible for determining that Recipient Agencies to whom they distribute commodities are eligible in accordance with the Operational Plan or Transfer Authorization and 22 CFR section 211.

Prior to the transfer of commodities, monetized proceeds or program income to a Recipient Agency, the Cooperating Sponsor is required to enter into a written agreement that (a) describes the approved uses of resources provided, (b) requires the Recipient Agency to pay the Cooperating Sponsor the value of any resources that are used for purposes not permitted under the agreement or that are lost, damaged or misused as a result of the Recipient Agency's failure to exercise reasonable care of transferred resources, and (c) incorporate by reference or otherwise the terms and conditions set forth in 22 CFR part 211 (22 CFR section 211.3(c)).

In entering into agreements with Recipient Agencies for the transfer of commodities, monetized proceeds, or program income, the Cooperating Sponsor remains responsible for such resources transferred in accordance with the Operational Plan or Transfer Authorization and 22 CFR part 211 (22 CFR section 211.3(c)(3)). In monitoring Recipient Agencies, the Cooperating Sponsor is required to provide adequate supervisory personnel for the efficient operation of the program, including personnel to (a) plan, organize, implement, control, and evaluate programs involving distribution of commodities or use of monetized proceeds and program income; (b) make warehouse inspections, physical inventories, and end-use checks of food or funds, and (c) review

books and records maintained by Recipient Agencies that receive monetized proceeds and/or program income (22 CFR section 211.5(b)).

**Audit Objective** - Determine whether: (1) the Cooperating Sponsor entered into written agreements with the Recipient Agencies; (2) the use of the Recipient Agencies was consistent with the Operational Plan and Transfer Authorization; and (3) the Cooperating Sponsor monitored the activities of Recipient Agencies to ensure proper performance of assigned activities and use of commodities, monetized proceeds, and program income.

#### **Suggested Audit Procedures**

Select a sample of Recipient Agencies and ascertain if:

- a. The Cooperating Sponsor entered into a written agreement with the Recipient Agency.
- b. The Cooperating Sponsor's use of the Recipient Agency was consistent with the Operational Plan and Transfer Authorization.
- c. The Cooperating Sponsor appropriately monitored the activities of the Recipient Agency to ensure proper performance of assigned activities and use of commodities, monetized proceeds, and program income.

#### **IV. OTHER INFORMATION**

USAID began issuing awards using CFDA 98.007 and 98.008 in mid-2005. Prior to that time, USAID did not have an assigned CFDA number. Therefore, for awards prior to 2005 and during the 2005 transition year, awards under the programs in this cluster may be shown as Foreign Food Donation Program without an associated CFDA number. When completing the Schedule of Expenditures of Federal Awards, recipients should record their expenditures using the CFDA number or program name shown on the notice of award for the period in which the funds were awarded.



## **PART 5 – CLUSTERS OF PROGRAMS**

### **INTRODUCTION**

Part 5 identifies those programs that are considered to be clusters of programs as defined by OMB Circular A-133 (§\_\_\_.105). A cluster of programs means Federal programs with different CFDA numbers that are defined as a cluster of programs because they are closely related programs that share common compliance requirements. This Part identifies research and development (R&D) and Student Financial Assistance (SFA) as clusters, as well as certain other programs included in Part 4, Agency Program Requirements that are deemed to be clusters. For R&D and SFA, the following sections of this Part are the equivalent of Part 4.

This Part also defines other clusters of programs that are **not** included in this Compliance Supplement. If a cluster is defined in this Part, but not included in Part 4, the auditor will have to determine the compliance requirements to test in accordance with Part 7, Guidance for Auditing Programs Not Included in This Compliance Supplement.

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 5 for the details of the requirements. The descriptions of the compliance requirements in Parts 3 and 5 are generally a summary of the actual compliance requirements. The auditor should refer to the referenced citations (e.g., laws and regulations) for the complete compliance requirements.

## **RESEARCH AND DEVELOPMENT PROGRAMS**

### **I. PROGRAM OBJECTIVES**

The Federal Government sponsors research and development (R&D) activities under a variety of types of funding agreements, most commonly grants, cooperative agreements, and contracts, to achieve objectives agreed upon between the sponsoring agency and the institution. The types of R&D conducted under these agreements also vary widely. The objective of individual projects is explained in the Federal award document.

Funding for research programs has increased sharply in recent years and continues to increase. For example, the Department of Health and Human Services, National Institutes of Health (NIH) funding for research has doubled over the 5-year period ending in Federal Fiscal Year 2003. Recent audits of R&D programs across Federal agencies and qui tam court cases have highlighted the importance of conducting thorough reviews of vulnerable areas.

### **II. PROGRAM PROCEDURES**

Research is a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. The term “research” also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other R&D activities and where such activities are not included in the instruction function. The absence of the words “research” and/or “development” in the title of the agreement does not indicate it should be excluded from the R&D cluster. The substance of the agreement should be evaluated to determine the proper inclusion/exclusion.

Grants, cooperative agreements, and contracts for R&D are awarded to non-Federal entities on the basis of applications/proposals submitted to Federal agencies or pass-through entities. These proposals are sometimes unsolicited. An agreement is then negotiated in which the purpose of the project is specified, the amount of the award is indicated, and terms of administration are delineated.

The administrative requirements that apply to R&D grants and cooperative agreements arise from OMB Circular A-110 and the Federal agencies’ codification of that circular. The administrative requirements that govern contracts are contained in the Federal Acquisition Regulation (FAR) and agency FAR supplements, e.g. the Defense Federal Acquisition Regulations Supplement (DFARS).

### **III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 5 for the details of the requirements.**

When selecting a sample for testing of compliance requirements, the auditor should choose a sample from the universe of R&D awards appropriate to the objective being tested. The selected items should incorporate a variety of award sizes, award types as defined in OMB Circular A-133 (grants, cooperative agreements, and cost-type contracts), funding sources, and Federal awarding offices.

#### **A. Activities Allowed or Unallowed**

The objective(s) of individual R&D projects are explained in the applicable award documents. Testing of compliance with this requirement should ensure that funds were used only for activities for the furtherance of such objective(s).

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

Individual employee compensation and related benefits generally comprise a significant portion of total costs charged to R&D projects. The auditor should give particular attention to individual employee compensation and related benefits costs. The auditor should be familiar with the payroll distribution methods outlined in the applicable OMB cost circulars.

Generally the payroll distribution method used should recognize the principle of after-the-fact confirmation or determination of the activities used to support the distribution of salaries and wages. The distribution of these costs to federally sponsored research projects and the method and timing of the confirmation/determination must be done in accordance with the applicable Federal cost principles and the Federal award document. Failure to make the required confirmation or determination in an accurate and timely manner, in conformance with the applicable Federal cost principles, the Federal award document and the entity's internal policies is one of the principal internal control weaknesses associated with the recent cases of noncompliance. The auditor's testing should include tests of the time and effort reporting system to support the distribution of salaries and wages.

In addition, the auditor should test the following:

1. The confirmation of salaries is performed by a person with first-hand knowledge of the effort (OMB Circular A-122, Attachment B.8) or the principal investigator or responsible official(s) using suitable means of verification that the work was performed (Circular A-21, J.10).

2. The compensation rate conforms to the established policy of the organization and is consistently applied to both Federal and non-Federal activities. The auditor also should determine if the awards contain any restrictions on salaries and wages, such as the NIH restriction on the amount that may be charged for individual salaries (<http://grants.nih.gov/grants/guide/notice-files/NOT-OD-08-035.html>). If so, a sample of these should be included as a part of allowable costs testing.
3. Indirect or facilities and administrative (F&A) costs is a second major category of cost charged to R&D projects. (See the extensive guidance in Part 3 relating to the review of Indirect Costs.) The third most prevalent type of cost charged is supplies and equipment.
4. Transfers of costs between cost centers or research projects are often used to correct the financial records (such as transfers of costs between projects when costs were initially charged to the wrong project and the institutions control system found the error) and for other valid reasons.
  - a. Cost transfers should be reviewed for allowability. A cost transfer from one project to another project may appear to be an unallowable charge to the second project. However, these costs may be allowable costs of the second project because of the closely linked nature of the research, and the costs would be allowable charges to either project. Alternatively, the transfers would not be allowable under the second project if the costs are not allowable under the terms and conditions of that project.
  - b. The auditor should determine if journal entries and transfers of costs were made to Federal R&D projects. If so, the auditor should select a separate sample of these R&D cost transfers and test the sampled items to determine the allowability of the costs transferred using the applicable Federal regulations and award requirements for the project to which the costs were transferred. If the number of cost transfers between unrelated projects is significant, this could be an indication of poor internal control and might result in a noncompliance finding.

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

### **1. Matching**

Non-Federal entities may be required to share in the cost of research either on an overall entity or individual award basis. The specific program regulations or individual Federal award will specify matching requirements, if applicable.

### **2. Level of Effort - Not Applicable**

### **3. Earmarking - Not Applicable**

**L. Reporting****1. Financial Reporting**

The specific program regulations or the Federal award will specify the required financial reports. The auditor is responsible for testing the standard Federal financial reports or alternate forms that report the same or similar information.

**2. Performance Reporting - Not Applicable****3. Special Reporting - Not Applicable****M. Subrecipient Monitoring**

When determining whether the subrecipient monitoring compliance requirement applies in an R&D environment, the auditor should first assess whether the pass-through entity made the proper classification between subrecipients and vendors. Funds provided to a subrecipient may take a variety of forms, including subcontracts, subawards, subgrants, and subagreements. In deciding whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement and it is not expected that all of the characteristics of a subrecipient described in OMB Circular A-133 §\_\_.210 will be present. A subrecipient relationship exists when funding from a pass-through entity is provided to perform a portion of the scope of work or objectives of the pass-through entity's award agreement with the Federal awarding agency. A subrecipient performs part of the project activities. A vendor, on the other hand, is generally a dealer, distributor or other seller that provides, for example, supplies, expendable materials, or data processing services in support of the project activities.

**N. Special Tests and Provisions**

R&D awards may contain special terms and conditions that could have a direct and material effect on the R&D cluster. The auditor should make inquiries of the non-Federal entity's management and review a sample of the R&D awards to ascertain if such special terms and conditions exist. When special terms and conditions exist which could have a direct and material effect on the R&D cluster, the auditor should determine the audit objectives and develop and perform procedures for internal control and compliance as required under OMB Circular A-133 §§\_\_.500(c) and (d).

An example of an award special provision is key personnel. Applications/proposals include staffing proposals that specify who will work on the project and the extent of the planned involvement of personnel. The institution may change the staffing mix and level of involvement within limits specified by agency policy or in the agreement, but is required to obtain Federal awarding office approval of changes in key personnel (as identified in the agreement, which may differ from the institution's designation in the application/proposal).

**Audit Objectives** - To determine whether the institution adhered to key personnel commitments specified in the application/proposal and obtained Federal awarding office approval for changes as required by agency policy or the award.

**Suggested Audit Procedures**

- a. Review the institution's procedures for determining if key personnel specified in the application/proposal were involved in the project as required or approval for changes was obtained from the Federal awarding agency.
- b. Review a sample of completed projects and determine if key personnel identified in the application/proposal and award were involved in the project as required.
- c. Determine if the institution complied with award requirements to obtain approval of changes of key personnel or changes in time commitments.

## **STUDENT FINANCIAL ASSISTANCE PROGRAMS**

### **Department of Education**

### **Department of Health and Human Services**

<b>CFDA 84.007</b>	<b>FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS (FSEOG)</b>
<b>CFDA 84.032</b>	<b>FEDERAL FAMILY EDUCATION LOANS (FFEL)</b>
<b>CFDA 84.033</b>	<b>FEDERAL WORK-STUDY PROGRAM (FWS)</b>
<b>CFDA 84.038</b>	<b>FEDERAL PERKINS LOANS (FPL)—FEDERAL CAPITAL CONTRIBUTIONS</b>
<b>CFDA 84.063</b>	<b>FEDERAL PELL GRANT PROGRAM (PELL)</b>
<b>CFDA 84.268</b>	<b>FEDERAL DIRECT STUDENT LOANS (DIRECT LOAN)</b>
<b>CFDA 84.375</b>	<b>ACADEMIC COMPETITIVENESS GRANT (ACG)</b>
<b>CFDA 84.376</b>	<b>NATIONAL SCIENCE AND MATHEMATICS ACCESS TO RETAIN TALENT GRANT (National SMART Grant)</b>
<b>CFDA 93.342</b>	<b>HEALTH PROFESSIONS STUDENT LOANS, INCLUDING PRIMARY CARE LOANS/LOANS FOR DISADVANTAGED STUDENTS (HPSL/PCL)</b>
<b>CFDA 93.364</b>	<b>NURSING STUDENT LOANS (NSL)</b>
<b>CFDA 93.925</b>	<b>SCHOLARSHIPS FOR HEALTH PROFESSIONS STUDENTS FROM DISADVANTAGED BACKGROUNDS (SDS)</b>

### **I. PROGRAM OBJECTIVES**

The objective of the student financial assistance programs is to provide financial assistance to eligible students attending institutions of postsecondary education.

### **II. PROGRAM PROCEDURES**

Institutions must apply to either the Secretary of Education or Secretary of Health and Human Services to participate in their particular SFA programs. Some applications must be filed annually, others upon initial entry and once approved, periodically thereafter. Institutions may be approved to participate in only one program or a combination of programs. Institutions are responsible for (1) determining student eligibility; (2) verifying student data (when required); (3) calculating, as required, the amount of financial aid a student can receive; (4) completing and/or certifying parts of various loan applications and/or promissory notes; (5) drawing funds from the Federal government and disbursing or delivering SFA funds to students directly or by crediting students' accounts; (6) making borrowers aware of loan repayment responsibilities; (7) submitting, as requested, data on borrowers listed on National Student Loan Data System (NSLDS) roster; (8) returning funds to students, lenders and programs, as appropriate, if students withdraw, drop out or are expelled from their course of study; (9) collecting SFA overpayments; (10) establishing, maintaining and managing (including collecting loan repayments) a revolving loan fund for applicable programs; and (11) reporting the use of funds. Institutions may contract with third-party servicers to perform many of these functions.

## Title IV Programs - General

The programs cited in this cluster that are administered by the Department of Education (ED) (those with CFDA's beginning with 84) are authorized by Title IV of the Higher Education Act of 1965 (the Act), as amended, and collectively are referred to as the "Title IV programs." Because they are administered at the institutional level, the Federal Perkins Loan Program, Federal Work-Study Program and Federal Supplemental Educational Opportunity Grant Program are referred to collectively as the "campus-based programs."

For Title IV programs, students complete a paper or electronic application (Free Application for Federal Student Aid (FAFSA) (*OMB No. 1845-0001*) and send it to a central processor (a contractor of the ED that administers the Central Processing System). The central processor provides Student Aid Reports (SARs) to applicants and provides Institutional Student Information Records (ISIRs) to institutions. Among other things, the SAR contains the applicant's Expected Family Contribution (EFC). Students take their SARs to the institution (or the institution uses the ISIR) to help determine student eligibility, award amounts and disbursements. (Note: The central processor is a service organization of the Department of Education, not of the schools. Therefore, Statement on Auditing Standards No. 70 does not apply when auditing the schools.)

New regulations were published on October 29, 2007 and November 1, 2007 that amended Title IV program regulations in 34 CFR parts 668, 674, 676, 682, 685, 690, and 691. These new regulations are effective on July 1, 2008, but, at the institution's option, some of the requirements in these regulations may be implemented at any time on or after November 1, 2007. Information is included in this part for those requirements subject to such early implementation which pertain to compliance requirements. All of the regulations published on October 29, 2007 and November 1, 2007 become effective on July 1, 2008. The 2009 Compliance Supplement will cover all of the new regulations. For entities being audited with fiscal years ending later than June 30, 2008, but prior to publication of the 2009 Compliance Supplement, the auditor should review the text of the new regulations to determine changes from the compliance requirements contained in this part applicable for portions of the audit period on or after July 1, 2008. These regulations are contained in the three *Federal Register* issuances that may be accessed on the Internet at the following URLs:

October 29, 2007 *Federal Register* regarding 34 CFR part 691 *Academic Competitiveness Grant Program and National Science and Mathematics Access to Retain Talent Grant Program; Final Rule*

<http://a257.g.akamaitech.net/7/257/2422/01jan20071800/edocket.access.gpo.gov/2007/pdf/E7-21068.pdf>

November 1, 2007 *Federal Register* regarding 34 CFR parts 668, 674, 676 et al. *Federal Student Aid Programs; Final Rule*

<http://a257.g.akamaitech.net/7/257/2422/01jan20071800/edocket.access.gpo.gov/2007/pdf/E7-21083.pdf>



November 1, 2007 *Federal Register* regarding 34 CFR parts 674, 682 and 685 *Federal Perkins Loan Program, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Program; Final Rule*

<http://a257.g.akamaitech.net/7/257/2422/01jan20071800/edocket.access.gpo.gov/2007/pdf/07-5332.pdf>

### **Federal Pell Grant (Pell) (CFDA 84.063)**

The Federal Pell Grant program provides grants to students enrolled in eligible undergraduate programs and certain eligible post-baccalaureate teacher certificate programs, and is intended to provide a foundation of financial aid. The program is administered by ED and postsecondary educational institutions. Maximum and minimum Pell grant awards are established by statute. ED provides funds to the institution based on actual and estimated Pell expenditures.

### **Federal Perkins Loan (FPL) (CFDA 84.038)**

#### **Health Professions Student Loans (HPSL)/Primary Care Loans (PCL) (CFDA 93.342)**

#### **Nursing Student Loans (NSL) (CFDA 93.364)**

The FPL, HPSL/PCL, and NSL programs provide long-term low-interest loans to students who demonstrate the need for financial aid to pursue their course of study at postsecondary educational institutions. Revolving loan funds are established and maintained at institutions through applications to participate in the programs. The funds are started with the Federal Capital Contribution (FCC) and a matching Institutional Capital Contribution (ICC). Repayments of principal and interest, new FCC, and new ICC are deposited in the revolving funds. The institution is fully responsible for administering the program (i.e., approving, disbursing and collecting the loans). Primary Care Loans are a segment of HPSL loan funds that impose certain restrictions on new borrowers as of July 1, 1993. First-time recipients of these funds after July 1, 1993 must agree to enter and complete a residency training program in primary health care, not later than four years after the date on which the student graduates from medical school, and must practice in such care through the date on which the loan is paid in full. Students who received their first HPSL before July 1, 1993 are exempt from this requirement, and may continue to borrow HPSL loans under their applicable health-related course of study.

### **Federal Work-Study (FWS) (CFDA 84.033)**

The Federal Work-Study (FWS) program provides part-time employment to eligible undergraduate and graduate students who need the earnings to help meet costs of postsecondary education. This program also authorizes the establishment of the Job Location and Development (JLD) program, the purpose of which is to expand off-campus part-time or full-time employment opportunities for all students, regardless of their financial need, who are enrolled in eligible institutions and to encourage students to participate in community service activities.

Funds are provided to institutions upon submission of an annual application, *Fiscal Operations Report and Application to Participate* (FISAP) (this application covers all campus-based programs), and in accordance with statutory formulae. Institutions must provide matching funds unless they are an eligible Title III or Title V institution, or unless the student is employed in a position which is authorized for payment with 100 percent of Federal funds (34 CFR section

675.26(d)). The institution determines the award amount, places the student in a job, and pays the student or arranges to have the student paid by an off-campus employer. The institution may use a portion of FWS funds for a JLD program.

### **Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA 84.007)**

The FSEOG program provides grants to eligible undergraduate students. Priority is given to Pell recipients who have the lowest expected family contributions. The institution determines the amount of the grant, which can be up to \$4,000 but not less than \$100, for an academic year. The maximum amount may be increased to \$4,400 for a student participating in a study abroad program that is approved for credit by the student's home institution. Federal funds are matched with institutional funds (34 CFR section 676.21).

### **Academic Competitiveness Grant (ACG) (CFDA 84.375) National Science and Mathematics Access to Retain Talent Grant (National SMART Grant) (CFDA 84.376)**

The ACG provides eligible first- and second-year full-time undergraduates, who have completed a rigorous course of study in high school, with need-based grant assistance to help meet educational expenses (34 CFR section 691.1(a)).

The National SMART Grant provides eligible third- and fourth-year full-time undergraduates, who major in certain designated technical fields or foreign languages, with need-based grant assistance to help meet educational expenses (34 CFR section 691.1(b)). Students must be full-time regular students in an eligible program at an eligible institution of higher education and making satisfactory academic progress. For each award year, the Secretary will identify the eligible majors (34 CFR section 691.17).

These programs were authorized by Section 8003 of the Higher Education Reconciliation Act of 2005 (HERA) (Pub. L. No. 109-171), enacted February 8, 2006, which amended the Higher Education Act of 1965, as amended (HEA), by adding a new section 401A (20 USC 1070a). Interim final regulations were issued by ED at 34 CFR part 691 on July 3, 2006 (71 FR 37989-38012) to provide guidance to implement these programs starting with the 2006-2007 award year that began on July 1, 2006. Final regulations were published on November 1, 2006 (71 FR 64401-64419). The final regulations were effective for the 2007-2008 award year.

### **Federal Family Education Loans (FFEL) (CFDA 84.032) Federal Direct Student Loans (Direct Loan) (CFDA 84.268) (Both programs include subsidized Stafford, unsubsidized Stafford, and PLUS loans)**

The FFEL and Direct Loan programs make interest subsidized or unsubsidized Stafford loans available to students, or PLUS loans to graduate or professional students or to parents of dependent students, to pay for the cost of attending postsecondary educational institutions. FFEL loans are made by eligible lenders (e.g., banks, savings and loan institutions, etc.) and insured by State or not-for-profit guaranty agencies. In some cases, institutions of higher education are approved as eligible lenders. The Federal Government reinsures loans guaranteed by the guaranty agencies. Direct Loans are made by the Secretary of Education. The student's SAR or ISIR, along with other information, is used by the institution to certify (for FFEL) or

originate (for Direct Loan) a student's loan. The financial aid administrator is also required to provide and confirm certain information.

Under the Direct Loan program, institutions participate in loan origination Option 1, Option 2, or Standard origination. Functions performed by loan origination option vary and are described in the *Direct Loan School Guide*. Direct Loan is an electronic program, except that borrowers have the option of signing paper promissory notes or electronically signing the promissory note completed online. Except for electronically signed promissory notes, electronic records are created, batched, transmitted (exported) through Common Origination and Disbursement (COD) and acknowledged by (imported from) COD, on a cycle approach. A cycle is not complete until the last activity in it is finished, i.e., an action has been accepted by COD and the school's system reflects the acceptance. Direct Loan has four types of cycles: Loan Origination Records (one for each loan), Promissory Notes, Disbursement Records, and Change Records. For a loan to be "booked" the institution must have electronically transmitted to COD, and COD must have accepted these records: (1) the loan origination record; (2) the Promissory Note; and (3) the first disbursement of loan proceeds. The borrower's original accepted promissory note is maintained at COD; the institution is not required to keep a copy.

The FFEL program compliance requirements applicable to Guaranty Agencies and Lenders (CFDA 84.032) are not included as part of the Student Financial Assistance Cluster and are included in Part 4, Agency Program Requirements, of this Supplement. When auditing institutions of higher education, tests of the compliance requirements are not expected to be made at the FFEL lending institutions (e.g., banks, credit unions, etc.) or the COD. Rather, if the institution is participating in FFEL as an eligible lender, the FFEL Lender program supplement (CFDA 84.032-L) of the Supplement in Part 4, Agency Program Requirements, will be used to perform the annual compliance audit required by HEA section 435(d)(2) in accordance with the requirements of 34 CFR section 682.305(c)(2) (34 CFR section 682.601(a)(7)). See IV, Other Information, below.

### **Scholarships For Health Professions Students From Disadvantaged Backgrounds (SDS) (CFDA 93.925)**

This program provides scholarships to students attending schools of medicine, osteopathic medicine, dentistry, nursing, pharmacy, podiatric medicine, optometry, veterinary medicine, public health, chiropractic or allied health; a school offering a graduate program in behavioral and mental health practice; or an entity providing programs for the training of physician assistants.

### **Submission of Financial Statement Information to ED**

All institutions are required to input annual financial statement information to ED using *eZ-Audit* (OMB No. 1845-0072). The eZ-Audit is the methodology used for reporting an institution's financial statement information. Registration instructions are available at: <https://ezaudit.ed.gov/EZWebApp/common/login.jsp> . Once an institution has registered, additional guidance on how to input financial statement information is provided.

## Source of Governing Requirements

The ED programs are authorized by Title IV of the Higher Education Act (HEA) of 1965, as amended (20 USC 1001 *et seq.*). The regulations are found in 34 CFR parts 600 and 668-691.

The HHS programs in this cluster are authorized by the Public Health Service Act (PHSA). The PHSA was amended by the Health Professions Education Partnership Act of 1998, Pub. L. No. 105-392, effective November 13, 1998.

## Availability of Other Program Information

ED annually publishes the Federal Student Aid Handbook (*FSA Handbook*), which provides detailed guidance on administering the Title IV programs. This handbook and other guidance material are available on the Internet (<http://ifap.ed.gov/>). Printed copies can also be ordered from ED by calling 1-877 4EDPUBS (1-877-433-7827) or by e-mailing a request to [edpuborders@edpubs.org](mailto:edpuborders@edpubs.org).

HHS publishes the Student Financial Aid Guidelines, which provide detailed guidance on administering the Title VII and VIII programs. This and other materials are available on the Internet (<http://bhpr.hrsa.gov/>).

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 5 for the details of the requirements.**

Note: While the programs included in this cluster are generally similar in their intent, administration and documentation, etc., there are differences among them. Because of space considerations, we could not list all of the differences, exceptions to general rules or nuances pertaining to specific programs. Auditors should utilize regulations and guidance applicable to the year(s) being audited when auditing the SFA programs.

### A. Activities Allowed or Unallowed

SFA funds can be awarded only to students enrolled in eligible programs. Eligible programs are listed on an institution's Eligibility and Certification Approval Report (ECAR). Other programs can be added after the school's most recent certification without obtaining ED's approval if they lead to an associate, baccalaureate, professional, or graduate degree or are at least 8 semester hours, 12 quarter hours, or 600 clock hours, and they prepare students for gainful employment in the same or a related occupation of a previously ED-designated eligible program (34 CFR section 600.10(c)(2)).

Generally, SFA funds can be used only for making awards to students and for administration of the programs. Other allowable uses for specific programs are as follows:

*Federal Perkins Loans (FPL) (CFDA 84.038)*

Certain billing, collection, and litigation costs must first be charged to the borrower and cannot be charged to the loan fund. If amounts recovered from the borrowers are not sufficient to pay these collection costs, program funds can be used to pay these costs with certain limits (34 CFR sections 674.8 and 674.47).

A school may transfer up to a total of 25 percent of its Federal Capital Contribution for an award year to either or both the Federal Supplemental Educational Opportunity Grant (FSEOG) and Federal Work-Study programs. A school may transfer up to 100 percent of its initial and supplemental allocations to an approved Work Colleges program (34 CFR section 675.41). Transferred funds must be used according to the requirements of the program to which they are transferred. A school that transfers funds to the Federal Work-Study, FSEOG, or Work Colleges programs must transfer any unexpended funds back to the Federal Perkins Loan program at the end of the award year (34 CFR section 674.18).

*Federal Work-Study (FWS) (CFDA 84.033)*

The institution may use FWS funds only for awards to students, a Job Location and Development (JLD) Program, Work-Colleges Program, administrative costs, and transfers to FSEOG (34 CFR sections 675.18 and 675.33).

*Health Professions Student Loans (HPSL)/Primary Care Loans (PCL) (CFDA 93.342)  
Nursing Student Loans (NSL) (CFDA 93.364)*

Funds from both programs may also be used for capital distribution in Sections 728 and 839, or, as agreed to by the Secretary for costs of litigation; costs associated with membership in credit bureaus and, to the extent specifically approved by the Secretary, for other collection costs that exceed the usual expenses incurred in the collection of loan funds (HPSL, 42 CFR section 57.205(a); NSL, 42 CFR section 57.305(a)).

**C. Cash Management**

ED provides funds to an institution under the advance, just in-time (JIT), reimbursement, or cash monitoring payment methods. The JIT payment method is used at a few institutions. Under the reimbursement method, the institution must disburse funds to the students before requesting funds from ED. Under the cash monitoring method, the institution must disburse funds to students before requesting funds from ED under either the advance payment method (limited to the actual disbursement amount) or a process similar to the reimbursement method. Under the advance payment method, the institution's request must not exceed the amount immediately needed to disburse funds to students. A disbursement of funds occurs on the date an institution credits a student's account or pays a student or parent directly with either SFA funds or its own funds. Under the advance payment method the institution must make the disbursements as soon as administratively feasible, but no later than three business days following the receipt of funds. Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned to ED. (Final regulations published on November 1, 2007, expand the definition of excess cash to

clarify that it includes any funds received from ED that are deposited or transferred into the institution's Federal account as a result of an award adjustment, cancellation, or recovery. This change is effective on July 1, 2008, but, at the institution's option, may be implemented on or after November 1, 2007.) However, an excess cash balance tolerance is allowed if that balance: (1) during a peak period of enrollment, was less than three percent of its total prior-year drawdowns (Final regulations published on November 1, 2007, eliminate the 3 percent tolerance option. This change is effective on July 1, 2008, but, at the institution's option, may be implemented on or after November 1, 2007); (2) for any other period was less than one percent of its prior-year drawdowns; and (3) is eliminated within the next seven calendar days. Except for the Federal Perkins Loan Program earnings, interest earnings greater than \$250 must be returned to ED. Federal Perkins Loan earnings are reinvested in the Federal Perkins Loan revolving fund (34 CFR sections 668.162, 163, 164, and 166).

Effective December 17, 2007, grantees draw funds via the G5 System instead of the Grant Administration and Payment System (GAPS). Grantees request funds by: (1) creating a payment request using the G5 System through the Internet; (2) calling the Payee Hotline; or (3) if the grantee is placed on the reimbursement or cash monitoring payment method, submitting a PMS-270, *Request for Title IV Reimbursement* to an ED program or regional office. When creating a payment request in G5, the grantee enters the drawdown amounts, by award, directly into G5. Direct Loan Option 2 schools and grantees can redistribute drawn amounts between grant awards by making adjustments in G5 to reflect actual disbursements for each award as long as the net amount of the adjustments is zero. When requesting funds using the other two methods, grantees provide drawdown information to the hotline operator or on the PMS-270, as applicable.

To assist grantees in reconciling their internal accounting records with the G5 System, using their DUNS (Data Universal Numbering System) number, grantees can obtain a G-5 External Award Activity Report (<https://www.g5.gov/>) showing cumulative and detail information for each award. The External Award Activity Report can be created with date parameters (Start and End Dates) and viewed on-line. To view each draw per award, the G5 user may click on the award number to view a display of individual draws for that award.

For the HHS programs, requests for new FCC must only be made when needed. Any idle cash including any interest earned must be deposited in an income-producing account and all excess cash must be returned to HHS. For HPSL and NSL, the school must maintain all monies relating to each individual fund in interest bearing accounts. If the school integrates the funds with other school resources for investment purpose, the school must maintain separate accountability and reimburse the funds for any losses that occur (HPSL, 42 CFR sections 57.203 and 57.205; NSL, 42 CFR sections 57.303 and 57.305).

## **E. Eligibility**

### **1. Eligibility for Individuals**

Most of the requirements for student eligibility are contained in Appendix A.

In the process of a student applying for ED Federal financial aid, an Institutional Student Information Record (ISIR) normally is sent electronically to the institution and a Student Aid Report (SAR) may be sent to the student. The original ISIR or SAR for an award year may contain codes that relate to student eligibility requirements numbers 2, 4, 5, 7, 8, and 12 in Appendix A. If the original ISIR or SAR does not contain codes relating to those eligibility requirements, and the institution has no information indicating otherwise, the student can be considered to have met them. The *ISIR Guide* contains all the ISIR and SAR codes and is available on the Internet at <http://www.ifap.ed.gov/IFAPWebApp/currentSARMaterialsPag.jsp>. The ISIR Guide changes annually and should be obtained and reviewed for the period under audit.

#### *Calculation of Benefits*

In addition to the requirements and limits described below, awards must be coordinated among the various programs and with other Federal and non-Federal aid to ensure that total aid is not awarded in excess of the student's financial need (FPL, FWS, and FSEOG, 34 CFR sections 673.5 and 673.6; FFEL, 34 CFR section 682.603; Direct Loan, 34 CFR section 685.301; HPSL, 42 CFR section 57.206; NSL, 42 CFR section 57.306(b)).

The determination of SFA award amounts is based on financial need. Financial need is generally defined as the student's cost of attendance (COA) minus financial resources reasonably available. In determining the financial resources available for the HHS programs, the school must use one of the need analysis systems or any other procedures approved by the Secretary of Education. The school must also take into account other information that it has regarding the student's financial status. For Title IV programs, the financial resources available is generally the Expected Family Contribution (EFC) that is computed by the central processor and included on the student's SAR and the ISIR provided to the institution.

Starting with the 2006-2007 award year, an institution may (1) exclude, from both estimated financial assistance and the COA, financial assistance provided by a State if that assistance is designated by the State to offset a specific component of the COA; (2) include the one-time cost of a student obtaining his or her first professional license or certificate; and (3) include room and board in a student's COA for students who are less than half-time students (Sections 480(j)(3), 472(13), and 472(4)(C) of HEA; (20 USC 1087vv(j)(3), 20 USC 1087ll(13) and (4)(C))).

For the HHS programs, the costs reasonably necessary for the student's attendance include any special needs and obligations which directly affect the student's ability to attend the school. The school must document the criteria used for determining these costs. For Title IV programs the COA is generally the sum of the following: tuition and fees; an allowance for books, supplies, transportation and miscellaneous personal expenses; an allowance for room and board; where applicable, allowances for costs for dependent care; costs associated with study abroad and cooperative education; costs related to disabilities; and fees charged for student loans. There are exceptions for students attending less than half time, correspondence students, and incarcerated students. The financial aid administrator also has authority to use professional judgment to adjust the COA or alter the data elements used to calculate the EFC on a case-by-case basis to allow for special circumstances (20 USC 1087i-1087m; FPL, 34 CFR section 674.9; FWS, 34 CFR section 675.9; FSEOG, 34 CFR section 676.9; FFEL, 34 CFR section 682.603; Direct Loan 34 CFR sections 685.200 and 301; Pell 34 CFR section 690.75; HPSL, 42 CFR section 57.206(b); NSL, 42 CFR section 57.306(b)).

*Health Professions Student Loans (HPSL)/Primary Care Loans (PCL) (CFDA 93.342), Nursing Student Loans (NSL) (CFDA 93.364)*

For periods prior to November 13, 1998, the total amount of HPSL loans made to a student for a school year may not exceed \$2,500 plus the cost of tuition (42 CFR section 57.207). For students who are applying for a HPSL loan, the school must make its selection based on the order of greatest financial need, taking into consideration the other resources available to the student. The resources may include summer earnings, educational loans, veteran (G.I.) Benefits, and earnings during the school year (HPSL, 42 CFR section 57.206(c)). For periods after November 13, 1998, the total amounts of HPSL loans to a student for a school year may not exceed the cost of attendance (including tuition, other reasonable educational expenses, and reasonable living expenses). The amount of the loan may, in the case of the third or fourth year of a student at a school of medicine or osteopathic medicine, be increased to pay balances of loans that were made to the individual for attendance at the school (42 USC 722(a)(1) (section 722(a)(1) of PHSA); Pub. L. No. 105-392, sections 134 (1) and (2)). The total amount of NSL loans made to a student for an academic year may not exceed \$2,500 except that for each of the final two academic years of the program the total must not exceed \$4,000. The total of all NSL loans may not exceed \$13,000 (NSL, 42 CFR section 57.307).



*Scholarships For Health Professions Students From Disadvantaged Backgrounds (SDS) (CFDA 93.925)*

Scholarships will be awarded by schools to any full-time student who is from a disadvantaged background; has a financial need for a scholarship; and is enrolled (or accepted for enrollment) in a program leading to a degree in a health profession or nursing. Such scholarships may be expended only for tuition expenses, other reasonable educational expenses, and reasonable living expenses incurred in the attendance of such school (42 USC 293a; section 737 of PHSA).

*Federal Pell Grants (Pell) (CFDA 84.063)*

Each year, based on the maximum Pell grant established by Congress, ED provides to institutions Payment and Disbursement Schedules for determining Pell awards. The Payment or Disbursement Schedule provides the maximum annual amount a student would receive for a full academic year for a given enrollment status, EFC and COA. The Payment Schedule is used to determine the annual award for a full-time student. There are separate Disbursement Schedules for three-quarter time, half-time, and less-than-half-time students, and students with low assessed tuition under the tuition sensitivity provision. The tuition sensitivity provision was repealed effective July 1, 2007, by the College Cost Reduction and Access Act (CCRAA) (Pub. L. No. 110-84); institutions are required to recalculate Pell Grants for affected students for the 2007-2008 award year. All of the Schedules, however, are based on the COA of a full-time student for a full academic year (see the reference to Pell Grant in Volume 3, Calculating Awards & Packaging, of the *FSA Handbook* for the year(s) being audited for guidance on selecting formulas for calculating cost of attendance, prorating costs for programs less or greater than an academic year, and determining payment periods). The steps to determine Pell awards are as follows:

- (1) Determine the student's enrollment status (full-time, three-quarter time, half-time, or less than-half-time).
- (2) Calculate the cost of attendance. This is always based on the cost for a full-time enrollment status for a full academic year. If the student is enrolled in a program or enrollment period that is longer or shorter than an academic year, the costs must be prorated so that they apply to one full academic year. There are two allowable proration methods. Costs can be on an actual cost-per-student basis or an average cost for groups of similar students. If the student is enrolled less than half-time, the only allowable cost components are tuition and fees, allowance for books and supplies, transportation allowance, allowance for dependent care, and room and board.

- (3) Determine the annual award, based on the cost of attendance calculated above and the EFC, from the Payment or Disbursement Schedule for the student's enrollment status (i.e., full-time, three quarter-time, half-time, or less than half-time).
- (4) Determine the payment period. For term programs (semester, trimester, quarter), the payment period is the term.
- (5) Calculate the payment for the payment periods. The calculation of the payment for the payment period may vary depending on the formula used, the length of the program compared to the academic year, and whether the institution uses an alternative calculation for students who attend summer terms (See the reference to Pell Grant in Volume 3, *Calculating Awards & Packaging*, of the *FSA Handbook*). (Final regulations published on November 1, 2007, modified the criteria in 34 CFR section 690.63(a)(1) relating to calculation of a Federal Pell Grant for a payment period. In addition, those final regulations modified 34 CFR section 690.63(e), the calculation used for programs using credit hours without terms or clock hours, and 34 CFR section 690.66(a), the calculation for correspondence study. These changes are effective on July 1, 2008, but, at the institution's option, may be implemented on or after November 1, 2007.)
- (6) Disburse funds at prescribed times (This is tested under III.N, Special Tests and Provisions) (34 CFR sections 690.61 through 690.67, and 690.75 through 690.78; Pell Grant Payment Schedules; General Provisions regulations, part 668, subpart K, and *FSA Handbook*).

*Campus-Based Programs (FPL, FWS, FSEOG) (CFDA 84.038, 84.033, 84.007)*

The maximum amount that can be awarded under the campus-based programs is equal to the student's financial need (COA minus EFC) minus aid from other SFA programs and other resources. For programs of study or enrollment periods less than or greater than an academic year, the COA for loans and campus-based aid is based on the student's actual costs for the period for which need is being analyzed, rather than being prorated to the costs for a full-time student for a full academic year. The financial aid administrator has discretion in awarding amounts from each program, subject to certain limitations.

*FSEOG (CFDA 84.007)*

The FSEOG program provides grants to eligible undergraduate students. Priority is given to Federal Pell recipients who have the lowest expected family contributions. The institution decides the amount of the grant, which can be up to \$4,000 but not less than \$100, for an academic year. The maximum amount may be increased to \$4,400 for a student participating in a study abroad program that is approved for credit by the student's home institution (34 CFR sections 676.10 and 676.20).

*Academic Competitiveness Grants (ACG) (CFDA 84.375)*

The ACG program provides grants to eligible full-time regular undergraduate students enrolled in their first and second academic years in an ACG-eligible program at a 2- or 4-year degree granting institution. Grants are for up to \$750 for first-year students and up to \$1,300 for second-year students (34 CFR sections 691.2(d), 691.6, 691.15, and 691.62).

An eligible student must have successfully completed a rigorous secondary school program of study recognized by the Secretary. The school must document a student's completion of such a program of study. Information about rigorous course of study and requirements for the ACG Program is available at the following Web site: <http://www.ifap.ed.gov/HERA/RigorDefforACG.html>.

*National Science and Mathematics Access to Retain Talent Grant (National SMART Grant) (CFDA 84.376)*

The National SMART Grant program provides grants to eligible third- and fourth-year full-time undergraduates enrolled in their third and fourth academic years in a National SMART Grant-eligible program at a 4-year degree granting institution who major in certain designated technical fields or foreign languages. Students are required to pursue a major in physical, life, or computer sciences, mathematics, technology, engineering, or a critical foreign language. For each award year, the Secretary will identify the eligible majors. The student must also maintain a cumulative grade-point average (GPA) of 3.0 in the student's eligible program (e.g., bachelor's program). Grants are for up to \$4,000 for each student (34 CFR sections 691.2(d), 691.6, 691.17, and 691.62). (Final regulations published on November 1, 2007, modified the criteria in 34 CFR section 691.63(a)(1) pertaining to calculation of an ACG/SMART grant for a payment period. In addition, those final regulations modify 34 CFR section 691.63(e), the calculation used for AGC/SMART grants for programs using credit hours without terms or clock hours. These changes are effective on July 1, 2008, but, at the institution's option, may be implemented on or after November 1, 2007.)

Information about Eligible Majors and Programs of Study for the National SMART Grant Program is available at:  
<http://www.ifap.ed.gov/HERA/MajorEligibility.html>.

*FPL (CFDA 84.038)*

Annual loan maximums for the FPL program are: \$4,000 for a student who has not successfully completed a program of undergraduate education; and \$6,000 for a graduate or professional student. The aggregate loan maximums for the FPL Program are: \$8,000 cumulative for a student who has not successfully completed two years of a program leading to a bachelor's degree, \$20,000 cumulative for a student who has successfully completed 2 years of a program leading to a bachelor's degree but who has not completed the work necessary for the degree,

or \$6,000, \$40,000 cumulative for a graduate or professional student, including loans borrowed as an undergraduate student (34 CFR section 674.12 and the *FSA Handbook*).

*Federal Family Education Loans (FFEL) (CFDA 84.032)*

*Federal Direct Student Loans (Direct Loan) (CFDA 84.268)*

In determining loan amounts for subsidized Stafford loans, the financial aid administrator subtracts from the COA, the EFC and the estimated financial assistance for the period of enrollment that the student (or parent on behalf of the student) will receive from Federal, State, institutional or other sources.

Unsubsidized Stafford loans, PLUS loans, loans made by a school to assist the student, and state-sponsored loans may be used to substitute for EFC (34 CFR sections 682.200, 682.603, 685.102, and 685.200(d)).

The annual loan limits apply to the length of the school's academic year. Except for PLUS loans and for graduate or professional students, proration of a loan is required when a program is less than an academic year as measured in either clock hours or credit hours or number of weeks; or when a program exceeds an academic year but the remaining portion of the program is less than an academic year in length. For the purpose of determining loan limits for a borrower who received an Associate or Bachelor degree and has re-enrolled in another eligible program for which the prior degree is a prerequisite, the number of years that a student has completed in a program of undergraduate study includes any prior enrollment. The loan limits described below apply to both the FFEL and Direct Loan programs and are cumulative. For example, a dependent undergraduate student who has borrowed \$10,000 in subsidized FFEL and \$13,000 in subsidized direct loans has reached the aggregate undergraduate limit of \$23,000 for both programs (34 CFR sections 682.204 and 685.203).

#### *Annual Limits for Subsidized Loans*

For an undergraduate student who has not yet successfully completed the first year of study the annual loan limit is \$2,625; or, for a loan disbursed on or after July 1, 2007, \$3,500; for a program of study at least an academic year in length. For a program less than an academic year, the loan must be prorated. Programs less than one-third of an academic year are not eligible for these loans.

For an undergraduate student who has successfully completed the first year but has not successfully completed the second year of an undergraduate program: (1) up to \$3,500; or, for a loan disbursed on or after July 1, 2007, \$4,500; for a program of study at least an academic year in length, and (2) for programs with less than an academic year remaining, the loan must be prorated. Programs less than one-third of an academic year are not eligible for these loans.

For an undergraduate student who has successfully completed the first and second year of study but has not successfully completed the remainder of the program or

for a student in a program who has an associate or baccalaureate degree which is required for admission into the program: (1) up to \$5,500 for a program of study at least an academic year in length, and (2) for programs with less than an academic year remaining, the loan must be prorated.

Graduate or professional students may borrow up to \$8,500 per academic year.

#### *Annual Limits for Unsubsidized Loans*

A student may receive an unsubsidized loan for the amount that is the difference between the subsidized amount for which he or she was eligible and the subsidized amount that he or she received. For dependent undergraduate students, the unsubsidized loan is the difference between the student's cost of attendance and the student's estimated financial assistance (including a subsidized loan if the student qualifies for one).

Additional eligibility for unsubsidized loans, beyond the base subsidized/unsubsidized amount, is available to all independent students and to dependent students whose parents are likely to be precluded by exceptional circumstances from receiving a PLUS loan, as determined by the SFA administrator.

For a student who has not successfully completed the first two years of undergraduate study: (1) up to \$4,000 for a program of study at least an academic year in length; and (2) for programs with less than a full academic year remaining, the loan must be prorated.

For a student who has successfully completed the first and second years of an undergraduate program but who has not successfully completed the remainder of the program: (1) up to \$5,000 for a program of study at least an academic year in length; and (2) for programs with less than a full academic year remaining, the loan must be prorated.

Graduate or professional students may borrow up to \$10,000 per academic year.

Exceptions: Annual increased unsubsidized loan limits for certain health professions students who previously borrowed under the HEAL program are authorized. See Volume 3, Chapter 4 of the 2005-06 *FSA Handbook*. The *FSA Handbook* is available on the Internet (<http://ifap.ed.gov/>).

#### *Aggregate Loan Limits for Subsidized and Unsubsidized Loans*

Aggregate loan limits for subsidized and unsubsidized loans is \$23,000 for a dependent undergraduate student; \$46,000 for an independent student (subsidized loan portion may not exceed \$23,000 of the aggregate limit amount); and \$138,500 for a graduate or professional student (subsidized portion limited to \$65,500). This \$138,500 limit includes loans for undergraduate study.

*Federal and Direct PLUS (PLUS)*

PLUS loans are limited to parent borrowers of dependent undergraduate students and, on or after July 1, 2006, graduate and professional students. A parent must meet the same citizenship and residency requirements as a student. Similarly, a parent who owes a refund on an SFA grant or is in default on an SFA loan is ineligible for a PLUS loan unless satisfactory arrangements have been made to repay the grant or loan. A PLUS loan may not exceed the student's estimated cost of attendance minus other financial aid awarded during the period of enrollment for that student (FFEL, 34 CFR sections 682.201 and 682.204; Direct Loan, 34 CFR sections 682.101(c), 685.101(b), 685.200, and 685.203).

2. **Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**
3. **Eligibility for Subrecipients - Not Applicable**

**G. Matching, Level of Effort, Earmarking****1. Matching***Federal Perkins Loan (FPL) (CFDA 84.038)*

The institution's matching share (Institutional Capital Contribution (ICC)) is one third of the Federal Capital Contribution (FCC) (or 25 percent of the combined FCC and ICC) (34 CFR section 674.8).

*Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA 84.007)*

The Federal share of awards may not exceed 75 percent of the total FSEOG awards made by the school. The Secretary of Education may authorize 100 percent Federal funding if certain conditions are met (34 CFR section 676.21).

*Federal Work-Study (FWS) (CFDA 84.033)*

Generally, the Federal share of Federal Work-Study (FWS) compensation paid a student employed other than by a private for-profit organization may not exceed 75 percent of the total FWS awards made by the school. However, the Federal share may exceed 75 percent, but not exceed 90 percent, for up to ten percent of the students compensated by FWS during the academic year, if, consistent with regulations of the Secretary, the student is employed at a non-profit private organization or a government agency that (1) is not a part of, and is not owned, operated, or controlled by, or under common ownership, operation, or control with, the institution, (2) is selected by the institution on an individual case-by-case basis for such student, and (3) would otherwise be unable to afford the costs of such employment (42 USC 2753(b)(5); 34 CFR section 675.26(a)).

The Federal share of FWS for work at private-for-profit organizations is limited to 50 percent (34 CFR section 675.26(a)(3)).

However, a Federal share of 100 percent is allowable when the work is performed by the student for the institution, a public agency, or a private non-profit organization and either (1) the institution is designated an eligible institution under the Developing Hispanic Serving Institution Program, Strengthening Institutions Program, the American Indian Tribally Controlled Colleges and Universities Program, the Alaskan Native and Native Hawaiian-Serving Institutions Program, the Strengthening Historically Black Colleges and Universities Program, or the Historically Black Graduate Institutions Program, or (2) the student is employed as a reading tutor for preschool-age children or elementary school children, is employed as a mathematics tutor for children in elementary school through ninth grade, or is performing family literacy activities in a family literacy project that provides services to families with preschool-age children or elementary school children (34 CFR section 675.26).

*Health Professions Student Loan (HPSL)/Primary Care Loans (PCL) (CFDA 93.342, Nursing Student Loan (NSL) (CFDA 93.364)*

The institution's matching share (ICC) is one ninth of the FCC and must be deposited in a health professions student loan fund (42 CFR sections 57.202 and 57.302).

**2. Level of Effort - Not Applicable**

**3. Earmarking**

*Federal Work-Study (FWS) (CFDA 84.033)*

An institution must use at least seven percent of the sum of its initial and supplemental FWS allocations for an award year to compensate students employed in community service activities unless waived by the Secretary of Education. The institution can only use up to 10 percent of its FWS or \$50,000 whichever is less for a JLD program (34 CFR sections 675.18 and 675.32).

**J. Program Income**

*Federal Perkins Loans (FPL) (CFDA 84.038)*

Principal and interest repayments made by students and reimbursements for canceled loans are reinvested in the FPL revolving fund (34 CFR section 674.8).

**L. Reporting**

**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable (except for SDS)

- b. PMS-270, *Request for Title IV Reimbursement* - Applicable only to institutions placed on reimbursement payment method
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. *Pell Payment Data (OMB No. 1845-0039)* - All schools submit Pell payment data to the Department through the Common Origination and Disbursement (COD) System.

Schools submit Pell origination records and disbursement records to the COD. Origination records can be sent well in advance of any disbursements, as early as the school chooses to submit them for any student the school reasonably believes will be eligible for a payment. A school follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid (7 days in the case of a school using the just-in-time method). The disbursement record reports the actual disbursement date and the amount of the disbursement. ED processes origination and/or disbursement records and returns acknowledgments to the school. The acknowledgments identify the processing status of each record: Rejected, Accepted with Corrections, and Accepted. In testing the Pell Payment origination and disbursement data, the auditor should be most concerned with the data ED has categorized as accepted or accepted with corrections. Institutions must report student payment data within 30 calendar days after the school makes a payment; or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Schools may do this by reporting once every 30 calendar days, bi-weekly, weekly or may set up their own system to ensure that changes are reported in a timely manner.

Key items to test on origination records are: Social Security Number, award amount, enrollment date, verification status code, transaction number, cost of attendance, academic calendar\* and payment methodology\*, weeks\*, and clock/credit hours\* (\* optional reporting items for phase-in participants; auditor should test when participants report these items). Key items to test on disbursement records are disbursement date and amount. The information may be accessed by the institution for the auditor at <http://www.cod.ed.gov/> (34 CFR section 690.83; *FSA Handbook*).

## **2. Performance Reporting - Not Applicable**



### 3. Special Reporting

- a. ED Form 646-1, *Fiscal Operations Report and Application to Participate (FISAP) (OMB No. 1845-0030)* - This electronic report is submitted annually to receive funds for the campus-based programs. The school uses the *Fiscal Operations Report* portion to report its expenditures in the previous award year and the *Application to Participate* portion to apply for the following year. FISAPs are required to be submitted by October 1 following the end of the award year (which is always June 30). For example, by October 1, 2008, the institution should submit its FISAP that includes the *Fiscal Operations Report* for the award year ended June 30, 2008, and the *Application to Participate* for the 2009-2007 award year (FPL, FWS, FSEOG 34 CFR section 673.3; *Instruction Booklet for Fiscal Operations Report and Application to Participate*).

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

Part I, Identifying Information

Part II, Application

- *Information on enrollment*
- *Assessments and expenditures*
- *Information on eligible aid applicants*

Part III, Federal Perkins Loan Program

- *Fiscal Report (Trace material line items)*
- *Fund Activity (Annual) During the XXXX-XX Award Year*
- *Cumulative Repayment Information*
- *Cohort Default Rate*

Part IV, Federal Supplemental Educational Opportunity Grant Program

- *All sections*

Part V, Federal Work-Study (FWS) Program

- *All sections*

Part VI, Program Summary for Award Year

- *Distribution of Program Recipients and Expenditures by Type of Student (Trace a sample of line items)*

- b. *FPL and Grant Overpayment Reporting to the National Student Loan Data System (NSLDS) (OMB No. 1845-0035)* - The NSLDS is a national database of information about loans and other financial aid awarded to students under Title IV. Educational and financial institutions, as well as other lending entities may enter data in NSLDS pertaining to FPL, FFEL, and Direct Loans and Title IV grant program overpayments. Individual loan histories (loan history) and grant overpayment summaries (overpayment history) are accessible from the NSLDS Financial Aid Professional's web site within the AID Tab. The individual student identifier is the social security number (20 USC 1092b).

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

### **1. Separate Funds (HPSL, NSL, FPL)**

**Compliance Requirement** - The institution must maintain a separate fund account for each program (HPSL, 42 CFR section 57.205; NSL, 42 CFR section 57.305; and FPL, 34 CFR sections 674.8 and 674.19).

**Audit Objective** - Determine whether separate fund account(s) were established.

#### **Suggested Audit Procedures**

Review accounting records to verify that a separate fund was established for each program.

### **2. Verification**

**Compliance Requirements** - An institution may participate under an ED-approved Quality Assurance Program (QAP) that exempts it from verifying those applicants selected by the central processor, provided that the applicants do not meet the institution's own verification selection criteria. An institution not participating under an ED-approved QAP is required to establish written policies and procedures that incorporate the provisions of 34 CFR sections 668.51 through 668.61 for verifying applicant information. Such an institution shall require each applicant whose application is selected by the central processor, based on edits specified by ED, to verify the information specified in 34 CFR section 668.56. However, certain applicants are excluded from the verification process as listed in 34 CFR section 668.54(b). The institution is not required to verify the applications of more than 30 percent of its total number of applicants. The institution shall also require applicants to verify any information used to calculate an applicant's EFC that the institution has reason to believe is inaccurate. Generally, the information that must be updated is the number of family members, number of family members attending postsecondary educational institutions, and the applicant's dependency status (34 CFR section 668.55). Information that must be verified or updated is adjusted gross income, U.S. income tax paid, aggregate number of family members in the household, number of family members in the household who are enrolled as at least half-time students in postsecondary educational institutions if that number is greater than one, and untaxed income and benefits including:

- Social security benefits if the institution has reason to believe that those benefits were received and were not reported or were not correctly reported;
- Child support if the institution has reason to believe child support was received;
- U.S. income tax deductions for a payment made to an individual retirement account or Keogh account;
- Interest on tax-free bonds;
- Foreign income excluded from U.S. income taxation if the institution has reason to believe that foreign income was received;
- Earned income credit taken on the applicant's tax return; and
- All other untaxed income subject to U.S. income tax reporting requirements in the base year included on the tax return form, excluding information contained on schedules appended to such forms (34 CFR section 668.56)

Acceptable documentation for the verification is listed in 34 CFR section 668.57.

**Audit Objectives** - Determine whether the institution established policies and procedures to verify information in student aid applications, and verified all required information of selected applications in accordance with the requirements.

### **Suggested Audit Procedures**

- a. Review the institution's policies and procedures for verifying student applications and verify that they meet the requirements either of 34 CFR section 668.53 or, if applicable, the institution's QAP.
- b. Select a sample of applications that were selected for verification and review student aid files to ascertain whether the institution obtained acceptable documentation to verify the information required, matched information on the documentation to the student aid application, and, if necessary, submitted data corrections to the central processor and recalculated awards.

### **3. Disbursements To or On Behalf of Students**

#### **Compliance Requirements**

##### *Title IV Programs - General*

- a. The payment period for a student enrolled in an eligible program that measures progress in credit hours and has academic terms is the academic term.
- b. The payment period for a student enrolled in an eligible program that measures progress in credit hours and does not have academic terms (34 CFR section 668.4(b)):

- (1) If the program is one academic year or less in length, the first payment period is the period of time in which the student completes half the number of credit hours in the program and half the number of weeks in the program; the second payment period is the period of time in which the student completes the program.
- (2) If the program is more than one academic year in length–
  - (a) For the first academic year and any subsequent full academic year (i), the first payment period is the period of time in which the student completes half the number of credit hours in the academic year and half the number of weeks in the academic year, and (ii) the second payment period is the period of time in which the student completes the academic year.
  - (b) For any remaining portion of an eligible program that is– (i) more than half but less than a full academic year in length, the first payment period is the period of time in which the student completes half the number of credit hours in the remaining portion of the program and half the number of weeks in the remaining portion of the program and (ii) the second payment period is the period of time in which the student completes the remainder of the program.
  - (c) For any remaining portion of an eligible program that is not more than half an academic year, the payment period is the remainder of the program.
- c. If an institution is unable to determine when a student has completed half of the credit hours in a program, academic year, or remainder of a program, the student is considered to begin the second payment period of the program, academic year, or remainder of a program at the later of – (i) the date the institution determines the student has completed half of the academic coursework in the program, academic year, or remainder of the program; or (ii) the calendar midpoint between the first and last scheduled days of class of the program, academic year, or remainder of the program. If a student withdraws from a program described in this paragraph during a payment period and reenters the same program within 180 days, the student remains in that same payment period upon reentry and is eligible to receive, subject to conditions established by ED, a FFEL lender or a guaranty agency, any Title IV funds for which they were eligible prior to withdrawal, including funds returned as a result of a return of funds calculation (34 CFR section 668.4(b)(3)).
- d. The institution may not make a disbursement to a student for a payment period until the student is enrolled in classes for that payment period, unless the student is registered and the loans are disbursed by electronic funds transfer (EFT) to an account of the school or by master check. In those situations, the school must

obtain the student's (or in the case of parent a PLUS loan, the parent borrower's) written authorization for the release of the initial and any subsequent disbursement of each FFEL loan, unless authorization was provided in the loan application or Master Promissory Note. The institution must deliver the proceeds to the student or borrower or credit the student's account, notifying the student or parent borrower in writing (34 CFR section 682.604(c)). The earliest an institution may disburse SFA funds (other than FWS) (either by paying the student directly or crediting the student's account) is 10 days before the first day of classes of the payment period for which the disbursement is intended. There are two exceptions to this rule. First, institutions may not disburse or deliver the first installment of FFEL or Direct Loans to first year undergraduates who are first time borrowers until 30 days after the student's first day of classes, unless the institution has low default rates as discussed in the next paragraph. The second exception applies to a student who is enrolled in a clock hour educational program or a credit hour program that is not offered in standard academic terms. The earliest the institution may disburse funds is the later of ten days before the first day of classes for the payment period or, except for certain circumstances under the FFEL and Direct Loan programs, the day the student completed the previous payment period. The excepted circumstances for the FFEL and Direct Loan programs are described in 34 CFR sections 682.604(c)(6)(ii), (c)(7), and (c)(8); and 685.303(b)(3)(ii), (b)(5), and (b)(6), respectively (34 CFR section 668.164(f)).

- e. The exceptions for institutions to disburse loans for first-year undergraduates who are first-time borrowers are (1) an institution with cohort default rates of less than 10 percent for each of the three most recent fiscal years for which data are available does not have to wait the 30 days; and (2) an institution that is an eligible home institution that certifies a loan to cover the student's cost of attendance in a study-abroad program and has a cohort default rate of less than 5 percent for the single most recent fiscal year for which data are available does not have to wait the 30 days. (34 CFR sections 682.604(c)(5), 682.301(b)(8), and 685.303(b)(4)).
- f. If an institution credits a student's account at the institution with Direct Loan, FPL, or FFEL funds, no earlier than 30 days before and no later than 30 days after crediting the student's account at the institution, the institution must notify the student, or parent of (1) the date and amount of the disbursement, and (2) the student's right, or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan. The requirement for FFEL funds applies only if the funds are disbursed by electronic funds transfer payment or master check (34 CFR section 668.165). (Final regulations published on November 1, 2007, maintain these notification and cancellation requirements only for institutions that implement an affirmative confirmation process. Institutions that do not implement an affirmative confirmation process must notify a student no earlier than 30 days before, but no later than 7 days after, crediting the student's account and must give the student 30 days (instead of 14) to cancel all or part of the loan. These changes are

effective on July 1, 2008, but, at the institution's option, may be implemented on or after November 1, 2007.)

- g. If a student received financial aid while attending one or more other institutions, schools are required to request financial aid history using the NSLDS Student Transfer Monitoring Process. (See Dear Colleague Letter GEN-01-09). Under this process, a school informs NSLDS about its transfer students. NSLDS will "monitor" those students on the school's "inform" list and "alert" the school of any relevant financial aid history changes. A school must wait seven days after it "informs" NSLDS about a transfer student before disbursing Title IV aid to that student. However, a school does not have to wait if it receives an alert from NSLDS during the seven-day period or if it obtains the student's financial aid history by accessing the NSLDS Financial Aid Professional web site. When a school receives an alert from NSLDS, before making a disbursement of Title IV aid, it must determine if the change to the student's financial aid history affects the student's eligibility. (34 CFR section 668.19).
- h. For students whose applications were selected for verification, if the institution has reason to believe that information included in the application is inaccurate, the institution may not: (1) disburse any Pell or campus-based aid; (2) employ the applicant in its FWS program; or (3) certify FFEL loans or originate Direct Loans (or process proceeds of previously certified or originated loans) until the applicant verifies or corrects the information. If the institution does not have any reason to believe that the information is inaccurate, the institution may withhold payment of Pell or Campus-based aid and loan certification, or may make one interim disbursement of Pell or Campus-based aid, employ or allow an employer to employ an eligible student under FWS for the first 60 consecutive days after the student's enrollment and may certify the FFEL loan or originate the Direct Loan, but cannot process the proceeds. If the verification process is not complete after 45 days, the institution shall return loan proceeds to the lender. In addition, the institution is liable for an interim disbursement if verification shows that a student received an overpayment or if the student fails to complete verification (34 CFR section 668.58).

### *Pell*

To disburse Pell funds, the institution must have received a valid ISIR from the central processor or a valid SAR from the student by the earlier of the student's last date of enrollment or the deadline date established by the Secretary in a notice published in the *Federal Register* (normally in the month of September following the end of the award year). Late disbursements of Pell for ineligible students are allowed if, before the date the student became ineligible, an ISIR or SAR was processed that contained an official expected family contribution. The institution has discretion in disbursing funds within a payment period, but generally must disburse the full amount before the end of the payment period. The institution must review and document the student's eligibility before it disburses funds each payment period (34 CFR sections 690.61, 690.75 through 690.78, and 668.164(g)).

### *ACG and National SMART Grants*

ACG and National SMART Grant disbursements follow Federal Pell Grant Regulations. Institutions must assign the payment period for both the ACG or National SMART Grant and the Federal Pell Grant to the same award year when payment periods apply in two academic years (34 CFR section 691.64(a)(6)).

### *FPL*

If the institution is making a loan for a full academic year and uses standard academic terms, the institution must advance a portion of the loan during each payment period. If standard academic terms are not used, it must advance funds at least twice during the academic year - once at the beginning and once at the midpoint. Loan payments must be supported by a signed promissory note (34 CFR section 674.16).

### *FFEL*

The institution must determine that the student has maintained eligibility for the FFEL loan before each disbursement of loan proceeds. Disbursements are required on a payment period basis, and the institution is required to provide the lender with a disbursement schedule. In addition, an institution under the reimbursement payment method must receive the Department's approval prior to disbursing loan funds. Loan funds provided by electronic fund transfer or master check may not be requested earlier than: 27 days after the first day of classes of the first payment period for a first-year, first-time Stafford Loan borrower; or 13 days before the first day of classes for any subsequent payment period for a first-year, first-time Stafford Loan borrower or for any payment period for all other FFEL borrowers. Loan funds must be disbursed within 3 business days of receipt if the lender provided the funds by EFT or master check or 30 days if the lender provided the funds by check payable to the borrower or copayable to the borrower and the institution (34 CFR sections 668.162, 668.164, 668.167(b), 682.603, and 682.604(d)).

If (1) a student does not register for the period of enrollment for which the loan was made, (2) a registered student withdraws or is expelled *prior to the first day of classes*; or (3) if the institution does not disburse FFEL loan proceeds to a student or parent in accordance with the time frames required in 34 CFR section 668.167(b), the institution must return the funds to the lender within 10 business days after the date the funds were required to be disbursed. Exceptions to (3) above are described in 34 CFR section 668.167(b)(3) and (c) (34 CFR section 668.167(b)(2)). (Final regulations published on November 1, 2007, amended the regulations if a student never began attending and received any Title IV funds. These changes are effective on July 1, 2008, but, at the institution's option they may be implemented on or after November 1, 2007. (See III.N.4, "Special Tests and Provisions - Return of Title IV Funds"))

### *Direct Loan*

Except in the case of an allowable late disbursement (34 CFR section 685.303(d)), before disbursing the loan proceeds, the institution must determine that the student maintained

continuous eligibility from the beginning of the loan period. Option 1 and Option 2 institutions may not disburse loan proceeds until they have obtained a legally enforceable promissory note. Option 1 and standard origination institutions may only disburse funds for students listed on the Actual Disbursement Roster (34 CFR sections 685.301 and 685.303).

#### *HPSL/PCL and NSL*

Student loans may be paid to or on behalf of student borrowers in installments considered appropriate by the school, except that a school may not pay to or on behalf of any borrowers more than the school determines the student needs for any given installment period (e.g., semester, term, or quarter). However, effective November 13, 1998, the amount of the loan may be increased, in the case of the third or fourth year of a student at a school of medicine or osteopathic medicine, to pay balances of loans that were made to the individual for attendance at the school (42 USC 292r(a)(2); section 722r(a)(2) of PHS; Pub. L. No. 105-392, section 134(a)(2)). At the time of payment a HPSL borrower must be a full time student, a NSL borrower must be at least a half time student (HPSL, 42 CFR section 57.209; NSL, 42 CFR section 57.309). Each student loan must be evidenced by a properly executed promissory note (HPSL, 42 CFR section 57.208; NSL, 42 CFR section 57.308).

#### *FWS*

The student's wages are earned when the work is performed. The institution shall pay the student at least once per month. The Federal share must be paid by check or similar instrument the student can cash on his or her endorsement, or as authorized by the student, by crediting FWS funds to a student's account or by EFT to a bank account designated by the student. The institution may only credit the account for tuition, fees, institutional room and board, and other school-provided goods and services (34 CFR section 675.16).

**Audit Objectives** - Determine whether disbursements to students were made or returned to the funds provider in accordance with required time frames; and, whether required reviews were made and required documents and approvals were obtained before disbursing SFA funds.

#### **Suggested Audit Procedures**

- a. Review a sample of disbursements to students and verify that they were made or returned in accordance with required time frames and for Direct Loan Option 1 and standard origination institutions, only to the students listed on the Actual Disbursement Roster.
- b. Review loan or other files to verify that the institution performed required procedures and obtained required documents prior to disbursing funds. For institutions under the reimbursement method of payment, verify that FFEL proceeds were not disbursed until approval from the Department was obtained.



- c. For a sample of Pell and Direct Loan disbursements, match the disbursement date and amount in Common Origination and Disbursement files to the disbursement date and amount in students' accounts or to the amount and date the funds were otherwise made available to students.

#### **4. Return of Title IV Funds**

##### **a. Compliance Requirements - Applicable After a Student Begins Attendance**

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as outlined in this section and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (34 CFR sections 668.22(a)(1) through (a)(3)).

##### *Postwithdrawal Disbursements*

Post-withdrawal disbursements must be made from available grant funds before available loan funds (34 CFR section 668.22(a)(5)). Post-withdrawal disbursements of grant funds may be credited to the student's account, without the student's authorization, for current-year outstanding charges for tuition, fees, and room and board (if contracted with the institution) on the student's account, up to the amount of those outstanding charges. For current-year outstanding charges other than tuition, fees, and room and board (if contracted with the institution), the institution must have the student's authorization to credit the student's account with grant funds.

Post-withdrawal disbursements of loan funds may be credited to the student's account if current-year outstanding charges exist on the student's account, up to the amount of the current-year outstanding charges only after obtaining confirmation from the student, or parent in the case of a parent PLUS loan, that he or she still wishes to have some or all of the loan funds disbursed.

If the institution wishes to credit the student's account with a post-withdrawal disbursement of loan funds or wishes to pay a post-withdrawal disbursement of either loan or grant funds directly to the student, or parent in the case of a parent PLUS loan, the institution must, within 30 days of the date the institution determines that the student withdrew, send a written notification to the student, or parent in the case of a parent PLUS loan, that:

- Asks the student or parent if he or she wants a post-withdrawal disbursement of some or all of the loan funds credited to the student's account, or a post-

withdrawal disbursement of some or all of the grant or loan funds as a direct disbursement;

- Explains that, if the borrower does not want the loan funds credited to the student's account, it is up to the school to decide whether it will disburse the loan funds as a direct disbursement to the borrower;
- Explains the obligation of the borrower to repay any loan funds disbursed; and
- Explains that no post-withdrawal disbursement will be made (other than a credit of grant funds to the student's account for tuition and fees and room and board, if contracted for with the institution, or a credit of grant funds for other institutional charges for which the institution has the student's authorization) unless the student or parent responds within 14 days (or a later time frame set by the institution), or the institution chooses to make a post-withdrawal disbursement based on a late response (34 CFR sections 668.22(a)(5) and 668.164(d)).

(Under final regulations published on November 1, 2007, an institution is no longer required to notify and obtain a student's permission prior to making a direct disbursement of any Title IV grant funds that make up a post-withdrawal disbursement. The final regulations require an institution to make such a direct disbursement of Title IV grant funds as soon as possible, but no later than 45 days after the date of the institution's determination that a student withdrew. This change is effective on July 1, 2008, but, at the institution's option, may be implemented on or after November 1, 2007.)

If a student or parent accepts a post-withdrawal disbursement, the institution must make the disbursement within 120 days of the date of the institution's determination that the student withdrew and in accordance with the request of the recipient (34 CFR sections 668.22(a)(5) and 668.164(d)(1), (d)(2), (d)(3), and (g)). (Final regulations published on November 1, 2007, require an institution to make the accepted disbursement as soon as possible, but no later than 180 days after the date of the institution's determination that the student withdrew. This change is effective on July 1, 2008, but, at the institution's option, may be implemented on or after November 1, 2007.)

Subject to the above, an institution may credit a student's account for minor prior-award-year charges, if less than \$100 or the payment of minor prior-year charges (in excess of \$100) will not prevent the payment of current-year charges (34 CFR section 668.164(d)(2)(ii)). (Final regulations published on November 1, 2007, allow an institution to credit a student's account for prior award year charges of not more than \$200 total for: (1) tuition and fees, room, or board and (2) if the institution obtains the student's or parent's authorization under 34 CFR section 668.165(b), other educationally related charges incurred by the student at the institution. This change is effective on July 1, 2008, but, at the institution's option, may be implemented on or after November 1, 2007.)

### *Withdrawal Date*

If an institution is required to take attendance the withdrawal date is the last date of academic attendance, as determined by the institution from its attendance records. An institution is required to take attendance if the institution is required to take attendance for some or all of its students by an entity outside of the institution (such as the institution's accrediting agency or State agency) (34 CFR section 668.22(b)(3)).

If an institution is not required to take attendance, the withdrawal date is: (1) the date that the student began the withdrawal process prescribed by the school; (2) the date that the student otherwise provided official notification to the school, in writing or orally, of his or her intent to withdraw; (3) if the student ceases attendance without providing official notification to the institution of his or her withdrawal, the midpoint of the payment period or, if applicable, the period of enrollment; (4) if the institution determines that a student did not begin the withdrawal process or otherwise notify the school of the intent to withdraw due to illness, accident, grievous personal loss or other circumstances beyond the student's control, the date the institution determines is related to that circumstance; (5) if a student does not return from an approved leave of absence, the date that the institution determines the student began the leave of absence; or (6) if the student takes an unapproved leave of absence, the date that the student began the leave of absence. Notwithstanding the above, an institution that is not required to take attendance may use as the withdrawal date, the last date of attendance at an academically related activity as documented by the institution (34 CFR sections 668.22(c) and (d)).

### *Calculation of the Amount of Title IV Assistance Earned*

The amount of earned Title IV grant or loan assistance is calculated by determining the percentage of Title IV grant or loan assistance that has been earned by the student and applying that percentage to the total amount of Title IV grant or loan assistance that was or could have been disbursed to the student for the payment period or period of enrollment as of the student's withdrawal date. A student earns 100 percent if his or her withdrawal date is after the completion of more than 60 percent of (1) the calendar days in the payment period or period of enrollment for a program measured in credit hours; or (2) the clock hours scheduled to be completed for the payment period or period of enrollment for a program measured in clock hours (34 CFR section 668.22(e)(2)). Otherwise, the percentage earned by the student is equal to the percentage (60 percent or less) of the payment period or period of enrollment that was completed as of the student's withdrawal date. The percentage of Title IV grant or loan assistance that has not been earned by the student is the complement of one of these calculations. Standard term-based institutions must always use the payment period as the basis for the determination.

The unearned amount of Title IV assistance to be returned is calculated by subtracting the amount of Title IV assistance earned by the student from the amount of Title IV aid that was disbursed to the student as of the date of the institution's determination that the student withdrew (34 CFR section 668.22(e)).

### *Use of Payment Period or Period of Enrollment*

The treatment of Title IV grant or loan funds if a student withdraws must be determined on a payment period basis for a student who attended a standard term-based (semester, trimester or quarter) educational program. The treatment of Title IV grant or loan funds if a student withdraws may be determined on either a payment period basis or a period of enrollment basis for a student who attended a non-term based or a nonstandard term-based educational program. The institution must use the chosen period consistently for all students in the program, except that an institution may make a separate selection of payment period or period of enrollment for students that transfer to the institution or reenter the institution for students who attend a non-term-based or nonstandard term-based program (34 CFR section 668.22(e)(5)). (Final regulations published on November 1, 2007, require an institution to use the payment period that ends later to calculate a “Return of Title IV Funds” when a student withdraws from a non-standard term credit hour program with terms that are not substantially equal in length, and the student was disbursed or could have been disbursed Title IV aid under more than one payment period definition (34 CFR section 668.22(e)(5)(iii)). This change is effective on July 1, 2008, but, at the institution’s option, may be implemented on or after November 1, 2007.)

### *Percentage of Payment Period or Period of Enrollment Completed*

The percentage of the payment period completed or period of enrollment completed is determined in the case of a program that is measured in: (1) credit hours, by dividing the total number of calendar days in the payment period or period of enrollment into the number of calendar days completed in that period as of the student’s withdrawal date; (2) clock hours, by dividing the total number of clock hours in the payment period or period of enrollment into the number of clock hours scheduled to be completed as of the student’s withdrawal date. The total number of calendar days in a payment or enrollment period includes all days within the period, except that institutionally scheduled breaks of at least five consecutive days and days in which the student was on an approved leave of absence are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period (34 CFR section 668.22(f)).

### *Institution’s Return of Unearned Aid*

The institution must return the lesser of: (1) the total amount of unearned Title IV assistance to be returned as described above; or (2) an amount equal to the total institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of Title IV grant or loan assistance that has not been earned by the student. If, for a non-term program an institution chooses to calculate the treatment of Title IV assistance on a payment period basis, but the institution charges for a period that is longer than the payment period, “total institutional charges incurred by the student for the payment period” is the greater of: (1) the prorated amount of institutional charges for the longer period, or (2) the amount of Title IV assistance

retained for institutional charges as of the student's withdrawal date (34 CFR section 668.22(g)).

#### *Student's Return of Unearned Aid*

The amount a student is responsible for returning is calculated by subtracting the amount of unearned aid that the institution is required to return from the total amount of unearned Title IV assistance to be returned. However, the student need only return 50 percent of the total grant assistance that was disbursed (and that could have been disbursed) for the payment period or period of enrollment. After the 50 percent rule is applied, a student does not have to return an overpayment amount of \$50 or less.

In addition, the Secretary may waive grant overpayments that students are required to return if the students who withdrew were residing in, employed in, or attending an institution located in an area where the President has declared that a major disaster exists (34 CFR sections 668.22(g), 668.22(h)(3), and 668.22(h)(5)).

#### *Allocation of Return of Title IV Funds*

Returns of Title IV funds must be distributed in the order prescribed below. The prescribed order must be followed regardless of the school's agreements with other State agencies or private agencies (34 CFR section 668.22(i)).

- Unsubsidized Federal Stafford Loan
- Subsidized Federal Stafford Loan
- Unsubsidized Federal Direct Stafford Loan
- Subsidized Federal Direct Stafford Loan
- Federal Perkins Loan
- Federal PLUS
- Federal Direct PLUS
- Federal Pell Grant
- Academic Competitiveness Grant
- National SMART Grant
- Federal Supplemental Educational Opportunity Grant

### *Timing of Return of Title IV Funds*

Returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to ED or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (34 CFR section 668.173(b)).

An institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the: (1) payment period or period of enrollment, (2) academic year in which the student withdrew, or (3) educational program from which the student withdrew (34 CFR section 668.22(j)).

#### **b. Compliance Requirements - Applicable for a Student Who Does Not Begin Attendance**

When a recipient of Title IV grant or loan assistance does not begin attendance at an institution during a payment period or period of enrollment, all disbursed Title IV grant and loan funds must be returned. The institution must determine which Title IV funds it must return or if it has to notify the lender or the Secretary to issue a final demand letter (34 CFR section 668.21). (Final regulations published on November 1, 2007 amended the requirements when a student never began attending a school, but received Title IV funds. These changes are effective on July 1, 2008, but, at the institution's option, they may be implemented on or after November 1, 2007.)

#### *Not beginning attendance*

A student is considered to have not begun attendance in a payment period or period of enrollment if the institution is unable to document the student's attendance at any class during the payment period or period of enrollment (34 CFR section 668.21(c)).

#### *Federal Perkins Loan, FSEOG, Federal Pell Grant, ACG, and National SMART Grant program funds*

The institution must return all Federal Perkins Loan, FSEOG, Federal Pell Grant, ACG, and National SMART Grant program funds that were credited to the student's account or disbursed directly to the student for that payment period or period of enrollment (34 CFR section 668.21(a)(1)).

*FFEL and Direct Loan Funds*

The institution must return all FFEL and Direct Loan funds that were:

- Credited to the student's account for that payment period or period of enrollment;
- Payments made directly by or on behalf of the student to the institution for that payment period or period of enrollment, up to the total amount of the loan funds disbursed; or
- Disbursed directly to the student if the institution knew that a student would not begin attendance prior to disbursing the funds directly to the student for that payment period or period of enrollment (e.g., the student notified the institution that he or she would not attend, or the institution expelled the student).

For remaining amounts of FFEL and Direct Loan funds disbursed directly to the student for the payment period or period of enrollment (including funds disbursed directly to the student by the lender for a study-abroad program or for a student enrolled in a foreign school), the institution must immediately notify the lender or the Secretary, as appropriate, when it becomes aware that the student will not or has not begun attendance so that the lender or the Secretary will issue a final demand letter to the borrower in accordance with 34 CFR section 682.412 or 34 CFR section 685.211 (34 CFR section 668.21(a)(2)).

*Deadline for return of funds by the institution*

The institution must return those funds for which it is responsible as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance (34 CFR section 668.21(b)).

*Timely return of funds by the institution*

An institution returns Title IV funds timely if:

- The institution deposits or transfers the funds into the bank account it maintains under 34 CFR section 668.163 as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance;
- The institution initiates an electronic funds transfer (EFT) as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance;
- The institution initiates an electronic transaction, as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance, that informs an FFEL lender to adjust the borrower's loan account for the amount returned; or

- The institution issues a check as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance. An institution does not satisfy this requirement if—
  - The institution's records show that the check was issued more than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance; or
  - The date on the cancelled check shows that the bank used by the Secretary or FFEL Program lender endorsed that check more than 45 days after the date that the institution becomes aware that the student will not or has not begun attendance (34 CFR section 668.21(d)).

**Audit Objectives** - Determine whether the institution is making returns of Title IV funds in the proper amount and in a timely manner and is applying the return of Title IV funds to Federal programs as required.

#### **Suggested Audit Procedures**

- a. Identify a sample of students who withdrew or dropped out during the audit period. Review return of Title IV funds determinations/calculations for conformity with Title IV requirements and recalculate.
- b. Trace the return of Title IV funds to disbursement and accounting records (including canceled checks to ED, lenders, and students) to verify that returned Title IV funds were applied to programs in the required order and were timely. Ascertain that within 45 days of becoming aware that the student had dropped, deposits or transfers were made into the Federal funds account, electronic transfers were initiated, or checks were issued. For returns made by check, examine canceled check endorsements and determine if the check was endorsed within the prescribed 60 days.
- c. For a sample of students who received Title IV assistance, for which no return of Title IV funds were made: review academic, enrollment, and attendance records (if attendance records are kept) to ascertain whether the students sufficiently completed the payment or enrollment period to earn the Title IV funds received. When doing this, for students who received all failing and/or all incomplete grades, review records to ascertain whether the students had attended the institution, or had attended but dropped out.



## 5. Student Status Changes (FFEL and Direct Loan)

**Compliance Requirement** - Under the FFEL and Direct Loan programs, schools must complete and return within 30 days of receipt the Student Status Confirmation Reports (SSCR) sent by ED or a guaranty agency (*OMB No. 1845-0035*). The SSCR is transmitted electronically. The institution determines how often it receives the SSCR, but the minimum is twice a year. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site.

Unless the school expects to complete its next SSCR within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309). (Note: The automated processes are described in the *NSLDS Enrollment Reporting Guide*, which is available on the Internet at <http://ifap.ed.gov/nsldsmaterials/EnrollReportGuide.html>. Auditors may request copies of schools' Enrollment Reporting history by contacting the NSLDS Customer Service Center at 1-800-999-8219).

**Audit Objective** - Determine whether the institution is promptly notifying ED, guaranty agencies, or lenders, as appropriate, and NSLDS of changes in student status in a timely and accurate manner.

### Suggested Audit Procedures

- a. Review, evaluate, and document procedures for updating student status for FFEL and Direct Loan recipients, including how often the institution performs the updates.
- b. Determine if the school is meeting reporting requirements by having the school access the NSLDS website and create the Enrollment Reporting Summary Report (SCHER2). This report shows the dates the Roster Files were sent and returned, the number of errors, date and number of online updates, and the number of letters sent for overdue enrollment reporting rosters.
- c. Test the accuracy of the SSCRs by selecting a sample of students that graduated, withdrew, dropped out, or enrolled but never attended during the audit period. Compare the data in the NSLDS Enrollment Timeline to the students' academic files, and report discrepancies in the Enrollment Timeline data.

## 6. Student Loan Repayments (FPL, HPSL/PCL and NSL)

**Compliance Requirement** - FPL loans, and HPSL/PCL and NSL loans made prior to November 13, 1998, including accrued interest, are repayable in equal or graduated periodic installments in amounts calculated on the basis of a 10-year repayment period. For HPSL loans the repayment period is not less than 10 and not more than 25 years, at the discretion of the institution. For NSL loans after November 13, 1998, the 10-year repayment period may be extended for 10 years for any student borrower who, during the repayment period failed to make consecutive payments and who, during the last 12 months of the repayment period, has made at least 12 consecutive payments (42 USC 292r(c) and 297b(b)(8) (sections 722(c) and 836(b)(8) of PHSA); Pub. L. No. 105-392, sections 133(a)(2) and 134(a)(3)). Except as required in 42 CFR section 57.210(a), a repayment of a HPSL/PCL loan must begin one year after the student ceases to be a full-time student. For a NSL loan, repayment must begin nine months after the student ceases to be a full-time or half-time student, except as required in 42 CFR section 57.310(a). For a FPL loan, the institution must establish a repayment plan. The repayment period begins after an initial grace period of either six months or nine months after the student ceases to be at least a half-time student at an institution of higher education, depending on when the loan was made (34 CFR section 674.31(b)(2)).

Borrowers may be eligible for loan deferments or cancellations under certain circumstances. Examples of when loan payments may be deferred are when the borrower is in certain student statuses at other eligible institutions, employed as a full-time teacher at certain schools, employed full-time in other specified occupations, or serving in the military or as a volunteer in the Peace Corps, ACTION programs (AmeriCorps\*VISTA), or other programs deemed to be comparable. Loans may be canceled based on full-time employment as a teacher at certain schools or specified fields, other qualifying employment, military or other volunteer service, and death or disability. Cancellation rates (amount of loan that is canceled for each year of qualifying service) vary, depending on the criteria. Specific requirements for deferment and cancellation vary, depending on when the loan was made. To qualify for a deferment or cancellation, the borrower is required to submit to the institution to which the loan is owed a written request for the deferment or cancellation, with documentation required by the institution, by the date established by the institution, unless it is an in-school deferment. For an in-school deferment, the institution may grant the deferment based on student enrollment information showing that a borrower is enrolled as a regular student on at least a half-time basis, if the institution notifies the borrower of the deferment and of the borrower's option to cancel the deferment and continue paying on the loan (FPL, 34 CFR sections 674.33 through 674.40, and 674.51 through 674.62; HPSL/PCL; 42 CFR sections 57.201, 57.211, and 212; NSL, 42 CFR sections 57.311 through 313a).

Institutions must exercise due care and diligence in the collection of loans (HPSL and NSL, 42 CFR sections 57.210(b) and 57.310(b), respectively). For the FPL, such due diligence procedures include the following:

- a. A requirement to conduct an exit interview with the borrower before he or she leaves the institution and to contact the borrower a minimum of three times during the initial grace period for loans with nine month grace periods or two times for loans with six month grace periods (34 CFR section 674.42).
- b. Specific billing procedures to notify borrowers of overdue payments and to demand overdue amounts (34 CFR section 674.43).
- c. Specific collection procedures to recover amounts from defaulted borrowers who do not respond satisfactorily to demands routinely made as part of the institution's billing procedures, including litigation procedures (34 CFR section 674.45).

**Audit Objective** - Determine whether institutions are processing deferment and cancellation requests and servicing loans as required.

#### **Suggested Audit Procedures**

- a. Select a sample of loans that entered repayment during the audit period and review loan records to verify that the conversion to repayment was timely, and that a repayment plan was established.
- b. Review the institution's requirements for applying for and documenting eligibility for loan deferments and cancellations. Select a sample of loan deferments and loan cancellations and review documentation to ascertain whether the deferments or cancellations were adequately supported.
- c. Select a sample of defaulted loans and review loan records to ascertain if the required interviews, contacts, billing procedures and collection procedures were carried out.

### **7. Federal Work-Study Agreements**

**Compliance Requirement** - FWS students may be employed by the institution, a Federal, State or local agency, a private not-for-profit organization or a private for-profit organization but the employment must not: (1) impair existing service contracts; (2) displace employees; (3) fill jobs that are vacant because the employer's regular employees are on strike; or (4) involve the construction, operation, or maintenance of any part of a facility used or to be used for religious worship or sectarian instruction. The institution must enter into a written agreement with any agency or organization providing employment under the FWS program (34 CFR sections 675.20 through 675.23).

**Audit Objective** - Determine whether written agreements with employers are made as required.

### **Suggested Audit Procedure**

Select a sample of participating students and ascertain if written agreements with the employers were executed.

### **8. Borrower Data Transmission and Reconciliation (Direct Loan)**

**Compliance Requirement** - Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) within 30 days of disbursement (*OMB No. 1845-0021*). Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three SAS data files each month (34 CFR sections 685.102(b), 685.301, and 303). (Note: The *Direct Loan School Guide* and yearly training documents describe the reconciliation process.)

**Audit Objectives** - Determine whether institutions are reconciling SAS data files to institution records each month. Determine whether dates and amounts of disbursements to borrowers recorded in the DLSS are supported by the institution's records on individual borrowers.

### **Suggested Audit Procedures**

- a. Test a sample of the SAS and ascertain that reconciliations are being performed. Instructions for obtaining specific borrower information are available on the Internet at <http://www.ed.gov/about/offices/list/oig/nonfed/sfa.html>.
- b. Test a sample of borrowers to verify that disbursement dates and amounts in the DLSS are supported by the institution's records.

### **9. Institutional Eligibility**

#### **Compliance Requirements**

- a. An institution is not eligible to participate in Title IV programs if for the *award year* (year ending June 30) that ended during the institution's fiscal year (34 CFR section 600.7):
  - (1) More than 50 percent of its courses were correspondence courses;
  - (2) 50 percent or more of its regular students (i.e., students enrolled for the purpose of obtaining a degree, certificate or diploma) were enrolled in correspondence courses;
  - (3) 25 percent or more of its regular students were incarcerated;

- (4) More than 50 percent of its regular students were enrolled as “ability-to-benefit students,” i.e., without a high school diploma or the recognized equivalent *and* the institution did not provide a four or two year program for which it awards a bachelor’s or associate degree, respectively.

The Higher Education Reconciliation Act of 2005 (Section 8002 of Pub. L. No. 109-171) modified the term correspondence courses to specifically exclude courses offered by telecommunications. This change was effective July 1, 2006. “Correspondence programs” and “Telecommunication programs” are defined in 34 CFR section 600.2.

- b. The institution is prohibited for paying any commission, bonus, or other incentive payment—based directly or indirectly upon success in securing enrollments or financial aid—to any person or entity engaged in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV, HEA program funds, except that this limitation does not apply to the recruitment of foreign students residing in foreign countries who are not eligible to receive Title IV, HEA program funds (34 CFR section 668.14(b)(22)(i)). Title 34 CFR section 668.14(b)(22)(ii) describes specific activities and arrangements that an institution may carry out without violating this regulatory prohibition. It also contains a provision applying this same prohibition to third parties engaged by the institution to deliver services to it (34 CFR section 668.14(b)(22)(ii)(L)). The auditor should refer to the specific text of these regulations when auditing this compliance requirement.
- c. Non-profit institutions not meeting ED’s financial responsibility regulations may, for a limited time, participate in Title IV programs under either the zone alternative or the provisional certification alternative. Generally, a non-profit institution participating under the zone alternative receives a letter to that effect and, as a condition of participation, is placed on a cash-monitoring method of funding. If a non-profit institution is participating under the zone alternative or the provisional certification alternative, the non-profit institution must notify the Secretary of Education by certified mail or electronic or facsimile transmission within 10 days of any of the following events (34 CFR section 668.175):
  - (1) Any adverse action, including a probation or similar action, taken against the institution by its accrediting agency;
  - (2) Any event that causes the institution, or related entity as defined in the Statement of Financial Accounting Standards (SFAS) 57, to realize any liability that was noted as a contingent liability in the institution’s or related entity’s most recent audited financial statement;
  - (3) Any violation by the institution of any loan agreement;

- (4) Any failure of the institution to make a payment in accordance with its debt obligations that results in a creditor filing suit to recover funds under those obligation; or
  - (5) Any withdrawal of net assets from the institution by any means, or any extraordinary losses, as defined in accordance with Accounting Principles Board (APB) Opinion No.30.
- d. Institutions must establish and publish reasonable standards for measuring whether eligible students are maintaining satisfactory progress in their educational program. The institution's standards are reasonable if the standards (34 CFR section 668.16(e))--
- (1) Are the same as or stricter than the standards for a student enrolled in the same program that is not receiving Title IV student financial aid;
  - (2) Include a qualitative component, which generally consists of grades that are measurable against a norm, and a quantitative component that consists of a maximum time frame for completion of the educational program. That time frame must: for an undergraduate program, be no longer than 150 percent of the published length of the educational program; be divided into increments not to exceed the lesser of one academic year or one-half the published length of the educational program; include a schedule designating the minimum percentage or amount of work a student must successfully complete at the end of each increment to complete his or her educational program within the maximum time frame; and include specific policies defining the effect of course incompletes, withdrawals, repetitions, and noncredit remedial courses on satisfactory progress;
  - (3) Provide for consistent application of standards to all students within categories of students and educational programs;
  - (4) Provide specific procedures under which a student may appeal a determination that the student is not making satisfactory progress; and
  - (5) Provide specific procedures for a student to re-establish that he or she is maintaining satisfactory progress.
- e. Each institution's most recent Eligibility and Certification Approval Report (ECAR) lists the institution's main campus and any additional approved locations. For any other locations at which a school offers 50 percent or more of an eligible program during the audit period, the institution must either submit an application for approval of that location or notify ED of that location (34 CFR sections 600.20(c) and 600.21(a)(3)).

**Audit Objective** - Determine whether the institution meets the above institutional eligibility requirements as applicable.

**Suggested Audit Procedures**

- a. For the award year that ended during the fiscal year, obtain from the institution its calculation of its award year institutional eligibility ratios of correspondence courses, students enrolled in correspondence courses, and incarcerated and “ability-to-benefit students.” Ascertain the proper classification and completeness of data and accuracy of the calculations.
- b. Ascertain the methodologies used to recruit, admit, and enroll students, and award Federal financial aid, e.g., using employees, employment contracts, contracting with third parties or Internet providers, or combinations of these or other methods.
  - (1) For institutional employees who recruit, admit, and enroll students, and award federal financial aid, evaluate the compensation plans and all forms of compensation to the employees, to ensure that the institution is in compliance with the regulatory requirements.
  - (2) For contracts with third parties who recruit, admit, and enroll students, and award financial aid for the institution, evaluate the contracts and the compensation paid to the third parties to determine whether the institution is in compliance with the regulatory requirements. The auditor must also perform procedures to evaluate whether third parties are in compliance with the prohibition on paying commissions, bonuses or other incentive payments—based directly or indirectly upon success in securing enrollments or financial aid—to any person or entity engaged in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV, HEA program funds.
- c. When the zone alternative or provisional certification alternative is applicable to a non-profit institution:
  - (1) Review correspondence from accrediting agencies for evidence of any adverse actions against the institution.
  - (2) Inquire of management whether there are any violations of loan agreements or failure to pay creditors.
  - (3) Corroborate management’s response by either reviewing or obtaining a legal representation letter to assure there have not been any legal proceedings against the institution for any violation of loan agreements or failure to pay creditors.
  - (4) Ascertain whether any contingent liabilities for the prior fiscal year have been realized.

- (5) Review accounting records for evidence of withdrawals of net assets or extraordinary losses.
- d. Ascertain from a review of the institution's published satisfactory progress standards that all required elements are included in the standards.
- e. Obtain the ECAR that was in effect for the audit period and identify the main campus and any additional locations. Ascertain if the institution is offering more than 50 percent of an eligible program at any locations not on the ECAR. If so, determine if the institution notified ED of the additional location or submitted an application for approval of the additional location.

#### **10. Written Arrangements with Another Institution, Consortium, or Organization to Provide Educational Programs**

**Compliance Requirements** – An eligible institution may enter into a written arrangement with another eligible institution (or a consortium of eligible institutions) under which the other institution (or consortium) provides all or part of the educational program, if the program(s) provided by the other eligible institution (or consortium members) is (are) otherwise eligible.

If an eligible institution enters into a written arrangement with an institution or organization that is not an eligible institution under which the ineligible institution or organization provides part of the educational program of students enrolled in the eligible institution, that educational program is considered to be an eligible program if it otherwise satisfies the requirements for an eligible program *and* if the ineligible institution or organization has not:

- Had its eligibility to participate in the SFA programs terminated by ED; or
- Voluntarily withdrawn from participation in the SFA programs under a termination, show-cause, suspension, or similar type of proceeding initiated by the institution's State licensing agency, accrediting agency, guarantor, or ED.

If an institution enters into a written agreement with an ineligible institution or organization, the ineligible institution or organization may not provide more than 25 percent of the educational program. However, the ineligible institution or organization may provide more than 25 percent, but not more than 50 percent, of the educational program, if:

- the eligible institution and the ineligible institution or organization are not owned or controlled by the same individual, partnership or corporation; *and*
- the eligible institution's accrediting agency [or if the institution is a public postsecondary vocational educational institution, the regulating State agency designated per 34 CFR part 603] has specifically determined that the institution's arrangements meet the agency's standards for contracting for educational services (34 CFR section 668.5(c)).



**Audit Objectives** - Determine whether educational programs that are contracted out to ineligible institutions, consortiums, or organizations to provide educational programs to its students do not exceed regulatory limits.

**Suggested Audit Procedures:**

- a. Ascertain if the institution has entered into an agreement for its students to complete part of their educational program at another institution, consortium, or organization.
- b. If so, ascertain that the institution determined whether or not the contracted institution, consortium, or organization was an eligible institution.
- c. If an agreement was entered into with an ineligible institution or organization, verify the percentage of the educational program provided by the contracted institution, consortium or organization.
- d. If an ineligible institution or organization is providing more than 25 percent but not more than 50 percent of the program, ascertain that the eligible and ineligible institution or organization are not owned or controlled by the same individual, partnership, or corporation; and that the eligible institution's accrediting agency, or, if the institution is a public postsecondary vocational educational institution, the appropriate State agency specifically determined that the institution's arrangements meet the agency's standards for contracting for educational services.

**11. Denying Students' Access to Lenders and Guaranty Agencies of Their Choice**

**Compliance Requirements** - A school may not engage in any pattern or practice that results in denial of a borrower's access to FFEL loans because of the borrower's selection of a particular lender or guaranty agency (34 CFR section 682.603(e)(3)).

**Audit Objectives** – Determine whether schools are denying students the right to select a loan issued by a particular lender and/or guaranteed by a particular guaranty agency.

**Suggested Audit Procedures**

- a. Obtain and review the school's policies, web sites, and communications with students related to the FFEL Program for statements on a student's choice of loans by a particular FFEL lender and/or particular guaranty agency, and processes for certifying applications for loans chosen by a student. Interview school personnel responsible for processing FFEL applications to determine the school's pattern and practice, and whether there have been any complaints related to a student's choice of loans. Review any record of such complaints.
- b. Determine if the school has one or more preferred lenders. If so, determine if the school has certified and disbursed loans from lenders that are not preferred lenders. Obtain and review any listings and/or information provided to students

about any preferred lender and determine and review the school's procedures for making loans to students who choose a lender that is not a preferred lender.

- c. When examining records relating to auditing of other compliance requirements, identify any evidence of the school's refusal to certify a loan based on a student's selection of a particular lender and/or particular guaranty agency or on a student's failure to select a preferred lender.

#### **IV. OTHER INFORMATION**

**Pell Adjustments - The following is intended to alert auditors that their clients may request them to perform additional audit work in conjunction with the single audit, in order to claim Pell adjustments. It is not intended that this be covered otherwise.**

All Pell Payment Data for an award year must be submitted by September 30 after the award year. Adjustments for Pell grants not claimed by September 30 can be made if the first audit report for the period in which the unclaimed Pell grants were made contains a finding that the institution made proper Pell awards for which it has not received either reimbursement or credit. Dear Colleague Letter (P-97-2) provides instructions to institutions for reporting the Pell adjustments and describes the auditor's responsibilities.

Part 4 of the Compliance Supplement includes requirements for use by auditors when auditing Guaranty Agencies and Lenders under the Federal Family Education Loan (FFEL) Program (CFDA 84.032). Part 4 requirements, rather than this section, should be used when auditing the FFEL program at guaranty agencies and lenders that are not schools. See below for requirements for schools that are lenders.

Some "statewide" entities are defined to include a guaranty agency and/or governmental lender under the FFEL Program (CFDA 84.032). For such entities, Part 4 should be used to identify pertinent compliance requirements. Auditors for such entities with large loan and loan guarantee programs must consider the provision of OMB Circular A-133, paragraph \_\_.520(b)(3) in determining major programs. When those programs are determined to be major programs, coverage of the FFEL program for a guaranty agency and/or a lender should be identified and reported on separately and listed as a major program in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs. In such cases, refer to the program as "CFDA 84.032 - FFEL - Guaranty Agencies" and/or "CFDA 84.032- FFEL - Lenders".

Some schools make or originate loans under the FFEL Program. Under 34 CFR section 682.601(a)(7), for any fiscal year beginning on or after July 1, 2006 in which a school engages in activities as an eligible lender, the school must submit a compliance audit of itself as a lender. The Part 4 section, CFDA 84.032 for Lenders, contains the pertinent compliance requirements.

If the SFA Cluster was selected as a major Federal program for a school that is also a lender under the FFEL program, the auditor must also include in the audit coverage work sufficient to render an opinion, as part of the opinion on the SFA Cluster, on the school's compliance with the lender compliance requirements set forth in the Part 4 section for CFDA 84.032 for Lenders. Audit documentation must demonstrate sufficient coverage of those compliance requirements to support that requirement, as well as the compliance requirements set forth in the SFA cluster.

When the SFA Cluster is audited for a school that is a lender, the major program should be listed as a major program in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs as "SFA Cluster (including CFDA 84.032 FFEL - Lenders)."

For schools that are lenders, if the SFA Cluster is not selected as a major program, CFDA 84.032 must be covered as a separate major program using the Part 4 section for CFDA 84.032 for Lenders. In such cases, the major program should be listed in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs as "CFDA 84.032 - FFEL - Lenders."

**APPENDIX A**

**STUDENT FINANCIAL ASSISTANCE PROGRAMS**

**STUDENT ELIGIBILITY COMPLIANCE REQUIREMENTS**

	<b>P E L L</b>	<b>A C G</b>	<b>S M A R T</b>	<b>F W S</b>	<b>F S E O G</b>	<b>F P L</b>	<b>F F E L</b>	<b>D I R E C T L O A N</b>	<b>H P S L / P C L</b>	<b>N S L</b>	<b>S D S</b>
<b>Requirements</b>											
1. A regular student enrolled or accepted for enrollment in an eligible program (34 CFR sections 600.2, 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200, 691.2(d), 691.75, 42 CFR sections 60.5, 57.206(a), 57.306(a), 57.2804)	X	X	X	X	X	X	X	X	X	X	X
2. U.S. Citizen or National (34 CFR sections 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR sections 60.5, 57.206(a), 57.306(a), 57.2804)	X			X	X	X	X	X	X	X	X
3. Has financial need and total awards do not exceed need (34 CFR 675.9, 676.9, 674.9, 682.201, 685.200, 691.62(c); 42 CFR sections 60.51(f), 57.206, 57.306 (b), 57.2804(b)(1))	X	X	X	X	X	X	X <sup>7</sup>	X <sup>1</sup>	X	X	X
4. Does not owe a refund on a grant awarded under the Federal Pell Grant, ACG, National SMART Grant, or FSEOG programs (34 CFR sections 668.32, 690.75, 691.15, 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR sections 60.51(d), 57.206, 57.306)	X	X	X	X	X	X	X	X	X	X	
5. Not in default on any student loans (34 CFR sections 668.32, 690.75, 691.15, 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR sections 60.51(d), 57.206, 57.306).....	X	X	X	X	X	X	X	X	X	X	
6. Must maintain good standing, or satisfactory progress (34 CFR sections 668.32, 690.75, 691.15, 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR sections 60.5(d), 57.306)	X	X	X	X	X	X	X	X	X	X	X

<sup>7</sup> Does not always apply to unsubsidized loans and parent loans.

Requirements	P E L L	A C G	S M A R T	F W S	F S E O G	F P L	F F E L	D I R E C T  L O A N	H P S L  / P C L	N S L	S D S
7. Has registered under Section 3 of the Military Selective Service Act (34 CFR sections 668.32, 668.37, 690.75, 691.15, 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR sections 60.5, 57.206)	X	X	X	X	X	X	X	X	X		
8. Has a valid social security number (34 CFR sections 668.32, 690.75, 691.15, 675.9, 676.9, 674.9, 682.201, 685.200)	X	X	X	X	X	X	X	X			
9. High School Diploma or its recognized equivalent (34 CFR sections 668.32, 690.75, 691.15, 675.9, 676.9, 674.9, 682.201, 685.200) (Under final regulations published on October 29, 2007, an institution may implement the following on or after November 1, 2007, and must implement the change by July 1, 2008: For ACG first and second academic year, has received a high school diploma or, for a home-schooled student, a high school diploma or the certification of completion of a secondary school education by the cognizant authority. (34 CFR sections 691.15(b)(1)(ii)(A) and (iii)(A)))	X	X	X	X	X	X	X	X			
10. Above the age of compulsory school attendance in the State in which the institution he or she is attending is located (34 CFR sections 600.2, 600.4, 600.6, 690.75, 691.15, 675.9, 676.9, 674.9, 682.201, 685.200)	X	X	X	X	X	X	X	X			
11. Ability to Benefit (34 CFR section 668.32, 668 Subpart J, sections 690.75, 675.9, 676.9, 674.9, 682.201, 685.200)	X			X	X	X	X	X			
12. Not been convicted of an offense involving the possession or sale of illegal drugs (34 CFR sections 668.32(l), 668.40)	X	X	X	X	X	X	X	X			
13. In need of a loan (scholarship) to pursue a course of study at the school (42 CFR sections 60.5(h), 57.206(a), 57.306(a), 57.2804)									X	X	X





## OTHER CLUSTERS

### Programs Included in this Supplement Deemed to Be Other Clusters

<u>Agency</u>	<u>CFDA No.</u>	<u>Name of Other Cluster/Program</u>
		<b>Foreign Food Aid Donation Cluster</b>
USDA	None	Food for Progress Program
	None	Section 416(b) Program
		<b>Food Stamp Cluster</b>
USDA	10.551	Food Stamps
	10.561	State Administrative Matching Grants for Food Stamp Program
		<b>Child Nutrition Cluster</b>
USDA	10.553	School Breakfast Program (SBP)
	10.555	National School Lunch Program (NSLP)
	10.556	Special Milk Program for Children (SMP)
	10.559	Summer Food Service Program for Children (SFSPC)
		<b>Emergency Food Assistance Cluster</b>
USDA	10.568	Emergency Food Assistance Program (Administrative Costs)
	10.569	Emergency Food Assistance Program (Food Commodities)
		<b>Schools and Roads Cluster</b>
USDA	10.665	Schools and Roads--Grants to States
	10.666	Schools and Roads--Grants to Counties
		<b>Public Works and Economic Development Cluster</b>
DOC	11.300	Grants for Public Works and Economic Development Facilities
	11.307	Economic Adjustment Assistance
		<b>Section 8 Project-Based Cluster</b>
HUD	14.182	Section 8 New Construction and Substantial Rehabilitation
	14.195	Section 8 Housing Assistance Payments Program--Special Allocations
	14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation
	14.249	Section 8 Moderate Rehabilitation Single Room Occupancy
		<b>CDBG - Entitlement and (HUD-Administered) Small Cities Cluster</b>
HUD	14.218	Community Development Block Grants/Entitlement Grants
	14.219	Community Development Block Grants/Small Cities Program



		<b>Fish and Wildlife Cluster</b>
DOI	15.605	Sport Fish Restoration
	15.611	Wildlife Restoration
		<b>Employment Service Cluster</b>
DOL	17.207	Employment Service
	17.801	Disabled Veterans' Outreach Program (DVOP)
	17.804	Local Veterans' Employment Representative Program (LVER)
		<b>Native American Employment and Training</b>
DOL	17.251	Native American Employment and Training Programs
	17.265	Native American Employment and Training (See explanation under "IV. Other Information" on page 4-17.265-8)
		<b>WIA Cluster</b>
DOL	17.258	WIA Adult Program
	17.259	WIA Youth Activities
	17.260	WIA Dislocated Workers
		<b>Highway Planning and Construction Cluster</b>
DOT	20.205	Highway Planning and Construction
	23.003	Appalachian Development Highway System
		<b>Federal Transit Cluster</b>
DOT	20.500	Federal Transit--Capital Investment Grants
	20.507	Federal Transit--Formula Grants
		<b>Transit Services Programs Cluster</b>
DOT	20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities
	20.516	Job Access - Reverse Commute Program
	20.521	New Freedom Program
		<b>Highway Safety Cluster</b>
DOT	20.600	State and Community Highway Safety
	20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants
	20.602	Occupant Protection
	20.603	Federal Highway Safety Data Improvements Incentive Grants
	20.604	Safety Incentive Grants for Use of Seatbelts
	20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons
	20.609	Safety Belt Performance Grants
	20.610	State Traffic Safety Information System Improvements Grants
	20.611	Incentive Grant Program to Prohibit Racial Profiling

	20.612	Incentive Grant Program to Increase Motorcyclist Safety
	20.613	Child Safety and Child Booster Seat Incentive Grants
		<b>Special Education Cluster (IDEA)</b>
ED	84.027	Special Education--Grants to States (IDEA, Part B)
	84.173	Special Education--Preschool Grants (IDEA Preschool)
		<b>TRIO Cluster</b>
ED	84.042	TRIO--Student Support Services
	84.044	TRIO--Talent Search
	84.047	TRIO--Upward Bound
	84.066	TRIO--Educational Opportunity Centers
	84.217	TRIO--McNair Post-Baccalaureate Achievement
		<b>Bilingual Education Cluster</b>
ED	84.288	Bilingual Education--Program Development and Implementation Grants
	84.290	Bilingual Education--Comprehensive School Grants
	84.291	Bilingual Education--Systemwide Improvement Grants
		<b>Aging Cluster</b>
HHS	93.044	Special Programs for the Aging--Title III, Part B--Grants for Supportive Services and Senior Centers
	93.045	Special Programs for the Aging--Title III, Part C--Nutrition Services
	93.053	Nutrition Services Incentive Program
		<b>CCDF Cluster</b>
HHS	93.575	Child Care and Development Block Grant
	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
		<b>Medicaid Cluster</b>
HHS	93.776	Hurricane Katrina Relief Program
	93.778	Medical Assistance Program (Medicaid)
	93.775	State Medicaid Fraud Control Units
	93.777	State Survey and Certification of Health Care Providers and Suppliers
		<b>Foster Grandparent/Senior Companion Cluster</b>
CNS	94.011	Foster Grandparent Program
	94.016	Senior Companion Program
		<b>Disability Insurance/SSI Cluster</b>
SSA	96.001	Social Security--Disability Insurance (DI)
	96.006	Supplemental Security Income (SSI)

DHS	97.004	<b>Homeland Security Cluster</b> State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program)
	97.067	Homeland Security Grant Program

Note: CFDA 97.004 is part of the cluster only for expenditures attributable to FY 2003 supplemental and FY 2004 awards. See IV, "Other Information," in the program supplement for this cluster in Part 4 for an explanation of the composition of this cluster.

USAID	98.007	<b>Foreign Food Donation Cluster</b> Food for Peace Development Assistance Program
	98.008	Food for Peace Emergency Program

**Programs Not Included in this Supplement Deemed to Be Other Clusters**

<u>Agency</u>	<u>CFDA No.</u>	<u>Name of Other Cluster/Program</u>
USDA	10.415	<b>Rural Rental Housing Cluster</b> Rural Rental Housing Loans
	10.427	Rural Rental Assistance Payments

## **PART 6 - INTERNAL CONTROL**

### **INTRODUCTION**

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. OMB Circular A-133 requires auditors to obtain an understanding of the non-Federal entity's internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned.

This Part 6 is intended to assist non-Federal entities and their auditors in complying with these requirements by describing, for each type of compliance requirement, the objectives of internal control, and certain characteristics of internal control that, when present and operating effectively, may ensure compliance with program requirements. However, the categorizations reflected in this Part 6 may not necessarily reflect how an entity considers and implements internal control. Also, this part is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in Part 6 are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this Part 6. Non-Federal entities and their auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements.

The objectives of internal control pertaining to the compliance requirements for Federal programs (Internal Control Over Federal Programs), as found in §\_\_\_\_.105 of OMB Circular A-133, are as follows:

- (1) Transactions are properly recorded and accounted for to:
  - (i) Permit the preparation of reliable financial statements and Federal reports;
  - (ii) Maintain accountability over assets; and
  - (iii) Demonstrate compliance with laws, regulations, and other compliance requirements;
  
- (2) Transactions are executed in compliance with:
  - (i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
  - (ii) Any other laws and regulations that are identified in the compliance supplements; and
  
- (3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control-Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements. Statement on Auditing Standards No. 78 (SAS 78), *Consideration of Internal Control in a Financial Statement Audit*, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) and a related AICPA audit guide, *Consideration of Internal Control in a Financial Statement Audit*, incorporate the components of internal control presented in the COSO Report.

This Part 6 describes characteristics of internal control relating to each of the five components of internal control that should reasonably assure compliance with the requirements of Federal laws, regulations, and program compliance requirements. A description of the components of internal control and examples of characteristics common to the 14 types of compliance requirements are listed below. Objectives of internal control and examples of characteristics specific to each of 13 of the 14 types of compliance requirements follow this introduction. (Because Special Tests and Provisions are unique for each program, we could not provide specific control objectives and characteristics for this type of compliance requirement.)

**Control Environment** sets the tone of an organization influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

- Sense of conducting operations ethically, as evidenced by a code of conduct or other verbal or written directive.
- If there is a governing Board, the Board has established an Audit Committee or equivalent that is responsible for engaging the auditor, receiving all reports and communications from the auditor, and ensuring that audit findings and recommendations are adequately addressed.
- Management's positive responsiveness to prior questioned costs and control recommendation.
- Management's respect for and adherence to program compliance requirements.
- Key managers' responsibilities clearly defined.
- Key managers have adequate knowledge and experience to discharge their responsibilities.
- Staff knowledgeable about compliance requirements and being given responsibility to communicate all instances of noncompliance to management.
- Management's commitment to competence ensures that staff receive adequate training to perform their duties.
- Management's support of adequate information and reporting system.

**Risk Assessment** is the entity's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risks should be managed.

- Program managers and staff understand and have identified key compliance objectives.
- Organizational structure provides identification of risks of noncompliance:
  - Key managers have been given responsibility to identify and communicate changes.
  - Employees who require close supervision (e.g. inexperienced) are identified.
  - Management has identified and assessed complex operations, programs, or projects.
  - Management is aware of results of monitoring, audits, and reviews and considers related risk of noncompliance.
- Process established to implement changes in program objectives and procedures.

**Control Activities** are the policies and procedures that help ensure that management's directives are carried out.

- Operating policies and procedures clearly written and communicated.
- Procedures in place to implement changes in laws, regulations, guidance, and funding agreements affecting Federal awards.
- Management prohibition against intervention or overriding established controls.
- Adequate segregation of duties provided between performance, review, and recordkeeping of a task.
- Computer and program controls should include:
  - Data entry controls, e.g., edit checks.
  - Exception reporting.
  - Access controls.
  - Reviews of input and output data.
  - Computer general controls and security controls.
- Supervision of employees commensurate with their level of competence.
- Personnel with adequate knowledge and experience to discharge responsibilities.
- Equipment, inventories, cash, and other assets secured physically and periodically counted and compared to recorded amounts.
- If there is a governing Board, the Board conducts regular meetings where financial information is reviewed and the results of program activities and accomplishments are discussed. Written documentation is maintained of the matters addressed at such meetings.

**Information and Communication** are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.

- Accounting system provides for separate identification of Federal and non-Federal transactions and allocation of transactions applicable to both.
- Adequate source documentation exists to support amounts and items reported.

- Recordkeeping system is established to ensure that accounting records and documentation retained for the time period required by applicable requirements; such as the A-102 Common Rule (§\_\_\_\_.42), OMB Circular A-110 (§\_\_\_\_.53), and the provisions of laws, regulations, contracts or grant agreements applicable to the program.
- Reports provided timely to managers for review and appropriate action.
- Accurate information is accessible to those who need it.
- Reconciliations and reviews ensure accuracy of reports.
- Established internal and external communication channels.
  - Staff meetings.
  - Bulletin boards.
  - Memos, circulation files, e-mail.
  - Surveys, suggestion box.
- Employees' duties and control responsibilities effectively communicated.
- Channels of communication for people to report suspected improprieties established.
- Actions taken as a result of communications received.
- Established channels of communication between the pass-through entity and subrecipients.

**Monitoring** is a process that assesses the quality of internal control performance over time.

- Ongoing monitoring built-in through independent reconciliations, staff meeting feedback, rotating staff, supervisory review, and management review of reports.
- Periodic site visits performed at decentralized locations (including subrecipients) and checks performed to determine whether procedures are being followed as intended.
- Follow up on irregularities and deficiencies to determine the cause.
- Internal quality control reviews performed.
- Management meets with program monitors, auditors, and reviewers to evaluate the condition of the program and controls.
- Internal audit routinely tests for compliance with Federal requirements.
- If there is a governing Board, the Board reviews the results of all monitoring or audit reports and periodically assesses the adequacy of corrective action.

**A. ACTIVITIES ALLOWED OR UNALLOWED  
and  
B. ALLOWABLE COSTS/COST PRINCIPLES**

**Control Objectives**

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

**Control Environment**

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

**Risk Assessment**

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

**Control Activities**

- Accountability provided for charges and costs between Federal and non-Federal activities.
- Process in place for timely updating of procedures for changes in activities allowed and cost principles.
- 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 and allowable costs.



**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 and costs allowed.
- Training programs, both formal and informal, provide knowledge and skills necessary to determine activities and costs 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 and allowable costs under Federal awards.

**Monitoring**

- Management reviews supporting documentation of allowable cost information.
- Flow of information from Federal 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.

## C. CASH MANAGEMENT

### Control Objectives

To provide reasonable assurance that the draw down of Federal cash is only for immediate needs, States comply with applicable Treasury agreements, and recipients limit payments to subrecipients to immediate cash needs.

### Control Environment

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

### Risk Assessment

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

### Control Activities

- Cash flow statements by program are prepared to determine essential cash flow needs.
- Accounting system is capable of scheduling payments for accounts payable and requests for funds from Treasury to avoid time lapse between draw down of funds and actual disbursements of funds.
- Appropriate level of supervisory review of cash management activities.
- Written policy that provides:
  - Procedures for requesting cash advances as close as is administratively possible to actual cash outlays;
  - Monitoring of cash management activities;
  - Repayment of excess interest earnings where required.
- For State programs subject to a Treasury-State agreement, a written policy exists which includes:
  - Programs covered by the agreement;
  - Methods of funding to be used;
  - Method used to calculate interest; and
  - Procedures for determining check clearing patterns (if applicable for the funding method).

**Information and Communication**

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

**Monitoring**

- Periodic independent evaluation (e.g. by internal audit, top management) of entity cash management, budget and actual results, repayment of excess interest earnings, and Federal draw down activities.
- Subrecipients' requests for Federal funds are evaluated.
- Review of compliance with Treasury-State agreements.

## **D. DAVIS-BACON ACT**

### **Control Objectives**

To provide reasonable assurance that contractors and subcontractors were properly notified of the Davis-Bacon Act requirements and the required certified payrolls were submitted to the non-Federal entity.

### **Control Environment**

- Management understands and communicates to staff, contractors, and subcontractors the requirements to pay wages in accordance with the Davis-Bacon Act.
- Management understands its responsibility for monitoring compliance.

### **Risk Assessment**

- Mechanisms in place to identify contractors and subcontractors most at risk of non-compliance.
- Management identified how compliance will be monitored and the related risks of failure to monitor for compliance with Davis-Bacon Act.

### **Control Activities**

- Contractors informed in the procurement documents of the requirements for prevailing wage rates.
- Contractors and subcontractors are required by contract to submit certifications and copies of payrolls.
- Contractors' and subcontractors' payrolls monitored to ensure certified payrolls are submitted.

### **Information and Communication**

- Prevailing wage rates requirements are appropriately communicated.
- Reports provide sufficient information to determine if requirements are being met.
- Channels are established for staff to report non-compliance.

### **Monitoring**

- Management reviews to ensure that contractors and subcontractors are properly notified of the Davis-Bacon Act requirements.
- Management reviews to ensure that certified payrolls are properly received.

## **E. ELIGIBILITY**

### **Control Objectives**

To provide reasonable assurance that only eligible individuals 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 eligibles 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.
- 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.

**Information and Communication**

- 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.

**Monitoring**

- Periodic analytical reviews of eligibility determinations performed by management.
- Program quality control procedures performed.
- Periodic audits of detailed transactions.

## **F. EQUIPMENT AND REAL PROPERTY MANAGEMENT**

### **Control Objectives**

To provide reasonable assurance that proper records are maintained for equipment acquired with Federal awards, equipment is adequately safeguarded and maintained, disposition or encumbrance of any equipment or real property is in accordance with Federal requirements, and the Federal awarding agency is appropriately compensated for its share of any property sold or converted to non-Federal use.

### **Control Environment**

- Management committed to providing proper stewardship for property acquired with Federal awards.
- No incentives exist to under-value assets at time of disposition.
- Sufficient accountability exists to discourage temptation of misuse of Federal assets.

### **Risk Assessment**

- Procedures to identify risk of misappropriation or improper disposition of property acquired with Federal awards.
- Management understands requirements and operations sufficiently to identify potential areas of noncompliance (e.g., decentralized locations, departments with budget constraints, transfers of assets between departments).

### **Control Activities**

- Accurate records maintained on all acquisitions and dispositions of property acquired with Federal awards.
- Property tags are placed on equipment.
- A physical inventory of equipment is periodically taken and compared to property records.
- Property records contain description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and disposition data.
- Procedures established to ensure that the Federal awarding agency is appropriately reimbursed for dispositions of property acquired with Federal awards.
- Policies and procedures in place for responsibilities of recordkeeping and authorities for disposition.

### **Information and Communication**

- Accounting system provides for separate identification of property acquired wholly or partly with Federal funds and with non-Federal funds.
- A channel of communication exists for people to report suspected improprieties in the use or disposition of equipment.
- Program managers are provided with applicable requirements and guidelines.

**Monitoring**

- Management reviews the results of periodic inventories and follows up on inventory discrepancies.
- Management reviews dispositions of property to ensure appropriate valuation and reimbursement to Federal awarding agencies.



## **G. MATCHING, LEVEL OF EFFORT, EARMARKING**

### **Control Objectives**

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

### **Control Environment**

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

### **Risk Assessment**

- Identification of areas where estimated values will be used for matching, level of effort, or earmarking.
- Management has sufficient understanding of the accounting system to identify potential recording problems.

### **Control Activities**

- Evidence obtained such as a certification from the donor, or other procedures performed to identify whether matching contributions:
  - Are from non-Federal sources.
  - Involve Federal funding, directly or indirectly.
  - Were used for another federally-assisted program.

Note: Generally, matching contributions must be from a non-Federal source and may not involve Federal funding or be used for another federally assisted program.
- Adequate review of monthly cost reports and adjusting entries.

### **Information and Communication**

- Accounting system capable of:
  - Separately accounting for data used to support matching, level of effort, or earmarking amounts or limits or calculations.

- Ensuring that expenditures or expenses, refunds, and cash receipts or revenues are properly classified and recorded only once as to their effect on matching, level of effort, or earmarking.
- Documenting the value of “in-kind” contributions of property or services, including:
  - Basis for local labor market rates for valuing volunteer services.
  - Payroll records or confirmation from other organizations for services provided by their employees.
  - Quotes, published prices, or independent appraisals used as the basis for donated equipment, supplies, land, buildings, or use of space.

### **Monitoring**

- Supervisory review of matching, level of effort, or earmarking activities performed to assess the accuracy and allowability of transactions and determinations, e.g., at the time reports on Federal awards are prepared.

## **H. PERIOD OF AVAILABILITY OF FEDERAL FUNDS**

### **Control Objectives**

To provide reasonable assurance that Federal funds are used only during the authorized period of availability.

### **Control Environment**

- 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.

### **Risk Assessment**

- 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.

### **Control Activities**

- 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.

### **Information and Communication**

- 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.

### **Monitoring**

- 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.

## I. PROCUREMENT AND SUSPENSION AND DEBARMENT

### Control Objectives

To provide reasonable assurance that procurement of goods and services are made in compliance with the provisions of the A-102 Common Rule or OMB Circular A-110, as applicable, and that covered transactions (as defined in the suspension and debarment common rule) are not made with a debarred or suspended party.

### Control Environment

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

### Risk Assessment

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

### Control Activities

- Job descriptions or other means of defining tasks that comprise particular procurement jobs.
- Contractor's performance with the terms, conditions, and specifications of the contract is monitored and documented.
- Establish segregation of duties between employees responsible for contracting and accounts payable and cash disbursing.
- Procurement actions appropriately documented in the procurement files.

- Supervisors review procurement and contracting decisions for compliance with Federal procurement policies.
- Procedures established to verify that vendors providing goods and services under the award have not been suspended or debarred by the Federal Government.
- Official written policy for procurement and contracts establishing:
  - Contract files that document significant procurement history.
  - Methods of procurement, authorized including selection of contract type, contractor selection or rejection, and the basis of contract price.
  - Verification that procurements provide full and open competition.
  - Requirements for cost or price analysis, including for contract modifications.
  - Obtaining and reacting to suspension and debarment certifications.
  - Other applicable requirements for procurements under Federal awards are followed.
- Official written policy for suspension and debarment that:
  - Contains or references the Federal requirements;
  - Prohibits the award of a subaward, covered contract, or any other covered agreement for program administration, goods, services, or any other program purpose with any suspended or debarred party; and
  - Requires staff to determine that entities receiving subawards of any value and procurement contracts equal to or exceeding \$25,000 and their principals are not suspended or debarred, and specifies the means that will be used to make that determination, i.e., checking the *Excluded Parties Listing System* (EPLS), which is maintained by the General Services Administration; obtaining a certification; or inserting a clause in the agreement.

### **Information and Communication**

- A system in place to assure that procurement documentation is retained for the time period required by the A-102 Common Rule, OMB Circular A-110, award agreements, contracts, and program regulations. Documentation includes:
  - The basis for contractor selection;
  - Justification for lack of competition when competitive bids or offers are not obtained; and
  - The basis for award cost or price.
- Employees' procurement duties and control responsibilities are effectively communicated.
- Procurement staff are provided a current hard-copy *EPLS* or have on-line access.
- Channels of communication are provided for people to report suspected procurement and contracting improprieties.

## **Monitoring**

- Management periodically conducts independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended.

## **J. PROGRAM INCOME**

### **Control Objectives**

To provide reasonable assurance that program income is correctly earned, recorded, and used in accordance with the program requirements.

### **Control Environment**

- Management recognizes its responsibilities for program income.
- Management's prohibition against intervention or overriding controls over program income.
- Realistic performance targets for the generation of program income.

### **Risk Assessment**

- Mechanisms in place to identify the risk of unrecorded or miscoded program income.
- Variances between expected and actual income analyzed.

### **Control Activities**

- Pricing and collection policies procedures clearly communicated to personnel responsible for program income.
- Mechanism in place to ensure that program income is properly recorded as earned and deposited in the bank as collected.
- Policies and procedures provide for correct use of program income in accordance with Federal program requirements.

### **Information and Communication**

- Information systems identify program income collections and usage.
- A channel of communication for people to report suspected improprieties in the collection or use of program income.

### **Monitoring**

- Internal audit of program income.
- Management compares program income to budget and investigates significant differences.

## **K. REAL PROPERTY ACQUISITION AND RELOCATION ASSISTANCE**

### **Control Objectives**

To provide reasonable assurance of compliance with the real property acquisition, appraisal, negotiation, and relocation requirements.

### **Control Environment**

- Management committed to ensuring compliance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (URA).
- Written policies exist for handling relocation assistance and real property acquisition.

### **Risk Assessment**

- Identification of risk that relocation will not be conducted in accordance with the URA, e.g., improper payments will be made to individuals or businesses that relocate.

### **Control Activities**

- Employees handling relocation assistance and real property acquisition have been trained in the requirements of the URA.
- Review of expenditures pertaining to real property acquisition and relocation assistance by employees knowledgeable in the URA.

### **Information and Communication**

- A system is in place to adequately document relocation assistance and real property acquisition.

### **Monitoring**

- Management monitors relocation assistance and real property acquisition for compliance with the URA.



## L. REPORTING

### 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 Management

- Mechanisms exist to identify risks 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.

## M. SUBRECIPIENT MONITORING

### 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 sanctions taken for subrecipient noncompliance.

### Risk Assessment

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

- Organizational restructuring.

### **Control Activities**

- Identify to subrecipients the Federal award information (e.g., CFDA title and number, award name, name of Federal agency, amount of award) and applicable compliance requirements.
- Include in agreements with subrecipients the requirement to comply with the compliance requirements applicable to the Federal program, including the audit requirements of OMB Circular A-133.
- Subrecipients' compliance with audit requirements monitored using techniques such as the following:
  - Determining 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 contacts 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 reviews performed to determine the adequacy of subrecipient monitoring.

## **PART 7 - GUIDANCE FOR AUDITING PROGRAMS NOT INCLUDED IN THIS COMPLIANCE SUPPLEMENT**

**Purpose** - OMB Circular A-133 (§\_\_\_.500(d)(3)) states that for those Federal programs not covered in the compliance supplement, the auditor should use the types of compliance requirements (see 14 types of compliance requirements described in Part 3) contained in the compliance supplement (this Supplement) as guidance for identifying the types of compliance requirements to test, and determine the requirements governing the Federal program by reviewing the provisions of contract and grant agreements and the laws and regulations referred in such contract and grant agreements.

The purpose of this Part is to provide the auditor with guidance on how to identify the applicable compliance requirements for programs not included in this Supplement for single audits and for program-specific audits when a program-specific audit guide is not available. This Supplement includes only the largest and/or riskiest Federal programs. However, there are more than 600 assistance programs currently funded by the Federal Government. Therefore, it is likely that the auditor will encounter programs that the auditor is required to test as major programs that are not included in this Supplement. For this reason, the following guidance is provided for the auditor to identify those compliance requirements that should be tested.

**Organization of this Supplement** - First, a review of how this Supplement is organized will be helpful, since the auditor must consider several parts of the Supplement in identifying compliance requirements to be tested. This Supplement is comprised of the following parts:

- Part 1 - Background, Purpose, and Applicability
- Part 2 - Matrix of Compliance Requirements
- Part 3 - Compliance Requirements
- Part 4 - Agency Program Requirements
- Part 5 - Clusters of Programs
- Part 6 - Internal Control
- Part 7 - Guidance for Auditing Programs Not Included in This Compliance Supplement

In determining the compliance requirements to test for programs not included in this Supplement, the auditor shall to refer to Parts 3 and 5. Part 3 identifies and describes the 14 types of compliance requirements where noncompliance may have a direct and material effect on a Federal program and provides audit objectives and suggested audit procedures. The 14 types of compliance requirements are:

- A. Activities Allowed or Unallowed
- B. Allowable Costs/Cost Principles
- C. Cash Management
- D. Davis-Bacon Act
- E. Eligibility
- F. Equipment and Real Property Management
- G. Matching, Level of Effort, Earmarking
- H. Period of Availability of Federal Funds
- I. Procurement and Suspension and Debarment

- J. Program Income
- K. Real Property Acquisition and Relocation Assistance
- L. Reporting
- M. Subrecipient Monitoring
- N. Special Tests and Provisions

Part 5 enumerates those programs that are considered to be clusters of programs as defined by OMB Circular A-133 (§\_\_.105). A cluster of programs means Federal programs with different *Catalog of Federal Domestic Assistance* (CFDA) numbers that are defined as a cluster of programs because they are closely related programs and share compliance requirements. Part 5 identifies research and development (R&D) and Student Financial Assistance (SFA) as clusters, as well as certain other clusters. Also, Part 5 identifies other clusters of programs that are not included in this Supplement.

For programs not included in this Supplement, the auditor must determine the applicable compliance requirements. While a Federal program may have many compliance requirements, normally there are only a few key compliance requirements that could have a direct and material effect on the program. Since the single audit process is not intended to cover every compliance requirement, this Supplement and the auditor's focus should be on the 14 types of compliance requirements enumerated in Part 3. The following are suggested procedures to assist the auditor in making this determination.

Although the focus of this Supplement is on compliance requirements that could have a direct and material effect on a major program, auditors also have responsibility under *Generally Accepted Government Auditing Standards* (GAGAS) for other requirements when specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on a major program.

### **Steps for Identifying Compliance Requirements**

Determining what compliance requirements to test involves several steps. The auditor should address the following questions:

1. What are the program objectives, program procedures, and compliance requirements for a specific program?
2. Which of the compliance requirements could have a direct and material effect on the program?
3. Which of the compliance requirements are susceptible to testing by the auditor?
4. Into which of the 14 types of compliance requirements does each compliance requirement fall?
5. For Special Tests and Provisions, what are the applicable audit objectives and audit procedures?

1. *What are the program objectives, program procedures, and compliance requirements for a specific program?*

The first step is to gain an understanding of how the program works (e.g., the program objectives and procedures) and determine what laws, regulations, and provisions of contract or grant agreements (compliance requirements) apply to the program. The auditor should consider the following steps:

- a. Discuss the program with the non-Federal entity and, if necessary, the Federal agency or, in the case of a subrecipient, the pass-through entity.
- b. Review the contract and grant agreements and referenced laws and regulations applicable to the program, including any amendments or closeout agreements. The documents or agreements may identify the name and telephone number of a Federal contact person or, if a subaward, the contact person for the pass-through entity whom the auditor may wish to contact for additional information.

**Note:** The auditor should be aware that a particular non-Federal entity or Federal award may be subject to provisions that are unique to that entity or award. For example, previous noncompliance by a non-Federal entity may result in additional requirements to which the non-Federal entity must adhere, in order to continue its participation in the Federal program. Such provisions would generally not be based on laws and regulations applicable to all awards under the Federal program. Reasonable procedures to identify such compliance requirements would be inquiry of non-Federal entity management and review of the contract and grant agreements pertaining to the program. Any such requirements identified which could have a direct and material effect on a major program should be included in the audit.

- c. Review the CFDA. The CFDA provides summary information about each program and includes the name and telephone number of a Federal contact person. A searchable copy of the CFDA is available through the Internet at <http://www.cfda.gov>.
- d. If there is a program-specific audit guide or other audit guidance issued by the Federal agency's Office of the Inspector General (OIG), the auditor may wish to consider this guidance in identifying the program objectives, program procedures, and compliance requirements. The availability of program audit guides can be determined by contacting the appropriate Regional OIG.
- e. Consider other audit guidance, including previously issued guidance, pertaining to the program that has continuing relevance.

2. *Which of the compliance requirements could have a direct and material effect on the program?*

*Generally Accepted Government Auditing Standards* require that the auditor plan the audit to provide reasonable assurance that the financial statements are free of material misstatement resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts. OMB Circular A-133 requires the auditor to perform procedures to determine whether the non-Federal entity has complied with laws, regulations, and the provisions of contract or grant agreements that could have a direct and material effect on each major program. Therefore, the auditor must determine which compliance requirements could have a direct and material effect on each major program.

In assessing materiality, the auditor should consider that materiality is based on qualitative as well as quantitative aspects. Also, the auditor should consider whether to set materiality at lower levels in audits of Federal programs than private sector audits of financial statements due to the visibility and sensitivity of such programs. Examples of characteristics indicative of compliance requirements that could have a direct and material effect on a major program include:

- Noncompliance could likely result in questioned costs.
- The requirement affects a large part of the Federal program (e.g., a material amount of program dollars).
- Noncompliance could cause the Federal agency, or pass-through entity, in the case of a subrecipient, to take action, such as seeking reimbursement of all or a part of the award and suspending the recipient's or subrecipient's participation in the program.

3. *Which of the compliance requirements are susceptible to testing by the auditor?*

The auditor is only expected to test compliance for those requirements that are susceptible to testing by the auditor (i.e., the requirements can be evaluated against objective criteria, and the auditor can reasonably be expected to have sufficient basis for recognizing noncompliance). Further, the auditor would not be expected to test for compliance with requirements that the Federal agency should have the ability to verify in the normal course of administering the program (e.g., if the requirement is that the non-Federal entity must file a report by a certain date, the Federal agency should know whether it received the report on time). Characteristics of compliance requirements that auditors are typically expected to test include those:

- That are practical to test.
- With objective criteria available for the auditor to assess compliance.
- Where an audit objective can be written that supports an opinion on compliance.
- When testing adds value, for example:



- It is likely that the auditor could document the noncompliance in a manner that (1) permits the Federal or pass-through entity to take action, or (2) gives the Federal or pass-through entity an early warning to initiate a monitoring visit or other contact with the non-Federal entity.
- The Federal or pass-through entity does not otherwise have information that verifies compliance.

4. *Into which of the 14 types of compliance requirements does each compliance requirement fall?*

**Note:** In performing this step, the auditor may find it helpful to prepare a matrix similar to the matrix included in Part 2 for programs included in this Supplement.

The auditor shall use the 14 types of compliance requirements listed for identifying which requirements applicable to the program are subject to testing. Not all compliance requirements apply to all programs. Conversely, certain types almost always apply.

- A. **Activities Allowed or Unallowed** almost always applies to Federal programs. The auditor should look at the program requirements and Federal award documents for what constitutes allowable or unallowable activities.
- B. **Allowable Costs/Cost Principles** almost always applies since most Federal programs have charges for goods or services. However, if a program only involves benefits to eligible recipients, with no administrative costs, purchases of goods or services (including salaries and overhead), or allocated costs, then allowable costs may not apply.
- C. **Cash Management** almost always applies to Federal programs. An exception would be a Federal award that operates on a cost reimbursement basis only with no cash being advanced.
- D. **Davis-Bacon Act** only applies as required by the Act itself, the Department of Labor's (DOL) governmentwide implementation of the Davis-Bacon Act, or by Federal program legislation, for construction contracts in excess of \$2000 financed by Federal funds. The auditor should review award documents to determine whether the Davis-Bacon Act applies.
- E. **Eligibility** applies to most Federal programs which provide benefits to individuals, groups of individuals, or make subawards. For programs with eligibility requirements, the auditor should review the program laws, regulations, and provisions of contract or grant agreements to determine the specific eligibility requirements. Eligibility involves not only individuals but also possibly groups of individuals, geographical areas, or subrecipients. Additionally, the auditor should consider whether continuing, as well as initial, eligibility requirements apply. Furthermore, eligibility involves both who is eligible and the amount of benefits provided to the eligible.

- F. **Equipment and Real Property Management** requirements applies to Federal programs which purchase equipment or real property.
- G. **Matching, Level of Effort, Earmarking** is not universal, and, if applicable, would be specific to the Federal program and often the non-Federal entity. Therefore, the auditor will have to review the laws, regulations, contract or grant agreements applicable to the program to determine specific requirements for matching, level of effort, and/or earmarking.
- H. **Period of Availability of Federal Funds** almost always applies to Federal programs. The contract or grant agreement applicable to the program often indicates the period during which the funds are available for obligation under the program. The auditor should also look for program requirements regarding carry-over of unused funds to future funding periods, and whether pre-award costs are allowable, to what extent, and under what circumstances.
- I. **Procurement and Suspension and Debarment** applies, in the case of procurement, any time the entity procures goods or services. Suspension and debarment applies to certain procurements and to all subawards.
- J. **Program Income** applies to any program that generates program income (primarily related to the disposition of the income). Program regulations or the contract or grant agreements applicable to the program may specify additional criteria.
- K. **Real Property Acquisition and Relocation Assistance** only applies as required by the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) for payments to persons displaced from their homes, businesses, or farms by federally-assisted programs. While this requirement only applies to a few programs, when it does apply, it is generally a significant aspect of the program. For example, the U.S. Department of Transportation (DOT) funds many programs to construct highways in which real property acquisition and relocation assistance is a significant part of the program activities. The U.S. Department of Housing and Urban Development has the most transactions subject to the URA and DOT has the most Federal dollars affected.
- L. **Reporting** almost always applies to Federal programs. The standard financial reports are described in Part 3; however, the Federal agency or the pass-through entity may have developed its own forms for financial reporting. These forms may be in addition to or in lieu of the standard Federal financial reports and may include electronic submissions. The auditor should determine whether the standard reports are used, and if not, whether other forms are used to report the same or similar information. Information collections (which, as defined in 5 CFR section 1320.3(c), involves 10 or more respondents) by Federal agencies must be approved by OMB in accordance with the Paperwork Reduction Act of 1995 (44 USC 3501-3520) and assigned an OMB control number. A Federal agency may

not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a valid control number

For performance reporting and special reporting, if there is a program in this Supplement funded by the same Federal agency that requires the same performance or special reporting required by the program for which the auditor is seeking to identify compliance requirements, and this Supplement requires testing of those data, then the auditor should use such guidance in identifying compliance requirements to test. Otherwise, the auditor is only required to test financial reporting.

- M. **Subrecipient Monitoring** applies when Federal awards are passed through to a subrecipient. If the entity is not a pass-through entity, this requirement does not apply.
- N. **Special Tests and Provisions** includes those compliance requirements that do not fit the description of the types of compliance requirements discussed above. These will generally be the most difficult type of compliance requirement to identify because, by definition, they are unique to each program. In addition to reviewing the program's contract and grant agreements and referenced laws and regulations, the auditor should also make inquiries of the non-Federal entity to help identify and understand Special Tests and Provisions.

For each of the types of compliance requirements listed above, except for Special Tests and Provisions, the auditor shall consider the compliance requirements and related audit objectives in Part 3. In making a determination not to test a compliance requirement, the auditor must conclude that the requirement either does not apply to the particular non-Federal entity or that noncompliance with the requirement could not have a material effect on a major program (e.g., the auditor would not be expected to test Procurement if the non-Federal entity charges only small amounts of purchases to a major program). The suggested audit procedures in Part 3 are provided to assist auditors in planning and performing tests of non-Federal entity compliance with the requirements of Federal programs. Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objective and whether additional or alternative audit procedures are needed.

*Internal Control* - Consistent with the requirements of OMB Circular A-133, Part 3 includes audit objectives and suggested audit procedures to test internal control. However, the auditor must determine the specific procedures to test internal control on a case by case basis considering factors such as the non-Federal entity's internal control, the compliance requirements, the audit objectives for compliance, the auditor's assessment of control risk, and the audit requirement to test internal control as prescribed in OMB Circular A-133.

5. *For Special Tests and Provisions, what are the applicable audit objectives and audit procedures?*

For each of the types of compliance requirements discussed above, Part 3 includes audit objectives and suggested audit procedures, except for Special Tests and Provisions. As noted above, Special Tests and Provisions are sufficiently unique to every program that including audit objectives and suggested audit procedures is not practicable. Therefore, the auditor will have to develop audit objectives and audit procedures for each identified Special Test and Provision using the guidance described in Part 3 under Special Tests and Provisions.

## **Appendix I**

### **Federal Programs Excluded from the A-102 Common Rule**

Note: §\_\_ references are to the “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” (A-102 Common Rule).

#### **Background**

Certain grant programs (block grant programs enacted under the Omnibus Budget Reconciliation Act of 1981, one special program, open-ended entitlement programs, and other specified programs) were originally exempted from the provisions of the A-102 Common Rule. On September 8, 2003 (68 FR 52843-52844), the Department of Health and Human Services (HHS) amended its implementation of the A-102 Common Rule at 45 CFR part 92 to eliminate the exemption for all of its programs other than the HHS block grants under the Omnibus Budget Reconciliation Act of 1981. The Department of Agriculture previously included its entitlement grants in its implementation of the A-102 Common Rule. The programs that remain exempt from the A-102 Common Rule are listed below. Consult Part 4 - Agency Program Requirements, II, “Program Procedures - Source of Governing Requirements” for the governing requirements for these programs.

The listed block grant programs and Impact Aid (CFDA 84.041) (excluding payments for children with disabilities and payments for construction) are also exempt from the provisions of the OMB cost principles circulars. State cost principles requirements apply to these programs (including their subrecipients). The entitlement programs and the other programs are subject to the provisions of the OMB cost principles circulars. The HHS September 8, 2003 rulemaking did not affect the applicability of the cost principles for the HHS entitlement programs.

Note that, in some cases, the administrative requirements for entitlement programs in Federal agency regulations are not identical to those in the A-102 Common Rule. Rather than identify for testing each instance where the requirements differ, this Compliance Supplement only addresses differences that warrant special attention. One difference is in the area of procurement. With respect to all other administrative requirements, the auditor should be guided by the provisions of the A-102 Common Rule and agency program requirements (see Part 4).

#### *Differences pertaining to procurement*

Subpart F of 45 CFR part 95, ADP equipment and services, applies to certain HHS programs as specified in Part 4 of this Supplement. Subpart F requires prior Federal written approval for the acquisition of ADP equipment and services of \$5 million or more when the Federal Government funds at regular matching rates and prior written approval for all ADP acquisitions when the Federal Government funds at enhanced matching rates. In addition, the rules require prior Federal written approval for sole-source contracts between \$1 million and \$5 million when the Federal Government funds at regular matching rates and for certain requests for proposals (RFPs), contracts, and amendments.

## Programs Excluded from the Requirements of the A-102 Common Rule

Since many of the programs excluded from the A-102 Common Rule were reauthorized or amended, the following list provides the CFDA number and name as listed in the current CFDA. A notation is included with the program name to indicate when only part of the awards under a CFDA number are excluded from the A-102 Common Rule or to provide other clarifications.

§\_\_\_.4(a)(2) Block grant programs authorized by:

*The Omnibus Budget Reconciliation Act of 1981 (§\_\_\_.4(a)(2))*

93.568	Low-Income Home Energy Assistance
93.569	Community Services Block Grant
93.667	Social Services Block Grant
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.991	Preventive Health and Health Services Block Grant
93.994	Maternal and Child Health Services Block Grant to the States
14.228	Community Development Block Grants/State's Program (State-administered small cities program)

### *Other programs*

§\_\_\_.4(a)(9) *Grants to local education agencies under the following sections of the Impact Aid program (CFDA 84.041):*

Section 8002; 20 USC 7702 (Federal property payments)  
Section 8003(b); 20 USC 7703(b) (Basic support payments).

§\_\_\_.4(a)(10) *Payments under the Veterans Administration's State Home Per Diem Program:*

64.014	Veterans State Domiciliary Care
64.015	Veterans State Nursing Home Care
64.016	Veterans State Hospital Care

*Grants authorized under the Child Care and Development Block Grant Act of 1990, as amended*

93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund

**Appendix II**  
**Federal Agency Codification of Certain Governmentwide Grants Requirements**

Agency (departments then agencies <sup>1</sup> )	A-102 Common Rule (State & local governments)	OMB Circular A-110 (2 CFR part 180) (universities & non-profit organizations) <sup>2</sup>	Nonprocurement Suspension & Debarment <sup>3</sup> (2 CFR part 180 or predecessor common rule)
Agriculture	7 CFR 3016	7 CFR 3019	7 CFR 3017
Commerce	15 CFR 24	15 CFR 14	2 CFR 1326
Defense	32 CFR 33	32 CFR 32	2 CFR 1125
Education	34 CFR 80	34 CFR 74	34 CFR 85
Energy	10 CFR 600	10 CFR 600	2 CFR 901
Health & Human Services	45 CFR 92	45 CFR 74	2 CFR 376
Homeland Security	Currently using the implementation of the agency from which the program was transferred, e.g., the Federal Emergency Management Agency		
Housing & Urban Development	24 CFR 85	24 CFR 84	2 CFR 2424
Interior	43 CFR 12	43 CFR 12	2 CFR 1400
Justice	28 CFR 66	28 CFR 70	2 CFR 2867
Labor	29 CFR 97	29 CFR 95	29 CFR 98
State	22 CFR 135	22 CFR 145	2 CFR 601
Transportation	49 CFR 18	49 CFR 19	49 CFR 29
Treasury			31 CFR 19
Veterans Affairs	38 CFR 43	38 CFR 49	2 CFR 801
ADF			22 CFR 1508
AID		22 CFR 226	22 CFR 208
BBG		22 CFR 518	22 CFR 513
CNCS	45 CFR 2541	45 CFR 2543	2 CFR 2200
EPA	40 CFR 31	40 CFR 30	2 CFR 1532

Agency (departments then agencies <sup>1</sup> )	A-102 Common Rule (State & local governments)	OMB Circular A-110 (2 CFR part 180) (universities & non-profit organizations) <sup>2</sup>	Nonprocurement Suspension & Debarment <sup>3</sup> (2 CFR part 180 or predecessor common rule)
FEMA (now part of DHS)	44 CFR 13		44 CFR 17 (not covered by common rule changes of November 26, 2003)
FMCS	29 CFR 1470		29 CFR 1471
GSA	41 CFR 105-71	41 CFR 105-72	41 CFR 105-68
IMLS	45 CFR 1183		45 CFR 1185
IAF			22 CFR 1006
NASA	14 CFR 1273	14 CFR 1260	2 CFR 1880
NARA	36 CFR 1207	36 CFR 1210	2 CFR 2600
NEA	45 CFR 1157		2 CFR 3254
NEH	45 CFR 1174		2 CFR 3369
NSF	45 CFR 602		2 CFR 2520
ONDCP	21 CFR 1403		21 CFR 1404
OPM			5 CFR 970
Peace Corps			2 CFR 3700
SBA	13 CFR 143		2 CFR 2700
SSA	20 CFR 437	20 CFR 435	2 CFR 2336

A copy of this table is also located on OMB's Home Page at <http://www.whitehouse.gov/omb/grants/chart.html>.

NOTES:

- Abbreviations used for the following independent agencies: African Development Foundation (ADF), Agency for International Development (AID), Broadcasting Board of Governors (BBG), Corporation for National and Community Service (CNCS), Environmental Protection Agency (EPA), Federal Emergency Management Agency (FEMA) (now part of the Department of Homeland Security), Federal Mediation and Conciliation Service (FMCS), General Services Administration (GSA), Institute of Museum and Library Services (IMLS), Inter-American Foundation (IAF), National Aeronautics and Space Administration (NASA), National Archives and Records Administration (NARA), National Endowment for the Arts (NEA), National Endowment for the Humanities (NEH), National Science Foundation (NSF), Office of National Drug



Control Policy (ONDCP), Office of Personnel Management (OPM), Small Business Administration (SBA), and Social Security Administration (SSA).

2. If an agency implements OMB Circular A-110 (2 CFR part 215) other than through codified rules; the Circular's requirements apply equally to the agency and its awards.
3. The OMB guidance on nonprocurement suspension and debarment is found at 2 CFR part 180. Agencies are expected to adopt the OMB guidance in their individual chapters in 2 CFR.

### Appendix III Federal Agency Contacts for A-133 Audits

This appendix lists Federal agency contacts for A-133 information. A separate table is provided for each Federal agency. The left side of the table lists the addresses, phone numbers, and, where available, e-mail and web page addresses, for each contact. The right side lists the geographical area each Federal contact is responsible for overseeing.

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<b>United States Department of Agriculture</b>	
Regional Inspector General U.S. Department of Agriculture 401 W. Peachtree St. NW, Suite 2328 Atlanta, GA 30308 Phone: Voice (404) 730-3210 FAX (404) 730-3221	All audits

<b>Department of Commerce</b>	
Regional Inspector General U. S. Department of Commerce 401 West Peachtree Street, NW Suite 2742 Atlanta, GA 30308 Phone: Voice (404) 730-2780 FAX (404) 730-2788	All audits

<b>Department of Defense</b>	
Office of the Assistant Inspector General for Audit Policy and Oversight Office of Inspector General U.S. Department of Defense 400 Army Navy Drive, Room 1016 Arlington, VA 22202-4704 Phone: Voice (703) 604-8760 FAX (703) 604-9808 E-Mail:aponet@dodig.mil	All audits

<b>Department of Education</b>	
Director, Non-Federal Audits Office of Inspector General U.S. Department of Education Wanamaker Building 100 Penn Square East, Suite 502 Philadelphia, PA 19107 Phone: Voice (215) 656-6900 FAX (215) 656-6397	NATIONAL OFFICE CONTACT and audits in Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, Puerto Rico, and the Virgin Islands

<b>Department of Education</b>	
Non-Federal Audit Team Office of Inspector General U.S. Department of Education 1999 Bryan St., Suite 1440 Dallas, TX 75201-6817 Phone: Voice (214) 661-9530 FAX (214) 661-9531	For audits in Alabama, Arkansas, Colorado, Florida, Georgia, Kentucky, Louisiana, Mississippi, New Mexico, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, and Wyoming.
Non-Federal Audit Team Office of Inspector General U.S. Department of Education 8930 Ward Parkway, Suite 2401 Kansas City, MO 64114-3302 Phone:Voice (816) 268-0500 FAX (816) 823-1398	For audits in Alaska, Arizona, California, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, Ohio, Oregon, Washington, Wisconsin, and the Pacific Islands.

<b>Department of Energy</b>	
U.S. Department of Energy Office of Inspector General ATTN: Single Audit Contact 1000 Independence Ave. SW IG-33, Rm 5A-193 Washington, DC 20585 Phone: Voice (202) 586-1947 FAX (202) 586-0099 Web Page: <a href="http://www.ig.doe.gov">www.ig.doe.gov</a>	All audits

<b>Department of Health and Human Services</b>	
National Audit Managers - Non-Federal Audits HHS National External Audit Resources 1100 Walnut St, Suite 850 Kansas City, MO 64106 Phone: Voice (816) 426-7720 (800) 732-0679 FAX (816) 426-7745 Web Page: <a href="http://www.os.dhhs.gov">www.os.dhhs.gov</a>	All audits

<b>Department of Homeland Security</b>	
Office of Inspector General Attn: Single Audit Coordinator 245 Murray Drive, S.W., Bldg.410 Washington, DC 20528 Phone: Voice (202) 254-4142 FAX (202) 254-4294	All audits

<b>Department of Housing and Urban Development</b>	
US Department of HUD Office of Inspector General Mid-Atlantic Audit District Single Audit Coordinator George Datto 100 Penn Square East Wanamaker Bldg., Suite 1005 Philadelphia, PA 19107 Phone: Voice (215) 430-6733 FAX (215) 656-3409 Web Page: <a href="http://www.hud.gov/oig/oigindex.html">www.hud.gov/oig/oigindex.html</a>	All audits

<b>Department of the Interior</b>	
U.S. Department of Interior Office of Inspector General 12030 Sunrise Valley Drive, Suite 230 Reston, VA 20191 Phone: Voice (703) 487-5345 FAX (703) 487-5214	All audits

<b>Department of Justice</b>	
U. S. Department of Justice Washington Regional Audit Office 1425 New York Ave, NW Suite 6001 Washington, DC 20005 (Mailing Address: P.O. Box 34190 Washington, DC 20043-4190) Phone: Voice (202) 616-4688 FAX (202) 616-4581	District of Columbia, Maryland, Virginia, and West Virginia

<b>Department of Justice</b>	
U.S. Department of Justice Philadelphia Regional Audit Office 701 Market Street, Suite 201 Philadelphia, PA 19106 Phone: Voice (215) 580-2111 FAX (215) 597-1348	For audits in Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont
U.S. Department of Justice Atlanta Regional Audit Office 75 Spring Street Suite 1130 Atlanta, GA 30303 Phone: Voice (404) 331-5928 FAX (404) 331-5046	For audits in Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Puerto Rico, and the Virgin Islands
U.S. Department of Justice Chicago Regional Audit Office CitiCorp Center, 500 West Madison Suite 3510 Chicago, IL 60661 Phone: Voice (312) 353-1203 FAX (312) 886-0513	For audits in Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin
U.S. Department of Justice Dallas Regional Audit Office 207 South Houston Street Box 4 (Room 575) Dallas, TX 75202 Phone: Voice (214) 655-5000 FAX (214) 655-5025	For audits in Arkansas, Louisiana, New Mexico, Oklahoma, and Texas,
U.S. Department of Justice Denver Regional Audit Office 1120 Lincoln Street, Suite 1500 Denver, CO 80203 Phone: Voice (303) 864-2000 FAX (303) 864-2004	For audits in Alaska, Colorado, Idaho, Montana, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming
U.S. Department of Justice San Francisco Regional Audit Office 1200 Bayhill Drive, Suite 201 San Bruno, CA 94066 Phone: Voice (650) 876-9220 FAX (650) 876-0902	For audits in American Samoa, Arizona, California, Guam, Hawaii, Nevada, Trust Territories of the Pacific Islands, and the Commonwealth of Northern Mariana Islands

<b>Department of Justice</b>	
U.S. Department of Justice Assistant Inspector General for Audit 1425 New York Avenue, NW Suite 5001 Washington, DC 20005 (Mailing Address: P.O. Box 34190 Washington, DC 20043-4190) Phone: Voice (202) 616-4633 FAX (202) 616-1697	NATIONAL OFFICE CONTACT

<b>Department of Labor</b>	
National Single Audit Coordinator Office of Accountability Audits U.S. Department of Labor 200 Constitution Ave. NW, Room N-4633 Washington, DC 20210 Phone: Voice (202) 693-7013 FAX (202) 693-5237 E-mail: <a href="mailto:cummings.joseph@oig.dol.gov">cummings.joseph@oig.dol.gov</a> Web Page: <a href="http://www.oig.dol.gov">http://www.oig.dol.gov</a>	All audits

<b>Department of State</b>	
U.S. Department of State Office of Inspector General OIG/AUD/CG 1700 North Moore Street Arlington, VA 22209 Phone: Voice (703) 284-2600 FAX (703) 284-2622	All audits

<b>Department of Transportation</b>	
U.S. Department of Transportation Office of Inspector General City Crescent Building Attn: National Single Audit Coordinator 10 South Howard Street, Suite 4500 Baltimore, MD 21201 Phone: Voice (410) 962-2630 FAX (410) 962-7469	All audits  <b>For ALL Single Audit Report Due Date Requests:</b> Phone: Voice (202) 493-0223 FAX (202) 366-3530

<b>Department of the Treasury</b>	
Department of the Treasury Office of Inspector General Director, Banking and Fiscal Services 740 15th Street NW, Suite 600 Washington, DC 20220 Phone: Voice (202) 927-6512 FAX (202) 927-5379	All audits

<b>Department of Veterans Affairs</b>	
Director Office of Inspector General Financial Statement Audit Division (52CF) Department of Veterans Affairs 810 Vermont Ave. NW Washington, DC 20420 Phone: Voice (202) 565-7013 FAX (202) 565-7771	All audits

<b>Agency for International Development</b>	
USAID Attn: OIG/A/FA Room 8.10-10 1300 Pennsylvania Avenue, NW Washington, DC 20523-7802 Phone: Voice (202) 712-4902 FAX (202) 216-3598 E-Mail: <a href="mailto:faudit@usaid.gov">faudit@usaid.gov</a> Web Page: <a href="http://www.info.usaid.gov">www.info.usaid.gov</a>	For audits of all U. S. based not-for-profit organizations

<b>Appalachian Regional Commission</b>	
Appalachian Regional Commission Office of Inspector General 1666 Connecticut Ave. NW, Suite 215 Washington, DC 20009-1068 Phone: Voice (202) 884-7675 FAX (202) 884-7696 E-Mail: <a href="mailto:IG@ARC.GOV">IG@ARC.GOV</a>	All audits



<b>Corporation for National and Community Service</b>	
Office of Grants Management Corporation for National and Community Service 1201 New York Avenue, NW Washington, DC 20525 Phone: Voice (202) 606-5000 ext. 124 FAX (202) 565-2850	All audits
<b>Environmental Protection Agency</b>	
National Single Audit Coordinator Office of Inspector General Eastern Resource Center U.S. Environmental Protection Agency 3AI00 1650 Arch Street, 3 <sup>rd</sup> Floor Philadelphia, PA 19103-2029 Phone: Voice (513) 487-2365 FAX (513) 487-2359 E-Mail: <a href="mailto:single.audit@epa.gov">single.audit@epa.gov</a> Web page: <a href="http://www.epa.gov/oigearth">www.epa.gov/oigearth</a>	All audits
<b>General Services Administration</b>	
Deputy Inspector General for Finance and Administrative Audits Single Audit Coordinator: Anthony Mitchell General Services Administration 1800 F Street, Room 6046 Washington, DC 20405 Phone: Voice (202) 708-5340 FAX (202) 708-7494 E-Mail: <a href="mailto:anthony.mitchell@gsa.gov">anthony.mitchell@gsa.gov</a>	All audits

<b>National Aeronautics and Space Administration</b>	
NASA Office of Inspector General NASA Headquarters, Code W 300 E Street, SW , Room 8T79 Washington, DC 20546-0001 Phone: Voice (202) 358-1232 FAX (202) 358-3241 E-Mail: code-w-aiga-staff-dir@lists.hq.nasa.gov Web page: <a href="http://www.hq.nasa.gov/office/oig/hq">www.hq.nasa.gov/office/oig/hq</a>	All audits

<b>National Archives and Records Administration</b>	
Office of Inspector General National Archives at College Park 8601 Adelphi Road - Room 1300 College Park, MD 20740-6001 Phone: Voice (301) 837-3000 FAX (301) 837-3197	All audits

<b>National Endowment for the Arts</b>	
Office of Inspector General National Endowment for the Arts 1100 Pennsylvania Ave. NW, Room 601 Washington, DC 20506 Phone: Voice (202) 682-5402 FAX (202) 682-5649 E-Mail: shawd@arts.endow.gov Website: <a href="http://www.arts.endow.gov/learn/OIG/Contents.html">www.arts.endow.gov/learn/OIG/Contents.html</a>	All audits

<b>National Endowment for the Humanities</b>	
Office of Inspector General National Endowment for the Humanities 1100 Pennsylvania Ave. NW, Room 419 Washington, DC 20506 Phone: Voice (202) 606-8350 FAX (202) 606-8329 E-Mail: <a href="mailto:oig@neh.gov">oig@neh.gov</a>	All audits

<b>National Science Foundation</b>	
Office of Inspector General National Science Foundation Associate Inspector General for Audit 4201 Wilson Boulevard, Suite 1135 Arlington, VA 22230 Phone: Voice (703) 292-7100 FAX (703) 292-9158 E-Mail: single_audit@nsf.gov	All audits

<b>Nuclear Regulatory Commission</b>	
Nuclear Regulatory Commission Office of Inspector General Mail Stop T5D28 Washington, DC 20555 ATTN: Anthony C. Lipuma, Team Leader Phone: Voice (301) 415-5915 FAX (301) 415-5091 E-Mail: acl@nrc.gov	All audits

<b>Small Business Administration</b>	
Assistant Inspector General for Auditing Operational Support Services Small Business Administration Office of Inspector General 409 Third Street SW, Suite 5600 Washington, DC 20416 Phone: Voice (202) 205-7203 FAX (202) 205-7874	All audits

<b>Social Security Administration</b>	
Director Social Security Administration Office of Inspector General Bolling Federal Building, Room 645 601 E. 12th Street Kansas City, MO 64106 Phone: Voice (816) 936-5591 FAX (816) 936-5966 E-Mail: MARK.BAILEY@SSA.GOV	All audits

<b>Tennessee Valley Authority</b>	
Assistant Inspector General Audit Operations Tennessee Valley Authority Office of Inspector General 400 West Summit Hill Drive Knoxville, TN 37902-1499 Phone: Voice (865) 632-3437 FAX (865) 632-4130 Web page: <a href="http://www.oig.tva.gov">www.oig.tva.gov</a>	All audits

**Appendix IV**  
**Internal Reference Tables**

**Programs with section IV, “Other Information” descriptions in Parts 4 and 5:**

<b>CFDA Number</b>	<b>Title</b>	<b>Type A/B Program</b>	<b>Schedule Federal Awards</b>	<b>Other</b>
10.553	School Breakfast Program (SBP)	X	X	
10.555	National School Lunch Program (NSLP)			
10.556	Special Milk Program (SMP)			
10.559	Summer Food Service Program for Children (SFSPC)			
10.558	Child and Adult Food Care Program (CACFP)	X	X	
10.760	Water and Waste Disposal Systems for Rural Communities	X	X	X
10.766	Community Facilities Loans and Grants	X	X	X
11.300	Grants for Public Works and Economic Development Facilities	X	X	X
11.307	Economic Adjustment Assistance			
11.555	Public Safety Interoperable Grant Program			X
14.157	Supportive Housing for the Elderly	X	X	
14.181	Supportive Housing for Persons with Disabilities (Section 811)	X	X	
14.182	Section 8 New Construction and Substantial Rehabilitation			X
14.195	Section 8 Housing Assistance Payments Program--Special Allocations			
14.249	Section 8 Moderate Rehabilitation Single Room Occupancy			
14.856	Lower Income Housing Assistance Program—Section 8 Moderate Rehabilitation			

<b>CFDA Number</b>	<b>Title</b>	<b>Type A/B Program</b>	<b>Schedule Federal Awards</b>	<b>Other</b>
14.218	Community Development Block Grants/Entitlement Grants			X
14.219	Community Development Block Grants/Small Cities Program (HUD- Administered Small Cities Program)			
14.228	Community Development Block Grants/State's Program (State-Administered Small Cities Program)			X
14.231	Emergency Shelter Grants Program			X
14.239	HOME Investment Partnerships Program			X
14.850	Public and Indian Housing			X
14.862	Indian Community Development Block Grant Program			X
14.866	Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)			X
14.867	Indian Housing Block Grants			X
14.871	Section 8 Housing Choice Vouchers			X
14.872	Public Housing Capital Fund (CFP)			X
17.207	Employment Service/Wagner-Peyser Funded Activities		X	X
17.801	Disabled Veterans' Outreach Program (DVOP)			
17.804	Local Veterans' Employment Representative (LVER) Program			
17.225	Unemployment Insurance	X	X	
20.106	Airport Improvement Program			X

<b>CFDA Number</b>	<b>Title</b>	<b>Type A/B Program</b>	<b>Schedule Federal Awards</b>	<b>Other</b>
21.020	Community Development Financial Institutions Program	X	X	
66.458	Capitalization Grants for Clean Water State Revolving Funds			X
66.468	Capitalization Grants for Drinking Water State Revolving Fund			X
84.032-G	Federal Family Education Loans - (Guaranty Agencies)		X	X
84.032-L	Federal Family Education Loans - (Lenders)		X	X
84.938	Hurricane Education Recovery		X	X
93.044	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	X	X	
93.045	Special Programs for the Aging—Title III, Part C—Nutrition Services			
93.053	Nutrition Services Incentive Program			
93.224	Consolidated Health Centers		X	
93.268	Immunization Grants		X	X
93.558	Temporary Assistance for Needy Families	X	X	X
93.568	Low-Income Home Energy Assistance	X	X	
93.569	Community Services Block Grant	X	X	
93.575	Child Care and Development Block Grant	X	X	X
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund			
93.600	Head Start			X
93.667	Social Services Block Grant	X	X	X

<b>CFDA Number</b>	<b>Title</b>	<b>Type A/B Program</b>	<b>Schedule Federal Awards</b>	<b>Other</b>
93.775	State Medicaid Fraud Control Units	X	X	X
93.776	Hurricane Katrina Relief			
93.777	State Survey and Certification of Health Care Providers and Suppliers			
93.778	Medical Assistance Program			
93.959	Block Grants for Prevention and Treatment of Substance Abuse	X	X	
93.991	Preventive Health and Health Services Block Grant	X	X	
93.994	Maternal and Child Health Services Block Grant to the States	X	X	
96.001	Social Security—Disability Insurance (DI)		X	
96.006	Supplemental Security Income (SSI)			
97.004	State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program)	X	X	X <sup>8</sup>
97.067	Homeland Security Grant Program			
97.008	Urban Areas Security Initiative		X	X
97.036	Public Assistance Grants	X	X	X
97.039	Hazard Mitigation Grant (HMGP)	X	X	X
97.109	Disaster Housing Assistance Program			X
84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)		X	X
84.032	Federal Family Education Loans (FFEL)			
84.033	Federal Work-Study Program (FWS)			
84.038	Federal Perkins Loans (FPL)—Federal Capital Contributions			
84.063	Federal Pell Grant Program (PELL)			
84.268	Federal Direct Student Loans (Direct Loan)			



<b>CFDA Number</b>	<b>Title</b>	<b>Type A/B Program</b>	<b>Schedule Federal Awards</b>	<b>Other</b>
84.375	Academic Competitiveness Grant (ACG)			
84.376	National Science and Mathematics Access to Retain Talent Grant (National SMART Grant)			

**The section IV, “Other Information,” for the following ED programs is located in 84.000, the ED Cross-Cutting Section**

<b>CFDA Number</b>	<b>Title</b>	<b>Type A/B Program</b>	<b>Schedule Federal Awards</b>	<b>Other</b>
84.000	All applicable ED programs			X
84.010	Title I Grants to Local Educational Agencies	X	X	
84.011	Migrant Education—State Grant Program	X	X	
84.027	Special Education—Grants to States (IDEA, Part B)	X	X	
84.173	Special Education—Preschool Grants (IDEA Preschool)			
84.048	Vocational Education—Basic Grants to States	X	X	
84.186	Safe and Drug-Free Schools and Communities—State Grants	X	X	
84.287	Twenty-First Century Community Learning Centers	X	X	
84.288	Bilingual Education—Program Development and Implementation Grants	X	X	
84.290	Bilingual Education—Comprehensive School Grants			
84.291	Bilingual Education—Systemwide Improvement Grants			
84.298	State Grants for Innovative Programs	X	X	
84.318	Education Technology State Grants	X	X	
84.357	Reading First State Grants	X	X	
84.367	Improving Teacher Quality State Grants	X	X	

**Program currently designated as “Higher Risk” by OMB pursuant to Circular A-133, §\_\_.525(c)(2):**

<b>CFDA Number</b>	<b>Title</b>
93.778	Medicaid Cluster

## **Appendix V**

### **List of Changes for the 2008 Compliance Supplement**

This Appendix provides a list of changes from the 2007 OMB Circular A-133 Compliance Supplement, dated March 2007, to this 2008 Supplement.

#### **Table of Contents**

- The Table of Contents has been changed to:
  - Modify the program title for the following programs to make them consistent with the name as it appears in the *Catalog of Federal Domestic Assistance* (CFDA):
    - CFDA 20.612, Incentive Grant Program to Increase Motorcyclist Safety
    - CFDA 84.048, Career and Technical Education – Basic Grants to States
  - Add to Part 4 CFDA 11.555, Public Safety Interoperable Communications Grant Program
  - Add to Part 4 CFDA 15.426, Coastal Impact Assistance Program.
  - Add to Part 4 CFDA 20.513, Capital Assistance Program for Elderly Persons and Persons with Disabilities
  - Add to Part 4 CFDA 20.516, Job Access – Reverse Commute
  - Add to Part 4 CFDA 20.521, New Freedom Program
  - Add to Part 4 CFDA 93.153, Grants for Coordinated Services and Access to Research for Women, Infants, Children, and Youth (Ryan White CARE Act Title IV Program)
  - Add to Part 4 CFDA 97.109, Disaster Housing Assistance Program

#### **Part 1 - Background, Purpose, and Applicability**

- The “Purpose and Applicability” section has been updated for the effective date of this Supplement and to recognize an update to OMB Circular A-133 in June 2007.

#### **Part 2 - Matrix of Compliance Requirements**

- Updated matrix to add and remove programs to make the matrix consistent with the Table of Contents and Part 4. For existing programs that added or removed compliance requirements, the matrix was updated based on the program supplement in Part 4.
  - CFDA 14.241 – removed applicability of “Davis-Bacon Act.”

- CFDA 84.032-L – added shading to denote requirements that are “Not Applicable,” added the applicability of “Procurement and Suspension and Debarment,” and removed the applicability of “Activities Allowed or Unallowed.”
- CFDA 93.268 – removed applicability of “Subrecipient Monitoring.”

### **Part 3 - Compliance Requirements**

- Modified B, “Allowable Costs/Cost Principles, A-122, Introduction,” to reflect the language of that circular.
- Updated I, “Procurement and Suspension and Debarment,” to delete references to the changes as a result of the common rule (issued November 26, 2003) because the changes referenced have been in effect for more than 4 years and to reflect the status of the implementation of 2 CFR part 180.

### **Part 4 - Agency Program Requirements**

- **CFDA 10.553, 10.555, 10.556, and 10.559** – Updated II, “Program Procedures,” III.A, “Activities Allowed or Unallowed,” III.E.1.b, “Eligibility – Eligibility for Individuals,” III.I, “Procurement and Suspension and Debarment,” III.L.3, “Reporting – Special Reporting,” and III.N.1, “Special Tests and Provisions – Verification of Free and Reduced Price Applications (NSLP).”
- **CFDA 10.557** - Updated II, “Program Procedures,” III.A.3, “Activities Allowed or Unallowed,” III.B.2.b, “Allowable Costs/Cost Principles,” III.L.1.e, “Reporting – Financial Reporting – Financial Reports – FNS 798,” and III.N.4, “Special Tests and Provisions – Authorization of Above-50-Percent Vendors.”
- **CFDA 10.558** – Updated II, “Program Procedures,” III.A.2 and 3, “Activities Allowed or Unallowed,” III.E.1, “Eligibility – Eligibility for Individuals,” III.E.3, “Eligibility – Eligibility for Subrecipients,” III.G.3, “Matching, Level of Effort, Earmarking – Earmarking,” III.I, “Procurement and Suspension and Debarment,” and III.L.3.b, “Reporting – Special Reporting.”
- **CFDA 10.566** – Updated citation in III.N.1, “Special Tests and Provisions – EBT Reconciliation.”
- **CFDA 10.568** – Updated II, “Program Procedures - Source of Governing Requirements.” Corrected III.G.3, “Matching, Level of Effort, Earmarking – Earmarking.”
- **CFDA 10.665 and 10.666** – Updated II, “Program Procedures,” to note funding was extended through Fiscal Year 2007.

- **CFDA 10.776** – Updated II, “Program Procedures,” III.A.1, “Activities Allowed or Unallowed,” and IV, “Other Information.”
- **CFDA 11.300** – Updated IV, “Other Information,” to indicate how to calculate expenditures under this program for purposes of determining whether a recipient meets the A-133 audit threshold.
- **CFDA 11.555** – Added as a new program supplement.
- **CFDA 14.157** – Corrected information in III.L.2.e, “Reporting – Performance Reporting.”
- **CFDA 14.181** – Corrected information in III.L.2.e, “Reporting – Performance Reporting.”
- **CFDA 14.218 and 14.219** – Corrected information in III.L.2.e, “Reporting – Performance Reporting.”
- **CFDA 14.228** – Corrected information in III.L.2.e, “Reporting – Performance Reporting” and added a suggested audit procedure to III.N.1, “Special Tests and Provisions – Environmental Oversight.”
- **CFDA 14.231** – Corrected information in III.L.2.e, “Reporting – Performance Reporting.”
- **CFDA 14.235** – Corrected information in III.L.2.e, “Reporting – Performance Reporting.”
- **CFDA 14.238** – Corrected information in III.L.2.e, “Reporting – Performance Reporting.”
- **CFDA 14.239** – Corrected information in III.L.2.e, “Reporting – Performance Reporting.”
- **CFDA 14.241** – Corrected information in III.L.2.e, “Reporting – Performance Reporting.”
- **CFDA 14.850** – Updated II, “Program Procedures” and III.A.1, “Activities Allowed or Unallowed.” Added III.J, “Program Income.” Deleted III.L.2.a, “Reporting – Performance Reporting - HUD Form 50072.” Corrected information in III.L.2.e, “Reporting – Performance Reporting.” Updated III.L.3.b, “Reporting – Special Reporting - HUD 52723” and III.L.3.c, “Reporting – Special Reporting - HUD 52722.” Deleted III.L.3.d, “Reporting – Special Reporting - HUD 52722-B.” Added III.N.3, “Special Tests and Provisions – Project-Based Budgeting and Accounting,” III.N.4, “Classification of Costs,” and III.N.5, “Balance Sheet Allocations.”

- **CFDA 14.862** - Corrected information in III.L.2.e, “Reporting – Performance Reporting.”
- **CFDA 14.866** – Updated III.L.1.e, “Reporting – Financial Reporting – Financial Reports,” to reflect changes and new line items that HUD plans to make to the Financial Data Schedule (FDS). The auditor should verify the FDS line numbers at the time of the audit.
- **CFDA 14.867** - Updated information in III.L.2.a and b, “Reporting – Performance Reporting.”
- **CFDA 14.871** – Updated II, “Program Procedures,” and III.A.1, “Activities Allowed or Unallowed.” Added III.L.1.f, “Reporting – Financial Reporting – Financial Reports,” to reflect changes and new line items that HUD plans to make to the Financial Data Schedule (FDS). The auditor should verify the FDS line numbers at the time of the audit.
- **CFDA 14.872** – Updated I, “Program Objectives,” III.A.1, “Activities Allowed or Unallowed,” and III.L.1.e, “Reporting – Financial Reporting – Financial Reports.” HUD plans to make changes to the Financial Data Schedule (FDS). The auditor should verify the FDS line numbers at the time of the audit. Updated III.N.1, “Special Tests and Provisions – FASS,” and III.N.2, “Debt Secured to Public Housing Asset.”
- **CFDA 15.022** - Added III.D, “Davis-Bacon Act,” to provide the statutory citation for Davis-Bacon Act requirements.
- **CFDA 15.426** - Added as a new program supplement.
- **CFDA 16.738** – Updated web site under II, “Program Procedures.”
- **CFDA 17.207, 17.801, 17.804** – Updated I, “Program Objectives,” II, “Program Procedures,” III.A, “Activities Allowed or Unallowed,” and III.L.2.a, “Reporting – Performance Reporting,” to reflect changes resulting from the Jobs for Veterans Act of 2002. Updated III.L.1, “Reporting – Financial Reporting.” Added IV, “Other Information.”
- **CFDA 17.225** – Updated citations in II, “Program Procedures,” III.A, “Activities Allowed or Unallowed,” and III.E.1, “Eligibility – Eligibility for Individuals.” Updated III.L.1, “Reporting – Financial Reporting,” and III.N.2, “Special Tests and Provisions – UI Benefit Payments.”
- **CFDA 17.235** – Updated II, “Program Procedures,” including adding a new section “Source of Governing Requirements.” Updated III.A, “Activities Allowed or Unallowed;” III.E.1, “Eligibility – Eligibility for Individuals;” and III.G.1 and 3, “Matching, Level of Effort, Earmarking – “Matching,” and

“Earmarking,” respectively, to reflect statutory and regulatory changes. Updated III.L.1, “Reporting – Financial Reporting.”

- **CFDA 17.245** – Made minor editorial or conforming changes in I, “Program Objectives,” II, “Program Procedures,” and III.A, “Activities Allowed or Unallowed.” Updated III.L.1 and 2, “Reporting – Financial Reporting” and “Reporting – Performance Reporting,” respectively.
- **CFDA 17.258** – Updated III.L.1.a, “Reporting – Financial Reporting.”
- **CFDA 17.264** – Updated III.L.1.a, “Reporting – Financial Reporting.”
- **CFDA 17.265** – Updated II, “Program Procedures,” III.A.2.b, “Activities Allowed or Unallowed – Activities Unallowed,” III.L.1, “Reporting – Financial Reporting,” and III.L.2, “Reporting – Performance Reporting.” Deleted IV, “Other Information,” which is no longer necessary.
- **CFDA 20.205** - Updated III.A.1, “Activities Allowed or Unallowed,” and III.G.1, “Matching, Level of Effort, Earmarking – Matching.”
- **CFDA 20.500** - Updated I, “Program Objectives;” II, “Program Procedures;” III.A, “Activities Allowed or Unallowed;” III.F, “Equipment and Real Property;” III.G.3, “Matching, Level of Effort, Earmarking – Earmarking;” III.I.1, “Procurement and Suspension and Debarment – Buy America;” III.N.1, “Special Tests and Provisions – Environmental Review;” and III.N.3, “School Bus Operation.”
- **CFDA 20.509** - Updated II, “Program Procedures;” III.E.3, “Eligibility – Eligibility for Subrecipients;” III.G.1, “Matching, Level of Effort, Earmarking – Matching;” III.G.3, “Matching, Level of Effort, Earmarking – Earmarking;” III.I.1, “Procurement and Suspension and Debarment – Buy America;” III.L.1, “Reporting – Financial Reporting;” and III.N.2, “Special Tests and Provisions – School Bus Operation.” Deleted III.A.2, “Activities Allowed or Unallowed – Activities Unallowed.” Added III.F, “Equipment and Real Property,” and III.L.3, “Reporting – Special Reporting.”
- **CFDA 20.513, 20.516, and 20.521** - This cluster of three new programs was added to the Compliance Supplement.
- **CFDA 20.600** – Updated the name for CFDA 20.612.
- **CFDA 45.129** – Updated web site under II, “Program Procedures – Availability of Other Program Information.”



- **CFDA 84.000** – Updated the name for CFDA 84.048 in the Introduction. Updated II, “Program Procedures - Availability of Other Program Information.” Revised III.A.1, “Activities Allowed or Unallowed.” Revised III.B.2, “Allowable Costs/Cost Principles.” Updated programs in III.C, “Cash Management;” III.G.2.1, “Matching, Level of Effort, Earmarking - Level of Effort – Maintenance of Effort (SEAs/LEAs);” III.N.1, “Special Tests and Provisions – Participation of Private School Children (SEAs/LEAs);” and III.N.4, “Access to Federal Funds for New or Significantly Expanded Charter Schools (SEAs/LEAs).” Updated III.G.2.2, “Matching, Level of Effort, Earmarking - Level of Effort – Supplement Not Supplant (SEAs/LEAs)” and III.G.3, “Matching, Level of Effort, Earmarking - Level of Effort – Earmarking.” Updated III.H, “Period of Availability of Federal Funds (All grantees).” Added a citation for III.L.3, “Reporting – Special Reporting.” Updated III.N.2, “Special Tests and Provisions – Schoolwide Programs (SEAs/LEAs)” and III.N.3, “Comparability (SEAs/LEAs).” Updated IV, “Other Information.”
- **CFDA 84.010** – Updated II, “Program Procedures – Availability of Other Program Information,” III.G.3, “Matching, Level of Effort, Earmarking – Earmarking,” III.N.5, “Special Tests and Provisions – Identifying Schools and LEAs Needing Improvement,” and III.N.6, “Highly Qualified Teachers and Paraprofessionals.”
- **CFDA 84.011** - Updated I, “Program Objectives,” III.L.3, “Reporting - Special Reporting,” III.N.4, “Special Tests and Provisions – Priority for Service,” and III.N.6, “Child Counts.”
- **CFDA 84.032-G** – Updated I, “Program Objectives” and II, “Program Procedures.” In III.N, “Special Tests and Provisions,” the following sections were updated: N.3, “Conditions of Reinsurance Coverage;” N.4, “Death, Disability, Closed Schools, False Certification, Unpaid Refunds, and Bankruptcy Claims;” N.7, “Federal Share of Borrower’s Payments;” N.9, “Federal Fund and Agency Operating Fund;” and N.11, “Collection Charges.” Removed hurricane waiver information in IV, “Other Information.”
- **CFDA 84.032-L** – Updated I, “Program Objectives,” II, “Program Procedures,” and in III.N, “Special Tests and Provisions,” the following sections: N.2, “Loan Origination and Lender Loan Fees;” N.4, “Special Allowance Payments;” and N.5, “Loan Sales, Purchases, and Transfers.” In III.N, “Special Tests and Provisions,” added the following sections: N.11, “Consolidation Loans” and N.12, “Prohibited Inducements.” In III.N, “Special Tests and Provisions,” the previous N.11, ‘Making or Holding Loans as a Trustee for an Institution of Higher Education or an Affiliated Organization,’ was updated and renumbered as N.13, and the previous N.12, “School as Lender Eligibility (Applicable only to schools that are lenders),” was renumbered as N.14. Updated IV, “Other Information.” Added references to recent regulations, which are not effective until July 1, 2008, but may be implemented, at the regulated entity’s option, as

early as November 1, 2007, in II, “Program Procedures – Source of Governing Requirements,” and other parts of the program supplement.

- **CFDA 84.041** – Updated III.D, “Davis-Bacon Act,” to list the source of the requirement.
- **CFDA 84.042** – Updated III.L.2, “Reporting – Performance Reporting.”
- **CFDA 84.048** – This program supplement was extensively revised because the requirements of the Carl D. Perkins Vocational and Technical Education Act of 1998 (Perkins III) were completely replaced by the requirements in the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV). The program title was updated as part of this revision.
- **CFDA 84.287** – Removed the introductory material. Updated I, “Program Objectives;” II, “Program Procedures;” III.A, “Activities Allowed or Unallowed;” III.E.3, “Eligibility – Eligibility for Subrecipients;” III.G, “Matching, Level of Effort, Earmarking;” and III.H, “Period of Availability of Federal Funds.”
- **CFDA 84.938** – Added the Hurricane Educator Assistance Program (CFDA 84.938K) to the programs included under this program supplement. Updated I, “Program Objectives,” and II, “Program Procedures.” Added III.A.7, “Activities Allowed or Unallowed;” III.E.1.b, “Eligibility – Eligibility for Individuals;” and III.E.3.e, “Eligibility – Eligibility for Subrecipients.” Updated III.H.3.b and added III.H.8 in III.H, “Period of Availability of Federal Funds.” Updated IV, “Other Information,” to add 84.938K.
- **CFDA 93.044, 93.045, and 93.053** – Updated the following sections as a result of statutory changes: I, “Program Objectives;” II, “Program Procedures;” III.A.2 and 3, “Activities Allowed or Unallowed;” III.G.3.b, “Matching, Level of Effort, Earmarking – Earmarking;” III.N.1, “Special Tests and Provisions – Distribution of Cash;” and IV, “Other Information.”
- **CFDA 93.153** – Added as a new program supplement.
- **CFDA 93.268** – Updated to reflect changes in how the program operates. Updated sections include II, “Program Procedures;” III.A.2, “Activities Allowed or Unallowed;” III.N.1, “Special Tests and Provisions – Control, Accountability, and Safeguarding of Vaccines;” III.N.2, “Record of Immunization;” and IV, “Other Information.” Deleted III.N.3, “Special Tests and Provisions – Monitoring For-Profit Subrecipients.”

- **CFDA 93.558** – Updated the following sections to include changes based on expired and modified authorities: II, “Program Procedures;” III.A.1, “Activities Allowed or Unallowed – Federal Only;” III.E.1.a and b, “Eligibility – Eligibility for Individuals;” III.G.2.1.a and c, “Matching, Level of Effort, Earmarking – Level of Effort – Maintenance of Effort;” and III.L.1.g, “Reporting – Financial Reporting.” Added III.A.4.b, “Activities Allowed or Unallowed – Tribes; Federal Only” and III.N.5, “Special Tests and Provisions – Penalty for Failure to Comply with Work Verification Plan.” Modified IV, “Other Information” to delete “Transfers Out of SSBG” because of the absence of authority for such transfers (a comparable change was made to CFDA 93.667) and update “Transfers Out of TANF” and “Information Pertinent to Hurricane Katrina.”
- **CFDA 93.563** – Updated the following sections based on changes resulting from the Deficit Reduction Act of 2005: II, “Program Procedures,” III.G.1, “Matching, Level of Effort, Earmarking – Matching,” and III.N.3, “Special Tests and Provisions – Securing and Enforcing Medical Support Obligations – State Programs.”
- **CFDA 93.566** – Updated II, “Program Procedures – Source of Governing Requirements,” III.A.6.j, “Activities Allowed or Unallowed,” and III.E.1.a(1) and 1.c(2), “Eligibility – Eligibility for Individuals.” Deleted IV, “Other Information,” which referenced inclusion of a hurricane-related waiver in Appendix VI.
- **CFDA 93.568** – Deleted an expired report at III.L.3.b, “Reporting – Special Reporting – *Annual Report on Households Assisted by LIHEAP.*”
- **CFDA 93.569** – Updated IV, “Other Information,” to delete reference to a hurricane-related waiver in Appendix VI.
- **CFDA 93.575 and 93.596** – Updated II, “Program Procedures;” III.G.1.d, “Matching, Level of Effort, Earmarking – Matching;” III.G.3.d, “Matching, Level of Effort, Earmarking – Earmarking;” and III.H, “Period of Availability of Federal Funds,” including updating the example. Added language regarding the inapplicability of the A-102 Common Rule and OMB Circular A-87 under II, “Program Procedures,” and in a newly added III.B, “Allowable Costs/Cost Principles.” Deleted discussion of transfers from the Social Services Block Grant program because of the absence of authority for such transfers (a comparable change was made to CFDA 93.667).
- **CFDA 93.645** – Updated I, “Program Objectives.” Modified the following sections due to statutory changes: II, “Program Procedures,” III.A, “Activities Allowed or Unallowed,” III.G.1, “Matching, Level of Effort, Earmarking – Matching,” III.G.2.1, “Matching, Level of Effort, Earmarking – Level of Effort – Maintenance of Effort,” and III.G.3, “Matching, Level of Effort, Earmarking – Level of Effort – Earmarking.”

- **CFDA 93.667** – Corrected III.A.3, “Activities Allowed or Unallowed” to remove statement that funds under this program could be transferred to CFDA 93.558 and CFDA 93.575/596 (comparable changes were made in those programs). Updated III.A.4, “Activities Allowed or Unallowed” and III.H, “Period of Availability of Federal Funds,” to indicate the extension of the availability of hurricane relief funds; however, in IV, “Other Information,” deleted reference to Appendix VI as the particular waiver expired.
- **CFDA 93.775, 93.776, 93.777, and 93.778** – In IV, “Other Information,” deleted reference to Appendix VI.
- **CFDA 93.889** – This program was significantly revised as a result of the transfer of programmatic responsibility and a revised statute (NOTE: The program is now known as the Hospital Preparedness Program; however, pending update, it is still shown in the CFDA as the National Bioterrorism Hospital Preparedness Program.)
- **CFDA 93.914** – Updated II, “Program Procedures.”
- **CFDA 93.918** – Updated II, “Program Procedures,” III.A, “Activities Allowed or Unallowed,” and III.G.3, “Matching, Level of Effort, Earmarking – Earmarking.”
- **CFDA 94.006** – Updated I, “Program Objectives,” II, “Program Procedures,” and III.E.1, “Eligibility – Eligibility for Individuals.” Also, added a new requirement in III.E.1.b, “Eligibility – Eligibility for Individuals.
- **CFDA 94.011 and 94.016** – Updated III.E.1, “Eligibility – Eligibility for Individuals,” and added a new requirement in III.G.1.d, “Matching, Level of Effort, Earmarking – Matching.”
- **CFDA 97.008** – Added language in IV, “Other Information,” concerning use of CFDA numbers in subawards.
- **CFDA 97.036** – Updated II, “Program Procedures;” III.B.2.a and b, “Allowable Costs/Cost Principles; III.G.1 and 3, Matching, Level of Effort, Earmarking – Matching” and “Earmarking,” respectively; and IV, “Other Information.”
- **CFDA 97.039** – Updated II, “Program Procedures;” III.B, “Allowable Costs/Cost Principles;” III.G.1 and 3, “Matching, Level of Effort, Earmarking – Matching” and “Earmarking,” respectively; and IV, “Other Information.”
- **CFDA 97.067** – Updated II, “Program Procedures.” Added references to 2007 and updated citations, where applicable. Added language in IV, “Other Information,” concerning use of CFDA numbers in subawards.
- **CFDA 97.109** – Added as a new program supplement.

**Part 5 - Clusters of Programs**

- **Student Financial Assistance Cluster**
  - Updated II, “Program Procedures.”
  - Updated III.C, “Cash Management.”
  - Updated III.E.1, “Eligibility – Eligibility for Individuals.”
  - Updated III.G.1, “Matching, Level of Effort, Earmarking – Matching.”
  - Updated III.N.3, “Special Tests and Provisions – Disbursements To or On Behalf of Students.”
  - Revised III.N.4, “Special Tests and Provisions – Return of Title IV Funds,” and provide two sub-requirements “Applicable After a Student Begins Attendance” and “Applicable for a Student Who Does Not Begin Attendance.”
  - Updated III.N.5, “Special Tests and Provisions – Student Status Changes (FFEL and Direct Loan).”
  - Updated III.N.6, “Special Tests and Provisions – Student Loan Repayments (FPL, HPSL/PCL and NSL).”
  - Updated III.N.9, “Special Tests and Provisions – Institutional Eligibility.”
  - Added III.N.11, “Special Tests and Provisions – Denying Students’ Access to Lenders and Guaranty Agencies of Their Choice.”
  - Removed hurricane waiver information from IV, “Other Information.”
  - Added references in II, “Program Procedures – Source of Governing Requirements,” and other parts of the SFA Cluster to recent regulations, which are not effective until July 1, 2008, but may be implemented, at the regulated entity’s option, as early as November 1, 2007.
  - Updated Appendix A, “Student Eligibility Compliance Requirements.”
- **Research and Development Cluster**
  - Updated introduction to III, “Compliance Requirements,” and N, “Special Tests and Provisions.” Added M, “Subrecipient Monitoring.”
- **Other Clusters** – This section has been updated to be consistent with the changes in Part 4. The Transit Services Programs Cluster was added. A program name was corrected in the Highway Safety Cluster.

**Part 6 - Internal Control**

- No changes.

**Part 7 - Guidance for Auditing Programs Not Included in This Compliance Supplement**

- Updated I, “Procurement and Suspension and Debarment – Control Activities” to delete references to requirements in effect prior to November 26, 2003.

**Appendix I - Federal Programs Excluded from the A-102 Common Rule**

- Updated to reflect the non-applicability of the A-102 Common Rule to the programs authorized by the Child Care and Development Block Grant Act of 1990, as amended. This change makes Appendix I consistent with the program coverage for CFDA 93.575 and 93.596 in Part 4 of the Supplement.

**Appendix II - Federal Agency Codification of Certain Governmentwide Grant Requirements**

- Updated to reflect agency implementation of 2 CFR part 180.
- Updated to add the Social Security Administration and its codification of 2 CFR part 215, the A-102 Common Rule, and 2 CFR part 180.

**Appendix III - Federal Agency Contacts for A-133 Audits**

- This Appendix has been modified to update responsible offices and related information, as appropriate.

**Appendix IV - Internal Reference Tables**

- Updated tables for changes in this Supplement.

**Appendix V - List of Changes for the 2008 Compliance Supplement**

- Updated this Appendix to provide a list of changes from the OMB Circular A-133 Compliance Supplement, issued in March 2007, to this 2008 Supplement.

**Appendix VI - Disaster Waivers and Special Provisions Affecting Single Audits**

- Updated Appendix VI, which includes information for auditors on Federal agency waivers issued and special provisions adopted as a result of Hurricanes Katrina and Rita and their relationship to Parts 4 and 5 of the Supplement.
  - Updated introductory language.
  - Updated web sites, as necessary.

- Deleted coverage for programs for which waivers or special provisions have expired.
- Modified language under CFDA 93.558, Temporary Assistance for Needy Families.
- Added waiver for 97.039, Hazard Mitigation Grant Program

**Appendix VII - Other OMB Circular A-133 Advisories**

- No change

**Appendix VIII - SAS 70 Examinations of EBT Service Organizations**

- No change

**Appendix IX - Compliance Supplement Core Team**

- Updated this Appendix to recognize contributions of current interagency team responsible for the production of this Supplement.

## **Appendix VI**

### **Disaster Waivers and Special Provisions Affecting Single Audits**

#### **Changes to Compliance Requirements**

Recipients affected by Hurricanes Katrina and Rita in 2005, either directly or indirectly, may be covered by waivers and/or special provisions that modify the terms and conditions of their awards, including the types of compliance requirements described in this Compliance Supplement. In some cases, the waiver or special provision may apply to Hurricane Wilma as well. This Appendix provides updated information on the waivers and special provisions granted by Federal agencies. A “waiver,” for purposes of this Appendix, is elimination of or change in a substantive compliance requirement. A “special provision,” for purposes of this Appendix, is extension of a due date or deadline for an action that is otherwise unchanged.

This Appendix includes information to assist the auditor in determining what, if any, changes they need to be aware of when performing an audit that covers the period during which requirements may have been lifted or modified. Auditors engaged to perform single audits should consult the resources described here to determine if a particular recipient or program is covered by a waiver. While most of the Hurricane Katrina and Rita waivers affect entities in Louisiana, Mississippi, Alabama, and Florida, they also affect numerous other States and entities that provided services to displaced individuals. However, because this Appendix is a resource that provides generally applicable information only, auditors also should inquire of auditee officials whether they are aware of any special provisions or waivers affecting their awards. Because some State or local governments may have issued waivers (i.e., a waiver of out-of-state tuition for hurricane victims that might impact student financial needs calculations), the auditor also should inquire of auditee officials whether they are aware of any State or local waiver that might impact Federal requirements. In most cases, copies of waivers and special provisions issued by the Federal Government also are available on Federal agency websites. Unless modified by waivers or special provisions, compliance requirements of law and regulation are applicable to grantees affected by disasters.



## Availability of Other Information

Auditors also should refer to the Office of Management and Budget waiver at [http://www.whitehouse.gov/omb/financial/fin/katrina\\_admin\\_relief\\_093005.pdf](http://www.whitehouse.gov/omb/financial/fin/katrina_admin_relief_093005.pdf) and to <http://www.gao.gov/govaud/hurricanedocument.pdf> for temporary exemptions and guidance issued by the Government Accountability Office related to the governmental auditing standards.

## Suggested Audit Procedures

For grantees affected by Hurricanes Katrina, Rita, or Wilma, as applicable, auditors should perform the following procedures to determine if modifying provisions or waivers apply:

1. Inquire of the auditee whether it is aware of any disaster-related special provisions, including any specific waivers available as a result of Hurricane Katrina or Rita or, where applicable, Wilma. Obtain and examine these provisions/waivers.
2. Consult Parts 4 and 5 of this Compliance Supplement for information about any additional special disaster-related provisions affecting individual programs.
3. Also, for each major Federal program, consult the home page for the department/agency and/or program for information about waivers and special provisions.
4. In performing the audit, the auditor will use Parts 4, 5, or 7 as appropriate. For any modifying provision or waiver, whether explained or referenced in this Appendix or made known to the auditor by the auditee, the auditor should review and evaluate the content, validity, scope, and applicability of the provision or waiver, with particular attention to when it was in effect, and determine whether it excuses the grantee from complying with the compliance requirement(s) at issue.
5. If there are no valid disaster-related special provisions or waivers that modify a compliance requirement, and the requirement has not been adhered to, the auditor must report a finding of non-compliance in accordance with the requirements of OMB Circular A-133, Paragraph \_\_.510. However, if the auditee and/or auditor are of the opinion that circumstances resulting from the cited natural disasters caused or contributed to the non-compliance, such circumstances should be explained in the description of the audit finding and/or the views of responsible officials included with the audit findings. Audit resolution officials will consider such causes in their resolution action, in accordance with the applicable statute and regulations.

## PART 4 – AGENCY PROGRAM REQUIREMENTS

Following is a table that indicates which programs are affected by waivers and special provisions and whether they are ones included in Parts 4 or 5 of this Compliance Supplement.

<b>CFDA Number</b>	<b>Waiver/Special Provision</b>	<b>Part 4 or 5</b>
11.300/11.307	Waivers and Special Provisions	Part 4
14.218/14.219	Waiver	Part 4
14.228	Waivers	Part 4
14.231	Waivers	Part 4
14.239	Waivers	Part 4
14.182		
14.195		
14.850		
14.854		
14.856	Waiver and Special Provisions	Part 4
14.862		
14.866		
14.867		
14.871		
14.872		
84.000		
84.002		
84.010		
84.011		
84.027		
84.173		
84.041	Waivers and Special Provisions	Part 4
84.042		
84.044		
84.047		
84.066		
84.217		
84.048		
84.181		
84.186		
84.282		
84.287		
84.288		
84.290		
84.291		
84.298		
84.318		
84.357		
84.365		
84.366		
84.367		

<b>CFDA Number</b>	<b>Waiver/Special Provision</b>	<b>Part 4 or 5</b>
84.032 (Guaranty Agencies)	Waivers and Special Provisions	Part 4
84.126	Waiver	Part 4
93.558	Special Provisions	Part 4
93.575/93.596	Waivers and Special Provisions	Part 4
93.600	Waiver	Part 4
97.036	Emergency Declarations	Part 4
97.039	Waiver	Part 4
SFA Cluster	Waivers	Part 5

## **DEPARTMENT OF COMMERCE (DoC)**

### **CFDA 11.300 GRANTS FOR PUBLIC WORKS AND ECONOMIC DEVELOPMENT**

### **CFDA 11.307 ECONOMIC ADJUSTMENT ASSISTANCE**

#### **WAIVERS -**

Certain EDA administrative and programmatic requirements may have been waived for projects located in the States of Alabama, Mississippi and Louisiana (the “States”) or in other areas experiencing severe economic distress as a result of a 2005 natural disaster (e.g., Hurricanes Katrina and Rita). For example, EDA may have determined that one of the States had exhausted its effective taxing and borrowing capacity and, thereby, extended financial assistance to the State at a maximum investment rate of 100 percent under section 204(c)(2) of the Public Works and Economic Development Act (PWEDA) of 1965, as amended (42 USC 3144). Similarly, EDA may have determined, under section 214 of PWEDA (42 USC 3154), that a State was unable to comply with the comprehensive economic development strategy (CEDS) requirements under section 302 of PWEDA (42 USC 3162) and, as a result, designated the State as a “Special Impact Area” for purposes of waiving the CEDS requirements with respect to limited implementation activities permitted under certain Economic Adjustment Assistance awards to that State. The auditor should consult with the applicable EDA regional office for specific grant-related waivers and determinations.

## **DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)**

### **CFDA 14.218 COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS**

### **CFDA 14.219 COMMUNITY DEVELOPMENT BLOCK GRANTS/SMALL CITIES PROGRAM (HUD-Administered)**

**WAIVER** - On September 5, 2005, HUD issued a statutory suspension of the 15 percent public service expenditure cap applicable to Community Development Block Grant (CDBG) funds for purposes related to Hurricane Katrina assistance efforts. This suspension was extended to Hurricane Rita recovery efforts on October 13, 2005.

#### **HUD Waivers for the City of Moss Point, Mississippi**

On December 21, 2005, HUD issued a series of regulatory waivers and statutory suspensions to the City of Moss Point, Mississippi, to help the City recover from the effects of Hurricane Katrina. The waivers and suspensions are as follows:

**WAIVER** – HUD waived the 15 percent public service cap for Moss Point contained at 24 CFR section 570.201, and acknowledges that the City will utilize the statutory suspension of the 15 percent cap contained in Section 105(a)(8) of the Housing and Community Development Act of 1974, as amended, that was suspended on September 5, 2005.

**WAIVER** – HUD waived 24 CFR section 570.207(b)(1) to allow the City to purchase generators for sanitary and water systems and similar public purposes.

**WAIVER** – HUD suspended Section 105 of the Housing and Community Development Act of 1974, as amended, to permit the City to use CDBG funds for new housing construction. HUD also has waived 24 CFR section 570.207(b)(3) to permit the city to utilize CDBG funds for new construction activities. This waiver and suspension are effective through September 30, 2007.

### **HUD Waivers for the City of Gulfport, Mississippi**

On December 21, 2005, HUD issued a series of regulatory waivers and statutory suspensions to the City of Gulfport, Mississippi, to help the City recover from the effects of Hurricane Katrina. The waivers and suspensions are as follows:

**WAIVER** – HUD waived the 15 percent public service cap for Gulfport contained at 24 CFR section 570.201, and acknowledges that the city will utilize the statutory suspension of the 15 percent cap contained in Section 105(a)(8) of the Housing and Community Development Act of 1974, as amended, that was suspended on September 5, 2005.

**WAIVER** – HUD waived 24 CFR section 570.208(a)(4)(ii) to remove the requirement that to retain jobs the recipient must document that jobs would actually be lost without CDBG assistance.

**WAIVER** – HUD waived 24 CFR sections 570.208(a)(4)(iv)(A)(1) and (B) and (a)(4)(v) to allow the City to presume that any census tract meets the criteria of paragraph (a)(4)(v) if at least 51 percent of the residents of the tract are of low- and moderate-income, according to either the latest low- and moderate-income summary data or a more recent survey.

**WAIVER** – HUD has suspended the provisions of Section 106 of National Affordable Housing Act and waives 24 CFR section 91.225(a)(6) and 24 CFR section 570.903 through December 31, 2006 to give the City relief from the consolidated plan requirement that housing activities undertaken with CDBG funds be consistent with the City's consolidated plan for the most recent program year and that such performance be reviewed by HUD annually.

**WAIVER** – HUD has suspended Section 105(a) of the Housing and Community Development Act of 1974, as amended, to permit the City to use CDBG funds for new housing construction. HUD also has waived 24 CFR section 570.207(b)(3) to permit the city to utilize CDBG funds for new construction activities. This waiver and suspension are effective through December 31, 2006.

### **HUD Waivers for the City of Biloxi, Mississippi**

On December 21, 2005, HUD issued regulatory waivers and statutory suspensions to the City of Biloxi, Mississippi, to help the City recover from the effects of Hurricane Katrina. The waivers and suspensions are as follows:

**WAIVER** - HUD waived the 15 percent public service cap for Gulfport contained at 24 CFR section 570.201, and acknowledges that the city will utilize the statutory suspension of the 15 percent cap contained in Section 105(a)(8) of the Housing and Community Development Act of 1974, as amended, that was suspended on September 5, 2005.

**HUD Waiver for Hattiesburg, Jackson, and Pascagoula, Mississippi, and Mobile, and Mobile County, Alabama**

On February 10, 2006, HUD issued a regulatory waiver to the aforementioned jurisdictions to help them recover from the effects of Hurricanes Katrina and Rita. The waiver is as follows:

**WAIVER** – HUD has waived the 30-day public comment requirements of 24 CFR section 91.105(c)(2) and will permit grantees to provide a 10-day minimum public comment period for substantial amendments to the consolidated plan. The waiver will remain in effect through the end of each grantee’s 2006 CDBG program year.

**HUD Waivers for the City of Baton Rouge – Parish of East Baton Rouge, Louisiana**

On February 14, 2006, HUD issued a series of regulatory waivers and statutory suspensions to the City of Baton Rouge- Parish of East Baton Rouge, Louisiana, to help the City recover from the effects of Hurricane Katrina. The waivers and suspensions are as follows:

**WAIVER** – HUD has suspended 42 USC 5305(a)(24)(D) to allow the City and Parish to provide up to 100 percent of the down payment required for low- and moderate-income homebuyers. In support of this suspension, HUD has waived 24 CFR section 570.201(n). The relief granted by this suspension and waiver shall remain in effect through the end of the grantee’s 2007 program year and may be utilized solely for the benefit of low- and moderate-income homebuyers in support of Hurricane Katrina relief efforts.

**WAIVER** – HUD has suspended 42 USC 5305(a) to permit the City and Parish to use CDBG funds for new housing construction. HUD has waived 24 CFR section 570.207(b)(3) to permit the City to utilize CDBG funds for new housing construction activities. The waiver and suspension are effective through the end of the grantee’s 2007 program year and may be utilized solely for the benefit of low- and moderate-income homebuyers in support of Hurricane Katrina relief efforts.

**Compliance Requirements Affected** - III.A, “Activities Allowed or Unallowed,” and III.G.3.c, “Matching, Level of Effort, Earmarking – Earmarking”

**Additional Information** - The waivers can be found on the Internet at <http://www.hud.gov/offices/cpd/library/katrina/revkatpswaive.pdf>, and [http://www.hud.gov/offices/cpd/library/katrina/CDBGwaiver\\_ext.pdf](http://www.hud.gov/offices/cpd/library/katrina/CDBGwaiver_ext.pdf).

**CFDA 14.228 COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE’S PROGRAM (State-Administered Small Cities Program)**

**WAIVER** - On September 5, 2005, HUD issued a statutory suspension of the 15 percent public service expenditure cap applicable to CDBG funds for purposes related to Hurricane Katrina assistance efforts. This suspension was extended to Hurricane Rita recovery efforts on October 13, 2005.

**HUD Waivers for the States of Louisiana and Mississippi.**

On October 13, 2005 and November 9, 2005, HUD issued a series of statutory suspensions and regulatory waivers to the States of Louisiana and Mississippi, respectively, to help the States' recovery from the effects of Hurricane Katrina. The waivers are as follows:

**WAIVER** - HUD suspended 42 USC 5305(a) to permit new construction of housing (see III.A.1, "Activities Allowed or Unallowed")

**WAIVER** - HUD has granted a waiver modifying the provisions of 24 CFR sections 570.483(b)(4)(iv)(A)(1) and (b)(4)(v) regarding the criteria for locations in which a person may be presumed to be of low or moderate income. For job-retention activities, in addition to the presumptions currently allowed, the State may accept any census tract as meeting the criteria of paragraph (b)(4)(v), if at least 51 percent of the residents of the tract are of low and moderate income, according to either the latest Low/Moderate Income Survey Data or a more recent survey; and the tract is located in a parish eligible for both Individual and Public Assistance under disaster declaration FEMA-1603-DR or any comparable declaration issued pursuant to Hurricane Rita (see III.A.2, "Activities Allowed or Unallowed").

**WAIVER** - HUD waived the provisions of 24 CFR sections 570.483(b)(1)(v)(D) and (e)(5)(i) regarding job retention activities meeting the low- and moderate-income benefit criteria on an area benefit basis when undertaken pursuant to a community revitalization strategy. This waiver lifted the requirement that a unit of general local government have an approved community revitalization strategy for purposes of paragraph (e)(5)(i). For job-retention activities, this waiver lifted the requirement for units of general local government to obtain prior HUD case-by-case approval under paragraph (b)(1)(v)(D), if at least 51 percent of the residents of the unit of general local government are of low and moderate income, according to either the latest Low/Moderate Income Survey Data or a more recent survey; and the unit of general local government is located in a parish eligible for both Individual and Public Assistance under disaster declaration FEMA-1603-DR or any comparable declaration issued pursuant to Hurricane Rita (see III.A.2, "Activities Allowed or Unallowed").

**WAIVER** - HUD suspended 42 USC 5306(d)(3)(A), (d)(5), and (d)(6) (as revised and renumbered by Pub. L. No. 108-199, Section 423 and formerly codified as 42 USC 5306(d)(3)(A) and (d)(5)), and waived 24 CFR sections 570.489(a)(1)(i) and (iii), which cap State administration expenditures and require a dollar-for-dollar match of State funds for administrative costs exceeding \$100,000 (see III.G.3.b, "Matching, Level of Effort, Earmarking – Earmarking"). The suspension and waiver regarding State administrative costs and cost matching applies to any State administrative expenses incurred between the date of disaster declaration FEMA-1603-DR (August 29, 2005) and the end of Louisiana's 2006 program year (March 31, 2007). The suspension regarding the limit on Technical Assistance activities applies to Federal fiscal year 2005 and 2006 funding, as well as to any prior fiscal years for which the State has funds remaining that are not under contract to units of general local government.

**WAIVER** - HUD suspended the provision of 42 USC 5304(j) that prohibits the State from requiring certain program income to be returned to the State, and waived the same provision in 24 CFR section 570.489(e)(3) (see III.G.3.b, “Matching, Level of Effort, Earmarking - Earmarking”). For any activities funded with Federal fiscal year 2006 or prior year funding that is not under contract to units of general local government as of the date of this letter, the State may require all program income to be returned to the State.

**WAIVER** - HUD suspended 42 USC 5304(d)(2) and (d)(3) to remove the one-for-one replacement requirements for occupied and vacant occupiable lower-income dwelling units that may be demolished or converted to a use other than for housing; and to remove the relocation benefits requirements contained in Section 104(d) of the Housing and Community Development Act (42 USC 5304(d)) to the extent they differ from those of the Uniform Relocation Act. HUD waived 24 CFR section 42.375 to remove the requirements implementing the aforementioned statutory requirements regarding replacement of housing and 24 CFR section 42.350 to remove the requirements implementing the aforementioned Housing and Community Development Act relocation benefits requirements, to the extent these regulations differ from the Uniform Relocation Assistance Act regulations contained in 49 CFR part 24 (see III.K, “Real Property Acquisition and Relocation Assistance”).

**WAIVER** - For the State of Louisiana, HUD suspended 42 USC 5305(a)(24)(D) to remove the 50 percent downpayment assistance cap for direct homeownership assistance to low-and moderate-income homebuyers (see III.A.1, “Activities Allowed or Unallowed”).

**WAIVER** - For the State of Louisiana, HUD waived the provisions of 24 CFR sections 91.325(b)(4)(ii) and 570.484 to allow the State of Louisiana to change its certification of compliance with the 70 percent overall low-and moderate-income benefit requirement (42 USC 5304(b)(3)(A)) retroactively, if the State so chooses, to a 2- or 3-year period (see III.G.3.a, “Matching, Level of Effort, Earmarking - Earmarking”). Thus, if the State of Louisiana wishes to change its existing certifications to cover Federal fiscal years 2003-2005, 2004-2006 or 2005-2007 funding, it may do so, as long as it informs HUD of the new certification period. (The period must cover consecutive years.)

**WAIVER** - For the State of Mississippi, HUD suspended 42 USC 5305(a) to permit use of funds to purchase generators (see III.A.1, “Activities Allowed or Unallowed”).

### **HUD Waivers for the State of Louisiana**

On January 20, 2006, HUD issued a series of regulatory waivers and statutory suspensions to the State of Louisiana to help the State recover from the effects of Hurricane Katrina. The waivers and suspensions are as follows:

**WAIVER** – For the purposes of the Louisiana Bridge Loan Program, HUD has suspended the provisions of (1) 42 USC 5304(a)(1) requiring that the State’s method of distribution may only provide that funds be distributed to units of general local government; (2) 42 USC 5306(d)(1) requiring that the State’s CDBG funds shall be for use in non-entitlement areas; (3) 42 USC 5306(d)(2) requiring that State CDBG funds are to be distributed only to units of general local government located in non-entitlement areas of the State; and (4) 42 USC



5306(d)(2)(D), to remove the requirement that the State certify that each unit of general local government to which funds are to be distributed will identify its housing and community development needs. To implement the aforementioned suspensions, HUD has waived the provisions of (1) 24 CFR section 91.320(c) and (g)(1) requiring that the State's method of distribution only provide funds that will be distributed to units of general local government; (2) 24 CFR section 91.325(b)(2)(v), to eliminate the certification under 42 USC 5306(d)(2)(D), (see above); and (3) 24 CFR section 570.486(b) regarding the requirement that units of general local government determine that the activity is meeting its needs in accordance with 42 USC 5306(d)(2)(D).

**WAIVER** – For the purposes of the Louisiana Bridge Loan Program, HUD has suspended the provisions of 42 USC 5305(e)(3), which require the State to demonstrate that the public benefit provided by the activity is appropriate relative to the amount of assistance provided with the grant. To implement this suspension, HUD has waived 24 CFR section 570.482(f)(6), which requires the State and its grant recipients to demonstrate the level of public benefit.

**WAIVER** – For the purposes of the Louisiana Bridge Loan Program, HUD has waived the provisions of 24 CFR section 570.483(d) regarding required certifications by the unit of general local government to support the classification of activities as meeting the urgent need national objective.

**Compliance Requirements Affected** - The following compliance requirements have been affected by the waivers listed above:

III.A, “Activities Allowed or Unallowed;” III.G.3.a, b, and d, “Matching, Level of Effort, Earmarking - Earmarking;” III.K, “Real Property Acquisition and Relocation Assistance”

**Additional Information** – Information on these and other waivers issued by HUD can be found on the Internet at: <http://www.hud.gov/offices/cpd/library/katrina/>, <http://www.hud.gov/offices/cpd/library/katrina/revkatpswaive.pdf>, <http://www.hud.gov/offices/cpd/library/katrina/modCPwaiver.pdf>, and [http://www.hud.gov/offices/cpd/library/katrina/CDBGwaiver\\_ext.pdf](http://www.hud.gov/offices/cpd/library/katrina/CDBGwaiver_ext.pdf).

## **CFDA 14.231      EMERGENCY SHELTER GRANTS PROGRAM**

**WAIVER** - The definition of “emergency shelter” has been waived so that it is not limited to “facilities.” The current definition prevents the use of conventional housing owned by private-sector landlords from being used as short-term emergency and transitional shelter resources. Because of the scope of this disaster, HUD provided maximum flexibility to grantees to meet their emergency housing needs (24 CFR section 576.3).

**WAIVER** - The obligation and expenditure requirements listed in 24 CFR sections 576.35(a) and (b) are waived for a period of up to one year (subject to any applicable statutory limitations). Within 24 CFR section 576.35, (a) refers to States and (b) refers to Formula cities and counties, territories, and Indian tribes. States must currently make the funds available for use within 65 days, obligate them within 180 days, and spend them within 24 months. Entitlement communities must spend funds within 24 months. This waiver will enable grantees to retain

their funds while homeless providers and their communities seek to rebuild service-delivery systems in the wake of the Katrina and Rita disasters (24 CFR section 575.35).

**Compliance Requirements Affected** - III.A, “Activities Allowed or Unallowed,” III.H, “Period of Availability of Federal Funds,” and III.N.2, “Special Tests and Provisions – Funding”

**Additional Information** – The waivers cited in this section are listed at the following website: <http://www.hud.gov/offices/cpd/library/katrina/ESGWaiver.pdf>.

## **CFDA 14.239 HOME INVESTMENT PARTNERSHIPS PROGRAM**

**WAIVER** - The requirements in 24 CFR sections 92.203(a)(1) and (2) and 24 CFR section 92.610(c) that require that initial income determinations be made using source documentation are waived. This waiver will permit the Participating Jurisdiction (PJ) to use self-certification of income, as provided in 24 CFR section 92.203(a)(1)(ii), in lieu of source documentation to determine eligibility of beneficiaries for HOME and American Dream Downpayment Initiative (ADDI) assistance who are unable to provide such documentation because their homes were severely damaged or they were displaced by Hurricane Katrina or Rita. The PJ must retain the income self-certification. This waiver also applies to any “receiving community” for persons displaced by Hurricane Katrina or Rita who are registered with the Federal Emergency Management Agency (FEMA) (see III.E.1.a and b, “Eligibility - Eligibility for Individuals”).

**WAIVER** - The requirements in 24 CFR section 92.207 that limit the amount of HOME funds that a PJ may use for administrative and planning costs to 10 percent of allocation plus program income received are waived. This waiver is intended to enable the PJ to expend up to 20 percent of its Federal fiscal year 2004, 2005, and 2006 allocations and program income received for administrative and planning costs (See III.G.3.d, “Matching, Level of Effort, Earmarking – Earmarking”).

**WAIVER** - The requirements in 24 CFR sections 92.209(b), (c), (h), (i), (j) and (k) that govern the operation of a HOME Tenant-Based Rental Assistance (TBRA) program have been waived in the provisions of: (b) General requirement (certification); (c) Tenant selection; (h) Maximum subsidy; (i) Housing quality standards; (j) Definition of Security deposit; and (k) Program operation. (HUD cannot suspend requirements with respect to low-income status of beneficiaries.) (See III.A.1, “Activities Allowed or Unallowed;” III.E.1.b and c, “Eligibility - Eligibility for Individuals;” and III.N.1 and 2, “Special Tests and Provisions - Maximum Per Unit Subsidy and Drawdown of HOME Funds.”)

**WAIVER** - The requirements in 24 CFR section 92.209(h)(3) of the HOME final rule provide two options for PJs in establishing rent standards for their TBRA programs. The TBRA payment may not exceed the difference between the rent standard and 30 percent of the families’ adjusted income. In many housing markets there is a limited stock of vacant units that charge rents within the rent standards and evacuees receiving TBRA would be required to pay more than 30 percent of their income toward rent. This waives the HOME rent standard requirement and permits PJs to establish rent standards, by unit size, that are reasonable based upon rents being charged for comparable unassisted units in the area, taking into account the location, size, type, quality, amenities, facilities, management, and maintenance of each unit. This rent standard is to be used

in calculating the TBRA subsidy for persons displaced by Hurricane Katrina or Rita. PJs are required to determine rent reasonableness in accordance with 24 CFR section 92.209(f). This waiver expires on October 4, 2007. This waiver also applies to any “receiving community” for persons displaced by Hurricane Katrina or Rita (see III.E.1.a and b, “Eligibility - Eligibility for Individuals”).

**WAIVER** - The matching requirements in 24 CFR section 92.222(b) are reduced for the PJ by 100 percent with respect to any HOME funds expended during Federal fiscal years 2006 and 2007. The requirement that the PJ must submit a copy of the disaster declaration is waived (see III.G.1, “Matching, Level of Effort, Earmarking – Matching”).

**WAIVER** - The requirements in 24 CFR sections 92.250(a) and 92.612(a) regarding the maximum subsidy amount of HOME and ADDI funds that the PJ may invest per unit have been waived. For the State of Texas, this waiver is limited to counties declared disaster areas under the Stafford Act. (See III.G.3.a, “Matching, Level of Effort, Earmarking - Earmarking.”)

**WAIVER** - The requirements in 24 CFR sections 92.251 and 92.612(b) that require that housing assisted with HOME or ADDI funds meet property standards based on the activity undertaken, i.e., HUD housing quality standards (HQS) in 24 CFR section 982.109 for tenant-based rental assistance and homebuyer assistance and state and local standards and codes or model codes for rehabilitation and new construction, are waived. Property standard requirements are waived for repair of properties damaged by Hurricane Katrina or Rita and for units occupied by tenant-based rental assistance recipients that were displaced by Katrina or Rita. Units must meet State and local health and safety codes. The lead housing safety regulations established in 24 CFR part 35 are not waived. For the State of Texas, this waiver is limited to counties declared disaster areas under the Stafford Act. (See III.N.3, “Special Tests and Provisions - Housing Quality Standards.”)

**WAIVER** - The requirements in 24 CFR sections 92.209(i) and 92.251(d) provide that units occupied by recipients of HOME TBRA meet the Housing Quality Standards (HQS) established at 24 CFR section 982.401. This property standard requirement is waived for units occupied by TBRA recipients who were displaced by Hurricane Katrina or Rita and are registered with FEMA. PJs must ensure that these units, at a minimum, meet state and local health and safety codes within 30 days of occupancy. The lead hazard safety regulations at 24 CFR part 35, subpart M, which require the PJ to perform a visual assessment for deteriorated paint surfaces when a child under age 6 will occupy a unit using a TBRA subsidy, remain in effect. This waiver also applies to any “receiving community” for persons displaced by Hurricane Katrina or Rita. (See III.N.3, “Special Tests and Provisions - Housing Quality Standards.”)

**WAIVER** - The requirements in 24 CFR section 92.253(d) requiring an owner of rental housing assisted with HOME funds to adopt written tenant selection policies and procedures are waived. For the State of Texas, this waiver is limited to counties declared disaster areas under the Stafford Act. (See III.E.1, “Eligibility - Eligibility for Individuals.”)

**WAIVER** - The requirements in 24 CFR section 92.300(a)(1) establish a set-aside for Community Housing Development Organizations (CHDOs). The requirement that the PJ use 15 percent of its allocation for housing owned, developed, or sponsored by CHDOs is suspended for the PJ's Federal fiscal year 2005 and 2006 allocations (see III.G.3.c, "Matching, Level of Effort, Earmarking – Earmarking").

**WAIVER** - The requirements in 24 CFR sections 92.353(e) and 42.375 requiring a PJ to replace occupied and vacant occupiable lower-income dwelling units that are demolished or converted to a use other than as lower-income dwelling units in connection with a development project assisted with HOME are waived. For the State of Texas, this waiver is limited to counties declared disaster areas under the Stafford Act. (See III.A.1, "Activities Allowed or Unallowed.")

**WAIVER** - The requirement in 24 CFR section 92.602(e) that limits the amount of ADDI assistance that may be provided to an assisted homebuyer to the greater of: (1) 6 percent of the sales price; or 2) \$10,000 have been waived. The waiver will relieve the PJ of the burden of finding other sources of financing for families affected by Hurricane Katrina or Rita. The waiver is limited to households affected by the disaster. (See III.A.1, "Activities Allowed or Unallowed.")

**WAIVER** - The requirement in 24 CFR section 92.254(a)(2) that the sales price or maximum after-rehabilitation value of HOME-assisted housing may not exceed 95 percent of the area median sales price has been waived. The waiver will provide PJs with flexibility to assist low-income homebuyers to purchase available, standard housing in the local market area. The waiver is limited to households affected by Hurricane Katrina or Rita. (See III.N.1, "Special Tests and Provisions – Maximum Per Unit Subsidy.")

**Compliance Requirements Affected** - III.A.1, "Activities Allowed or Unallowed;" III.E.1.a, b, and c, "Eligibility;" III.G.1 and G.3.a, c, and d, "Matching, Level of Effort, Earmarking;" and III.N.1, 2, and 3, "Special Tests and Provisions"

**Additional Information** – The waivers cited in this section are HOME statutory requirements that were suspended and HOME regulatory requirements that were waived by HUD on September 9, September 14, and October 14, 2005, for Participating Jurisdictions (PJ) affected by Hurricane Katrina or Rita. A copy of the waivers can be found on the Internet at <http://www.hud.gov/offices/cpd/library/katrina/>.

The following waivers and special provisions apply to the Public and Indian Housing (PIH) programs listed below as well as to PIH funding under CFDA 14.182, which is a Community Planning and Development program.

- 14.182 SECTION 8 NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION**
- 14.195 SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM - SPECIAL ALLOCATIONS**
- 14.850 PUBLIC AND INDIAN HOUSING**
- 14.854 PUBLIC AND INDIAN HOUSING DRUG ELIMINATION PROGRAM**
- 14.856 LOWER INCOME HOUSING ASSISTANCE PROGRAM - SECTION 8 MODERATE REHABILITATION**
- 14.862 INDIAN COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM**
- 14.866 DEMOLITION AND REVITALIZATION OF SEVERELY DISTRESSED PUBLIC HOUSING (HOPE VI)**
- 14.867 INDIAN HOUSING BLOCK GRANTS**
- 14.871 SECTION 8 HOUSING CHOICE VOUCHERS**
- 14.872 PUBLIC HOUSING CAPITAL FUND (CFP)**

**WAIVERS** – The requirement for PHAs to obligate capital funds for modernization, substantial rehabilitation, or new construction has been extended to allow an additional 12 months beyond 24 months after the date on which the funds become available for obligation for modernization, or the date on which the PHA accumulates adequate funds to undertake modernization, substantial rehabilitation, or new construction. In addition, the requirement for capital funds to be expended not later than 4 years after the date on which the funds become available for obligation, plus the period of any extension approved under Section 9(j)(2), has been extended by 12 months in the affected areas. These extensions are for areas affected by Hurricane Katrina or Rita and are authorized by Section 9(j)(5) of the U.S. Housing Act of 1937 (42 USC 1437g(j)(2)). (See III.H, “Period of Availability of Federal Funds.”)

**SPECIAL PROVISIONS** – The filing deadline established in 24 CFR section 5.801 for a PHA to submit unaudited financial information is changed from 60 to 180 days after the end of the PHA’s fiscal year. In addition, for PHAs with fiscal years ending December 31, 2004 and March 31, 2005, the deadline for submitting audited financial information is changed from 9 months to 13 months. (See II, “Program Procedures.”)

**Additional Information** – Waivers issued for Public and Indian Housing programs can be found on the Internet at: <http://www.hud.gov/offices/pih/publications/katrinapihadminwaiv.pdf>; and <http://www.hud.gov/offices/pih/publications/ritapihadminwaiv.pdf>.

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**DEPARTMENT OF EDUCATION (ED)**

<b>CFDA 84.000</b>	<b>ED CROSS-CUTTING SECTION</b>
<b>CFDA 84.002</b>	<b>ADULT EDUCATION -- STATE GRANT PROGRAM</b>
<b>CFDA 84.010</b>	<b>TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES (LEAs) (Title I, Part A of ESEA)</b>
<b>CFDA 84.011</b>	<b>MIGRANT EDUCATION -- STATE GRANT PROGRAM (Title I, Part C of ESEA)</b>
<b>CFDA 84.027</b>	<b>SPECIAL EDUCATION -- GRANTS TO STATES (IDEA, Part B)</b>
<b>CFDA 84.173</b>	<b>SPECIAL EDUCATION -- PRESCHOOL GRANTS (IDEA Preschool)</b>
<b>CFDA 84.041</b>	<b>IMPACT AID</b>
<b>CFDA 84.042</b>	<b>TRIO -- STUDENT SUPPORT SERVICES</b>
<b>CFDA 84.044</b>	<b>TRIO -- TALENT SEARCH</b>
<b>CFDA 84.047</b>	<b>TRIO -- UPWARD BOUND</b>
<b>CFDA 84.066</b>	<b>TRIO -- EDUCATIONAL OPPORTUNITY CENTERS</b>
<b>CFDA 84.217</b>	<b>TRIO -- MCNAIR POST-BACCALAUREATE ACHIEVEMENT</b>
<b>CFDA 84.048</b>	<b>VOCATIONAL EDUCATION -- BASIC GRANTS TO STATES (Perkins III)<sup>9</sup></b>
<b>CFDA 84.181</b>	<b>SPECIAL EDUCATION -- GRANTS FOR INFANTS AND FAMILIES WITH DISABILITIES</b>
<b>CFDA 84.186</b>	<b>SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES -- STATE GRANTS</b>
<b>CFDA 84.282</b>	<b>CHARTER SCHOOLS</b>
<b>CFDA 84.287</b>	<b>TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS</b>
<b>CFDA 84.288</b>	<b>BILINGUAL EDUCATION – PROGRAM DEVELOPMENT AND IMPLEMENTATION GRANTS</b>
<b>CFDA 84.290</b>	<b>BILINGUAL EDUCATION – COMPREHENSIVE SCHOOL GRANTS</b>
<b>CFDA 84.291</b>	<b>BILINGUAL EDUCATION – SYSTEMWIDE IMPROVEMENT GRANTS</b>
<b>CFDA 84.298</b>	<b>STATE GRANTS FOR INNOVATIVE PROGRAMS</b>
<b>CFDA 84.318</b>	<b>EDUCATION TECHNOLOGY STATE GRANTS</b>

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<sup>9</sup> This was the name of the program at the time of the hurricanes.

**CFDA 84.357 READING FIRST STATE GRANTS****CFDA 84.365 ENGLISH LANGUAGE ACQUISITION GRANTS****CFDA 84.366 MATHEMATICS AND SCIENCE PARTNERSHIPS****CFDA 84.367 IMPROVING TEACHER QUALITY STATE GRANTS**

**WAIVERS/SPECIAL PROVISIONS** - The above programs may be affected by waivers or special provisions issued by ED for ED Elementary and Secondary Education Programs. ED has issued guidance to States with LEAs and schools accepting students from the Gulf States impacted by Hurricanes Katrina and Rita (see web sites below).

**Compliance Requirements Affected** - Auditors should review the ED websites for any waivers or special provisions that affect the compliance requirements for programs being audited.

**Additional Information** – Guidance and information on waivers and special provisions related to Hurricanes Katrina and Rita for ED Elementary and Secondary Education Programs is available at: <http://hurricanehelpforschools.gov/letters/index.html>. Auditors should review these websites for waivers or changes in compliance requirements.

**WAIVERS/SPECIAL PROVISIONS** - Under Pub. L. No. 109-148, Title IV, Subtitle B, Higher Education Hurricane Relief Act of 2005, the Secretary of Education is to provide additional authority to waive requirements. In providing any grant or other assistance, directly or indirectly, to an entity in an affected State in which a major disaster has been declared in accordance with section 401 of the Robert T. Stafford Relief and Emergency Assistance Act (42 USC 5170), related to Hurricane Katrina or Hurricane Rita, in order to ease fiscal burdens, the Secretary of Education may waive or modify for fiscal year 2006 any requirement related to:

- Maintenance of effort - If the Secretary grants a waiver or modification under this section waiving or modifying a requirement relating to maintenance of effort for fiscal year 2006, the level of effort required for fiscal year 2007 shall not be reduced because of the waiver or modification.
- The use of Federal funds to supplement, not supplant, non-Federal funds, or
- Any non-Federal share or capital contribution required to match Federal funds provided under Department of Education programs.

This provision does not waive or modify any provision of the Individuals with Disabilities Education Act (IDEA) (20 USC 1400 *et seq.*).

**CFDA 84.032 FEDERAL FAMILY EDUCATION LOANS - (Guaranty Agencies)**

**WAIVERS/SPECIAL PROVISIONS** - ED has issued guidance applicable for guaranty agencies that are insuring loans for students at schools in the geographic area directly affected by Hurricane Katrina or Rita, and applicable for schools accepting students from that geographic area.

**Compliance Requirements Affected** - Auditors should review the ED website for any waivers or special provisions that affect the compliance requirements for programs being audited.

**Additional Information** - Guidance is available on the Internet at:

<http://ifap.ed.gov/eannouncements/katrina.html>, then link on the particular Hurricane, Katrina or Rita. This will take you to a separate page which on the left shows “Lenders, Servicers, and Guaranty Agencies.” (Some information is also provided relating to counties affected by Hurricane Wilma.) ED will post any additional guidance on the above website as required.

**CFDA 84.126 REHABILITATION SERVICES--VOCATIONAL REHABILITATION GRANTS TO STATES**

**WAIVER** – Pub. L. No. 109-082, Assistance for Individuals with Disabilities Affected by Hurricane Katrina or Rita Act of 2005, enacted on September 30, 2005, granted affected States in the Gulf region waivers of the State matching requirements for Federal fiscal year (FY) 2005 funds awarded during the FY 2005 reallotment process and for FY 2005 funds restored to Louisiana. Louisiana would have relinquished these funds due to a failure to provide matching funds. The States benefiting were Alabama, Louisiana, Mississippi, and Texas. Grant award notifications that accompanied the FY 2005 reallotment awards specified the amount of the waiver granted for each of the affected Vocational Rehabilitation agencies. The affected regulatory guidance is 34 CFR section 361.60.

**WAIVER** – Pub. L. No. 109-148, Title IV, Subtitle A, provided the Secretary of Education the authority to grant waivers of requirements related to matching of Federal funds and maintenance of effort. Section 105 stipulates that a waiver granted by the Secretary for this program is limited to FY 2006 grant funds. Section 105 further states that, if the Secretary grants a waiver related to the maintenance of effort requirement for FY 2006, the affected State’s level of effort for FY 2007 shall not be reduced on account of the FY 2006 waiver.

**Compliance Requirement Affected** - III.G.1, “Matching, Level of Effort, Earmarking - Matching”

**DEPARTMENT OF HEALTH AND HUMAN SERVICES****CFDA 93.558 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)**

See Part 4, 93.558, “Program Procedures - Source of Governing Requirements,” concerning funding authorized by the TANF Emergency Response and Recovery Act of 2005, Pub. L. No. 109-68, which was enacted on September 21, 2005. Section 4 of Pub. L. No. 109-68 expired on September 30, 2006; and section 5 does not have an expiration date.



**SPECIAL PROVISIONS** - Section 5 of Pub.L. 109-68 authorizes a State or tribe to use any TANF grant for any fiscal year to support needy families affected by Hurricane Katrina. Thus, both prior-year, unspent funds and current year grants may be used for any TANF benefit or service (not just “assistance”) for these families. As a result, the prohibition in 45 CFR section 263.11(b) against use of prior-year funds for non-assistance benefits and services would not apply.

The Administration for Children and Families (ACF) published Program Instruction TANF-ACF-PI-2007-08, dated November 28, 2007, to explain policy and provide guidance with respect to the current TANF program on the use of Federal TANF funds and State maintenance-of-effort funds to enable States and Tribes to serve families affected by a Federal or State disaster declaration. This Program Instruction (PI) presents items to consider with respect to the current TANF program as you address the needs of families affected by a Federal or State-declared disaster. The purpose of this Program Instruction is to inform States and Tribes how they may use TANF funds *on a short-term basis* in response to a Federal or State declared disaster. The streamlined or abbreviated determination and verification processes addressed in this PI are triggered by the Federal or State disaster declaration and may continue for up to four consecutive months. If a State or Tribe believes that it needs to use TANF funds in this manner for longer than four consecutive months, then it must request an extension in writing from the applicable Regional TANF Program Manager. The Regional TANF Program Manager will consult with the Office of Family Assistance prior to granting any extension. This PI is available on the Internet at <http://www.acf.hhs.gov/programs/ofa/pi-ofa/2007/200708/PI200708.htm>.

**Compliance Requirements Affected** - III.G.2.1.c, “Matching, Level of Effort, Earmarking - Level of Effort - Maintenance of Effort;” III.H.1.a and H.2, “Period of Availability of Federal Funds;” III.E.1.a, “Eligibility - Eligibility for Individuals;” and III.N.2, “Special Tests and Provisions - Income Eligibility and Verification System (IEVS).”

**CFDA 93.575 CHILD CARE AND DEVELOPMENT BLOCK GRANT (CCDBG)**

**CFDA 93.596 CHILD CARE MANDATORY AND MATCHING FUNDS OF THE CHILD CARE AND DEVELOPMENT FUND (CCDF)**

**WAIVER** – The Emergency Supplemental Appropriations Act to Address Hurricanes in the Gulf of Mexico and Pandemic Influenza of 2006 (Pub. L. No. 109-148) provided the Secretary of Health and Human Services with temporary authority to waive certain provisions of the Child Care and Development Block Grant (CCDBG) Act of 1990 (42 USC 9858 *et seq.*), as amended, for States affected by the Gulf hurricane disasters and those States serving significant numbers of individuals affected by the Gulf hurricane disasters. This waiver authority expired September 30, 2006. Eligible States could request waivers from the following requirements of the CCDBG Act: requirement that eligible families have income no greater than 85 percent of State Median Income; requirement that eligible families be working or in training or educational programs; requirement that States spend at least four percent of their CCDF allotment on quality activities; provisions of the CCDBG Act that could be construed to prevent children designated as evacuees from receiving priority for child care services (except that children residing in a State and currently receiving services should not lose such services in order to accommodate evacuee children); and requirements related to State match. Further information on the CCDF waivers

authorized in response to the Gulf hurricane disasters may be found in a program instruction on the subject issued by the Child Care Bureau (ACYF-PI-CC-06-01), which may be found on the Child Care Bureau website at [http://www.acf.hhs.gov/programs/ccb/law/state\\_byyear.htm](http://www.acf.hhs.gov/programs/ccb/law/state_byyear.htm).

Louisiana's Office of Family Support requested and was granted the following waivers: (1) from the entire capital contribution required to draw down Louisiana's allotment of FY 2006 Federal CCDF matching funds; (2) from any capital contribution required to draw down Louisiana's share of additional Federal CCDF matching funds that may be redistributed pursuant to 45 CFR section 98.64; and (3) from the CCDBG Act provisions requiring States to spend at least four percent of their CCDF allotment on quality activities.

Mississippi's Department of Human Services requested and was granted the following waivers with respect to the additional allotment of funds appropriated by the Deficit Reduction Act (DRA) of 2005 (Pub .L. No. 109-171): (1) from that portion of the capital contribution required to draw down those additional CCDF matching funds; and (2) from the CCDBG Act provisions requiring States to spend at least four percent of their CCDF allotment on quality activities. As noted, these waivers do not apply to the entire FY 2006 allotment, but only to those additional funds made available in January 2006.

The Texas Workforce Commission requested and was granted waivers: (1) from the capital contribution required to draw down \$30,730,811 in FY 2006 Federal CCDF matching; and (2) from the capital contribution required to draw down up to \$4,469,189 in additional Federal CCDF matching funds that may be redistributed pursuant to 45 CFR section 98.64.

**Compliance Requirements Affected** - III.E.1, "Eligibility - Eligibility for Individuals," and III.G, "Matching, Level of Effort, Earmarking - Matching."

**SPECIAL PROVISIONS** - In response to Hurricanes Katrina and Rita, the Child Care Bureau issued guidance on Flexibility in Spending CCDF Funds in Response to Federal or State Declared Emergency Situations (ACYF-IM-CC-05-03), which may be found on the Child Care Bureau's website: <http://www.acf.hhs.gov/programs/ccb/policy1/current/im0503/im0503.htm>. The guidance details existing flexibility in the CCDF program that States could use in responding to child care needs in emergency situations. Since this flexibility is currently provided in statute or regulations, there is no expiration date for these special provisions.

The Child Care Bureau's guidance offered the options under existing statute and regulations to help States use CCDF funds assist victims of Hurricanes Katrina and Rita. Some of these options included (1) using CCDF quality dollars to provide immediate assistance to displaced families; (2) revising eligibility conditions or priority rules (e.g., defining "working" to include families seeking employment, participating in community service, or a similar activity and adding additional eligibility conditions or priority rules as a method of targeting programs); (3) broadening the definition of protective services to permit emergency eligibility; (4) examining the State's income eligibility threshold and what the State counts as income; and (5) using quality dollars to provide supply-building grants to providers.

The guidance noted that exercising some options would require the State to submit an amendment to their State Plan, but that such amendments could be submitted up to 60 days after

the effective date of a change, and that States desiring to take advantage of options afforded by the CCDF statute and regulations could act immediately.

**Compliance Requirements Affected** - III.A, “Activities Allowed or Unallowed,” and III.E.1, “Eligibility - Eligibility for Individuals”

### **CFDA 93.600 HEAD START**

**WAIVER**- Any family that declares it has been forced to leave its home because of Hurricane Katrina should be considered an evacuee. Pre-school age children of these families are to be considered as income eligible for Head Start. If a family does not have a birth certificate, programs should accept the family’s information about the child’s birth date and a note should be included in the child’s file that age and/or income eligibility was determined by based on information provided by the child’s family. (Chapter 6, Pub. L. No. 109-148)

**Compliance Requirement Affected** – III,G.3.c, “Matching, Level, of Effort, Earmarking - Earmarking - Required percentage of income eligibles”

**Additional Information** - ACYF-IM-HS-05-04, Waivers and Funding Related to Hurricane Katrina

<http://eclkc.ohs.acf.hhs.gov/hslc/Program%20Design%20and%20Management/Head%20Start%20Requirements/IMs/2005>

## **DEPARTMENT OF HOMELAND SECURITY**

### **97.036 DISASTER GRANTS - PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS)**

As a result of Hurricane Katrina, 42 States received Emergency Declarations. The policies in “Emergency Declarations for Sheltering,” “Debris Removal on Private Property in Specific Counties,” and “Warehousing of Donations” include Katrina-specific information on allowable activities. The full text of the policies is located at <http://www.fema.gov/government/grant/pa/policy.shtm>

**Compliance Requirements Affected:** III.A, “Activities Allowed or Unallowed”

### **97.039 HAZARD MITIGATION GRANT PROGRAM (HMGP)**

**WAIVER** - A waiver from prior-approval requirements in OMB Circular A-87 applicable to pre-award costs has been granted for HMGP funding provided to the States of Louisiana and Mississippi for the specific disasters declared for Hurricanes Katrina and Rita. Information is posted on [www.dhs.gov](http://www.dhs.gov) “Open for Business.”

**Compliance Requirements Affected:** III.A, “Activities Allowed or Unallowed”

**PART 5 – STUDENT FINANCIAL ASSISTANCE CLUSTER**

**WAIVERS** – The Department of Education has issued guidance to schools directly affected by Hurricane Katrina, Rita, or Wilma and schools accepting students from the Gulf States impacted by the hurricanes.

**Additional Information** -Guidance for schools is available at: <http://ifap.ed.gov/eannouncements/katrina.html>. For specific information at this site, link to the individual hurricane.

General guidance for Title IV participants is located at: <http://ifap.ed.gov/>.

**Appendix VII**  
**Other OMB Circular A-133 Advisories**

**This Appendix is reserved.**

## **Appendix VIII**

### **SAS 70 Examinations of EBT Service Organizations**

#### **Background**

States must obtain an examination by an independent auditor of the State electronic benefits transfer (EBT) service providers (service organizations) regarding the issuance, redemption, and settlement of benefits under the Food Stamps program (CFDA 10.551) in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 70, Service Organizations. Also, States are required to ensure that the service organization has these examinations performed at least annually, that the examinations cover the entire period since the previous examination period, and that the examination reports are submitted to the State within 90 days after the end of the examination period. The examination report must include a list of all States whose systems operate under the same control environment. The auditor of the service organization is required to issue a report on controls placed in operation and tests of operating effectiveness, which is commonly referred to as a “type 2 report” (7 CFR section 274.12(k)(5)).

In performing audits under OMB Circular A-133 of the Food Stamps program, an auditor may use these SAS 70 reports to gain an understanding of internal controls and obtain evidence about the operating effectiveness of controls.

A SAS 70 type 2 report includes a description by the service organization’s management of control objectives and related controls as they relate to the services provided, a description by the service organization’s auditor of their tests of operating effectiveness and the results of those test, and an auditor’s report. This appendix is intended to assist service organizations and their auditors by describing illustrative control objectives and controls that service organizations may have in place. When such controls are present and operating effectively, they may enable auditors of user organizations to assess control risk below the maximum for financial statement assertions related to EBT transactions. The illustrative control objectives and controls in this appendix may not necessarily reflect how a specific service organization considers and implements internal control. Also, this appendix is not a checklist of required controls. Service organizations controls may be properly designed and operating effectively even though some of the controls included in this appendix are not present. Further, service organizations could have other controls operating effectively that have not been included in this appendix. Service organizations and their auditors will need to exercise judgment in determining the most appropriate and cost effective controls in a given environment or circumstance.

Many of the illustrative controls are stated in relation to the kinds of policies and procedures that are “established” or “in place” at an organization. It would be insufficient for such policies and procedures to merely exist on paper and not be implemented. To meet the criteria of a SAS 70 type 2 examination, the policies and procedures would need to be suitably designed, placed in operation, and operating effectively.

## 1. Control Environment

### **Illustrative Control Objective:**

Controls provide reasonable assurance that the EBT system functions in a manner consistent with its policies, and complies with applicable laws and regulations (Food Stamp Act of 1977, as amended (7 USC 2016(i)) and 7 CFR section 274.12).

### **Illustrative Controls:**

- The service organization has written policies and procedures for the system processing EBT transactions.
- The organization identifies and analyzes relevant risks to the EBT process.
- Policies and procedures regarding acceptable employee practices, conflicts of interests, and codes of conduct have been established and communicated to employees with EBT responsibilities.
- Policies and procedures are established for performing background investigations of employees prior to employment.
- Policies and procedures have been established to segregate incompatible functions (e.g., application programming, systems and operation, financial duties, data storage, government reimbursement payment requests, transaction processing, and reconciliation) so no individual interacting with the system can exercise unilateral control over EBT transactions.
- Policies and procedures are in place for management to monitor the effectiveness of EBT controls and correct deficiencies or weaknesses when found.
- Policies and procedures are in place to prevent management or staff from overriding controls.

## 2. Systems Development and Maintenance

### **Illustrative Control Objective:**

Controls provide reasonable assurance that changes (including emergency procedures) to EBT applications and system software are authorized, tested, approved, implemented, and documented.

**Illustrative Controls:**

- The service organization follows a system development methodology.
- System documentation for new and existing applications are current and complete in accordance with programming and documentation standards used by the service organization.

**3. Access Controls****Illustrative Control Objective:**

Controls provide reasonable assurance that the EBT system is protected against unauthorized physical and logical access.

**Illustrative Controls:**

- The responsibility for the development and enforcement of a security policy is at an organizational level that facilitates compliance by service organization personnel and enables enforcement of policies and procedures.
- Security policy and procedures are in place and are communicated to appropriate employees and contractors.
- Policies and procedures are in place for reporting security incidents or observed irregularities to an organizational level where such matters can be investigated and resolved.
- Policies and procedures are established for the security over filing, retention, and destruction of EBT system files.
- Policies and procedures are in place for conducting security system training.
- Policies and procedures are in place for discontinuing an employee or contractor's ability to access EBT hardware, software, and data when the employee is terminated or the employees duties are changed.
- Access to EBT files or processes is limited based upon users' needs.
- Passwords control access to EBT files, personal identification numbers (PIN), and privacy data.
- Firewalls or other procedures prevent unauthorized access to data from an external network.
- Policies and procedures are in place to prevent a State from reviewing or altering data for another State.



**4. Computer Operations - Processing****Illustrative Control Objective:**

Controls provide reasonable assurance that processing is scheduled and deviations from scheduling are identified and resolved.

**5. Computer Operations - Data Transmission****Illustrative Control Objective:**

Controls provide reasonable assurance that data transmissions are complete, accurate and secure.

**Illustrative Controls:**

- Policies and procedures require that PIN's and data are encrypted throughout processing.
- Encryption keys are stored in a secure manner.
- Maintenance of encryption keys is performed by authorized service center staff.
- Policies and procedures of the service organization require proper identification, validation, and acceptance of EBT transactions processed.

**6. Computer Operations - Output****Illustrative Control Objective:**

Controls provide reasonable assurance that output data and documents are complete, accurate, and distributed to authorized recipients on a timely basis.

**7. EBT Controls - Transactions Received from Authorized Sources****Illustrative Control Objective:**

Controls provide reasonable assurance that transactions are received from authorized sources.

**Illustrative Controls:**

- Policies and procedures are in place to ensure that updates of point of sale (POS) device parameters are restricted to authorized personnel.
- Policies and procedures require that POS transactions be properly validated.
- Policies and procedures for direct data entry, such as adjustments, require proper review and approval.

- Policies and procedures are in place to approve voucher transactions.
- Policies and procedures for voucher transactions prevent unauthorized access to recipient or retailer accounts.

## **8. EBT Controls - Transaction Amounts and Recording**

### **Illustrative Control Objective:**

Controls provide reasonable assurance that transactions are for authorized amounts and are recorded completely and accurately.

### **Illustrative Controls:**

- Records identify the activity and events in client accounts (e.g., deposits, withdrawals, charges, and type of transactions).
- Records identify client accounts for which benefits have not been withdrawn or used beyond pre-established periods (i.e., identify inactive accounts for which deposits are still made).
- System edits prevent individual client accounts from being credited with benefits in excess of authorized amounts.

## **9. EBT Controls - Processing**

### **Illustrative Control Objective:**

Controls provide reasonable assurance that transactions are processed completely and accurately.

### **Illustrative Controls:**

- Policies and procedures of the service organization include controls to:
  - monitor and investigate any unsuccessful file transfers;
  - recover or reproduce lost or damaged data;
  - examine edit checks for unusual conditions;
  - reconcile input and output of transactions processed;
  - log and store transactions; and
  - monitor rejected transactions and account adjustment actions.

## 10. EBT Controls - Settlement

### **Illustrative Control Objective:**

Controls provide reasonable assurance that settlement of funds received from benefit providers and distributed to benefits acquirers for food stamp benefit purchases and withdrawals is performed timely and accurately.

### **Illustrative Controls:**

- Policies and procedures are in place to perform daily reconciliations of:
  - account balances;
  - net settlements; and
  - government funds.
- Policies and procedures are established for resolution of disputed transactions.
- Policies and procedures are established for requesting Federal and State reimbursements.

## 11. Physical Environment

### **Illustrative Control Objective:**

Controls exist to provide reasonable assurance that physical assets are protected.

### **Illustrative Controls:**

- Policies and procedures are established for environmental controls (e.g., maintenance schedules, fire suppression equipment, water detection and protection considerations, and the availability of an uninterruptable power system designed to protect and ensure continued operations).
- Policies and procedures call for periodic facility inspections.
- Policies and procedures for proper maintenance of hardware have been established.

## 12. Contingency Planning

### **Illustrative Control Objective:**

Controls exist within the data center to provide reasonable assurance of continuity of operations.

### **Illustrative Controls:**

- Disaster recovery and business continuity plans exist for the system processing EBT transactions.

- The business continuity plan provides for periodic testing at the backup facility and the service organization has performed such testing.
- The service organization has a contractually protected access right to the backup facility.
- Backup arrangements for key applications, processes and files are in place.

### **13. Card Controls**

#### **Illustrative Control Objective:**

Controls are established to provide reasonable assurance that users of EBT benefit cards are authorized.

#### **Illustrative Controls:**

- Each transaction is validated with a unique account number and PIN.
- For benefit card issuance services provided by the EBT service organization policies and procedures are in place to:
  - prevent unauthorized assignment and replacement of PIN's;
  - properly deliver benefit cards to participants;
  - activate cards by only authorized users;
  - deactivate damaged, lost, or stolen cards;
  - record and destroy active cards returned to the service organization; and
  - control access to and inventory levels of pre-printed unused card stock.

## **Appendix IX Compliance Supplement Core Team**

The Compliance Supplement Core Team is responsible for the annual production of the Office of Management and Budget (OMB) Circular A-133 Compliance Supplement with the assistance of a support contractor. The Core Team is composed of audit and program representatives from the Federal grant-making agencies and OMB. The support contractor is LMI.

Following is a list of team members responsible for the production of this Supplement:

Morgan Aronson, Department of the Interior  
David Batcheller, Department of Homeland Security  
Linda Douglas, U.S. Agency for International Development  
Rick Esterbrook, Department of Education  
Ronnie Fairley, Department of Housing and Urban Development  
Ellen Shields, Department of Transportation  
James Foreman, Small Business Administration  
LaToya Johnson, Department of Justice  
Brian Hanlon, Environmental Protection Agency  
Eleanor Jefferson, U.S. Agency for International Development  
Gary Johnson, Department of Commerce  
Jill O'Brien, Census Bureau, Department of Commerce  
Brian Lee, Department of the Treasury  
Christopher Lipsey, United States Department of Agriculture  
Ruby Porch, Department of Housing and Urban Development  
Randy Prindle, Department of Education  
Joseph Cummings, Department of Labor  
Janet Stern, Department of Defense  
Chris Stubbs, Department of the Interior  
Richard Taylor, U.S. Agency for International Development  
Gilbert Tran, Office of Management and Budget  
Chitra Verma, Department of Health and Human Services