

## **PPC's Practice Aids for Audits of School Districts—Updated Audit Programs for 2019 *Compliance Supplement***

The audit procedures in audit programs at PSD-AP-20 through PSD-AP-23 were adapted from Parts 2, 3.2, and 4 of the 2018 *Compliance Supplement* (Compliance Supplement) issued by the OMB. As expected and indicated in the instructions to those programs, the OMB published an the 2019 Compliance Supplement for audits of periods beginning after June 30, 2018 with updated content. As a result of the issuance of the 2019 Compliance Supplement, we have updated PSD-AP-20 through PSD-AP-23. Please see the attached file with the revised programs.

**PSD-AP-20: Audit Program—Compliance Requirements for Title I Grants to LEAs (CFDA 84.010)**

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

Federal Program(s): \_\_\_\_\_

**Instructions**

This program may be used for Single Audits conducted under OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), for periods covered by the 2019 OMB Compliance Supplement [single audits of fiscal years beginning after June 30, 2018 (i.e., first used for June 30, 2019, year-end Single Audits)]. Chapter 13 of *PPC's Guide to Audits of Local Governments* provides an overview of the Uniform Guidance. *PPC's Guide to Single Audits* provides additional information about the Uniform Guidance.

This audit program should be used for audits of federal awards **made on or after December 26, 2014**, and for funding increments (additional funding on existing awards) with modified terms and conditions that are awarded on or after that date. This audit program is based on Part 3.2 of 2 CFR part 200, appendix XI, Compliance Supplement (the Compliance Supplement). See "Considerations for ED Audits" below.

This audit program should *not* be used for audits of awards made before December 26, 2014, or for funding increments that did not have modified terms and conditions. Awards within a major program may still be subject to both Parts 3.1 and 3.2.

This audit program covers the tests of compliance requirements for school districts that received federal awards under Title I, Part A of the ESEA (**CFDA 84.010**) when deemed to be a major program. (Major program determination is normally documented using PSD-CX-1.5, "Single Audit and Major Program Determination Worksheet.")

The following audit procedures were adapted from Parts 2, 3.2, and 4 of the Compliance Supplement issued by the OMB. Due to users noting many errors in the 2019 Compliance Supplement, the AICPA issued a comment letter urging the OMB to immediately correct the errors in the Compliance Supplement. See the comment letter at <https://www.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/singleaudit/uniformguidanceforfederalrewards/downloadabledocuments/aicpacommentletteron2019csupplement.pdf>. Auditors should consult the GAQC website at <https://www.aicpa.org/interestareas/governmentalauditquality.html> for potential future changes to the Compliance Supplement related to these errors.

The procedures in parts 3 and 4 of the Compliance Supplement and this audit program are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. However, the authors suggest that, for procedures not performed, an explanation be provided. This will be helpful in the event of a federal or pass-through entity quality control review.

*Considerations for ED Audits*

Based on a Department of Education (ED) FAQ document dated June 25, 2015, administrative actions (including a time extension) or any supplements to awards made prior to December 26, 2014 are not subject to the Uniform Guidance. However, funds that carryover to a noncompeting continuation (e.g., formula grants) on or after December 26, 2014 are subject to the Uniform Guidance. In essence, once a formula grant is awarded, the requirements apply to all funds under the grant, regardless of whether the funds are new or carried over from the prior budget period.

However, Uniform Guidance allows federal agencies to make certain exceptions, and this could affect compliance audits of ED programs. As previously discussed, this audit program is based on Part 3.2 of the Compliance Supplement. Auditors should monitor ED, AICPA, and industry websites for additional guidance that may be issued after the completion of these *Practice Aids*.

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### *Applicability of Compliance Requirements*

According to the Matrix in Part 2 of the Compliance Supplement, the following compliance requirements have been identified as not being subject to the compliance audit for Title 1 Grants to LEAs:

- C. Cash Management
- F. Equipment/Real Property Management
- H. Period of Performance
- I. Procurement Suspension & Debarment
- J. Program Income
- L. Reporting

However, while a requirement may not be subject to the audit for compliance audit purposes, auditors have a responsibility under GAAS and GAGAS related to noncompliance with provisions of laws, regulations, contracts, and grant agreements that may have a material effect on the financial statements and with requirements related to the auditor's consideration of fraud and abuse.

The program is divided into parts representing the types of compliance requirements that ordinarily apply to school districts participating in Title I, Part A. A summary of each of the compliance requirements follows. For additional information, see the reference included at each compliance type. This program contains references to the *OMB Compliance Supplement*, which is available at [www.whitehouse.gov/wp-content/uploads/2019/07/2-CFR\\_Part-200\\_Appendix-XI\\_Compliance-Supplement\\_2019\\_FINAL\\_07.01.19.pdf](http://www.whitehouse.gov/wp-content/uploads/2019/07/2-CFR_Part-200_Appendix-XI_Compliance-Supplement_2019_FINAL_07.01.19.pdf). This program also contains references to the Uniform Guidance (2 CFR part 200), which can be accessed at [www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl). It also contains references to 34 CFR, which can be accessed at [www.ecfr.gov/cgi-bin/text-idx?SID=e8f1efb27d8c3eda14c688f471e15a41&mc=true&tpl=/ecfrbrowse/Title34/34tab\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?SID=e8f1efb27d8c3eda14c688f471e15a41&mc=true&tpl=/ecfrbrowse/Title34/34tab_02.tpl).

### *Internal Control*

Consistent with Part 3.2 of the Compliance Supplement and the requirements of 2 CFR part 200, subpart F, the accompanying audit programs include 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 school district'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 2 CFR part 200, subpart F.

### *“Safe Harbor” Status of the Compliance Supplement*

Part 1 of the Compliance Supplement notes that use of the Supplement is “mandatory,” and that auditors must adhere to the Supplement to satisfy 2 CFR part 200, subpart F, requirements. Part 1 also addresses the “safe harbor” status of the Compliance Supplement. Specifically, it states that due to the diversity of programs and administering entities, the suggested audit procedures are general in nature. Because the Compliance Supplement only provides “suggested” audit procedures, it cannot be used as a safe harbor for determining the specific audit procedures to apply in a particular situation. Thus, auditor judgment is necessary in determining whether such procedures are sufficient to achieve the stated audit objectives, or whether alternative audit procedures are necessary. While OMB states that the Compliance Supplement is not a “safe harbor” for identifying the audit procedures to apply in a particular single audit engagement, it clarifies that the Compliance Supplement can be considered a “safe harbor” for identification of the types of compliance requirements subject to the compliance audit for programs included in the Compliance Supplement if the auditor both:

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- Performs reasonable procedures to ensure that the requirements subject to the audit in the Compliance Supplement are current and determine whether there are any additional provisions of federal awards relevant to the compliance requirements subject to the audit that should be covered by the audit.
- Updates or augments the requirements contained in the Compliance Supplement as appropriate.

### *Sample Size*

For certain of its suggested audit procedures, the Compliance Supplement says to “select a sample.” Minimum “sample” sizes and acceptable selection methods are not specified. Appendix VIII of the Compliance Supplement does, however, discuss audit sampling guidance provided by the AICPA. The Uniform Guidance permits these matters to be determined based on the auditor’s professional judgment. The authors believe that a “sample” as used here does not necessarily mean use of sampling. In many instances because of other procedures performed, low inherent and control risk of noncompliance, and/or small population sizes, sampling may not be necessary. The authors have developed the worksheet PSD-CX-8.1, “Planning Worksheet to Determine Extent of Substantive Procedures,” to aid the auditor in determining whether sampling is necessary. Planning the extent of substantive tests of compliance is discussed at Chapter 5 (section 503) in *PPC’s Guide to Single Audits* and Chapter 13 in *PPC’s Guide to Audits of Local Governments*.

The AICPA provides guidance on sampling in an audit of compliance that provides suggested minimum sample sizes as well as methods for determining sample size, including different tables and methods for tests of controls than for tests of compliance. This guidance is provided in Chapter 11, “Audit Sampling Considerations of Uniform Guidance Compliance Audits,” of the GAS/SA Audit Guide. This sampling guidance is reflected in these *Practice Aids*. Chapter 5 of *PPC’s Guide to Single Audits* has an extensive discussion about using audit sampling in a Single Audit.

### **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 funds under Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the Every Student Succeeds Act (ESSA) (Pub. L. No 114-95) 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) (CFDA 93.558), 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 ESEA (20 USC 6311), or (2) a consolidated plan that includes Part A, in accordance with Section 9302 of the ESEA (20 USC 7842). Each SEA included Title I, Part A in a consolidated state plan. This consolidated plan, after approval by ED, remains in effect for the duration of the state’s participation in Title I, Part A under the current ESEA authorization. The plan must be updated to reflect substantive changes.

In general, to receive Title I, Part A funds, LEAs must have on file with the SEA an approved plan that includes the descriptions required under Section 1112(b) of the ESEA (20 USC 6312(b)). In lieu of an individual program plan, however, an LEA may include Part A as part of a consolidated application submitted to the SEA under Section 8305 of the ESEA (20 USC 7845).

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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% poverty or a school that receives a waiver from the SEA 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).

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

The Elementary and Secondary Education Act of 1965 was reauthorized by ESSA on December 10, 2015.

### Source of Governing Requirements

This program is authorized by Title I, Part A of the ESEA, as amended by the ESSA [Pub. L. No. 114-95 (20 USC 6301 through 6339 and 6571 through 6576)]. Program regulations are found at 34 CFR part 200. The ED requirements of 34 CFR part 299 (General Provisions) apply to this program.

### Availability of Other Program Information

A number of documents posted on ED's website contain information pertinent to the Title I, Part A requirements in this Compliance Supplement. They are:

- ESSA Fiscal Changes & Equitable Services (November 21, 2016) ([www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf))
- ESSA Schoolwide Guidance (September 29, 2016) ([www2.ed.gov/policy/elsec/leg/essa/essaswpguidance9192016.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essaswpguidance9192016.pdf))
- Letter from the Secretary on Test Security (June 2011) ([www2.ed.gov/policy/elsec/guid/secletter/110624.html](http://www2.ed.gov/policy/elsec/guid/secletter/110624.html))
- 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) ([www.ed.gov/programs/titleiparta/wdag.doc](http://www.ed.gov/programs/titleiparta/wdag.doc))
- Title I Services to Eligible Private School Children (October 17, 2003) ([www.ed.gov/programs/titleiparta/psguidance.doc](http://www.ed.gov/programs/titleiparta/psguidance.doc))
- The American Recovery and Reinvestment Act of 2009 (ARRA): Using Title I, Part A ARRA Funds for Grants to Local Educational Agencies to Strengthen Education, Drive Reform, and Improve Results for Students (September 2, 2009) ([www.ed.gov/policy/gen/leg/recovery/guidance/titlei-reform.doc](http://www.ed.gov/policy/gen/leg/recovery/guidance/titlei-reform.doc))

**Note:** Although the period of availability for Title I ARRA funds has expired, this guidance remains generally applicable to the use of Title I, Part A funds provided through a regular appropriation.

- Implementing Response to Intervention (RTI) using Title I, Title III, and CEIS (Coordinated Early Intervening Services) Funds ([www.ed.gov/programs/titleiparta/rti.html](http://www.ed.gov/programs/titleiparta/rti.html))
- Early Learning in the Every Student Succeeds Act (January 2017) ([www2.ed.gov/policy/elsec/leg/essa/essaelguidance11717.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essaelguidance11717.pdf))
- The Community Eligibility Provision and Selected Requirements Under Title I, Part A of the Elementary and Secondary Education Act of 1965, as Amended (Revised March 2015) ([www2.ed.gov/programs/titleiparta/15-011.doc](http://www2.ed.gov/programs/titleiparta/15-011.doc))

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- Letter to state Title I and Homeless Education Coordinators on use of Title I funds to support homeless children and youth (August 2015) ([www2.ed.gov/programs/homeless/homelesscoord0815.pdf](http://www2.ed.gov/programs/homeless/homelesscoord0815.pdf))

The ESEA, as reauthorized by the ESSA, is available with a hypertext index at <https://legcounsel.house.gov/Comps/Elementary And Secondary Education Act Of 1965.pdf>.

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

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

- Transitioning to the Every Student Succeeds Act (ESSA) Frequently Asked Questions (January 18, 2017) ([www2.ed.gov/policy/elsec/leg/essa/essatransitionfaqs11817.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essatransitionfaqs11817.pdf))
- ESSA Fiscal Changes & Equitable Services (which includes guidance on Transferability Authority) (November 2016) ([www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf))
- ESSA Schoolwide Guidance (September 2016) ([www2.ed.gov/policy/elsec/leg/essa/essaswpguidance9192016.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essaswpguidance9192016.pdf))
- Guidance on the Rural Education Achievement Program (REAP) (June 2003) ([www.ed.gov/policy/elsec/guid/reap03guidance.doc](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) ([www.ed.gov/programs/titleparta/seaguidanceforadjustingallocations.doc](http://www.ed.gov/programs/titleparta/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? (December 2000) ([www.ed.gov/policy/elsec/guid/cschoools/cguidedec2000.doc](http://www.ed.gov/policy/elsec/guid/cschoools/cguidedec2000.doc)).
- Title I Services to Eligible Private School Children (October 17, 2003) ([www.ed.gov/programs/titleiparta/psguidance.doc](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 (March 2009) ([www.ed.gov/policy/elsec/guid/equitableserguidance.doc](http://www.ed.gov/policy/elsec/guid/equitableserguidance.doc))
- Serving Preschool Children Through Title I, Part A of the Elementary and Secondary Education Act of 1965, as Amended (April 16, 2012) ([www2.ed.gov/policy/elsec/guid/preschoolguidance2012.pdf](http://www2.ed.gov/policy/elsec/guid/preschoolguidance2012.pdf))
- Non-Regulatory Guidance: Early Learning in the Every Student Succeeds Act (January 2017) ([www2.ed.gov/policy/elsec/leg/essa/essaelguidance11717.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essaelguidance11717.pdf))
- Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; and Grantback Requirements (February 2008) ([www.ed.gov/programs/titleiparta/fiscalguid.doc](http://www.ed.gov/programs/titleiparta/fiscalguid.doc))
- Letter to Chief State School Officers on Granting Administrative Flexibility for Better Measures of Success (September 7, 2012) ([www2.ed.gov/policy/fund/guid/gposbul/time-and-effort-reporting.html](http://www2.ed.gov/policy/fund/guid/gposbul/time-and-effort-reporting.html)).

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### III. COMPLIANCE REQUIREMENTS

Auditors should ascertain from the audited SEAs and LEAs whether the SEA or the LEA or its schools are operating under any approved waivers.

**A. ACTIVITIES ALLOWED OR UNALLOWED** This Section is N/A—

#### Compliance Requirements

This compliance requirement specifies the activities that can or cannot be funded under a specific program and almost always applies to federal programs. The specific requirements for activities allowed or unallowed are unique to each federal program and are found in the federal statutes, regulations, and the terms and conditions of the federal award pertaining to the program.

#### Source of Governing Requirements

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

#### Specific Information for This ED Program

##### Consolidation of Administrative Funds

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 8203 of ESEA (20 USC 7823)].

An 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 8201(c) and 8203(e) of ESEA [20 USC 7821(c) and 7823(e)]}.

State and local administrative funds that are consolidated should be included in the audit universe and the total expenditures of the programs from which they originated for purposes of (1) determining Type A programs, and (2) completing the Schedule of Expenditures of Federal Awards (SEFA). A footnote showing, by program, amounts of administrative funds consolidated is encouraged.

##### Schoolwide Programs

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.

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

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Prima Facie Case Requirement for Audit Findings

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

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

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether federal awards were expended only for allowable activities.

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p style="text-align: center;"><b>Internal Control</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol> <p style="text-align: center;"><b>Compliance</b></p> <ol style="list-style-type: none"> <li>4. Identify the types of activities which are either specifically allowed or prohibited by federal statutes, regulations, and the terms and conditions of the federal award pertaining to the program.</li> <li>5. When allowability is determined based upon summary level data, perform procedures to verify that the activities were allowable and that the individual transactions were properly classified and accumulated into the activity total.</li> </ol>		

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<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
6. 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.		
7. 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** This Section is N/A—

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.

**Compliance Requirements—Allowability of Costs**

Part 3.2 of the Compliance Supplement provides basic guidelines for allowability of costs. It states that, except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under federal awards:

1. Be necessary and reasonable for the performance of the federal award and be allocable thereto under the principles in 2 CFR part 200, subpart E.
2. Conform to any limitations or exclusions set forth in 2 CFR part 200, subpart E, or in the federal award as to types or amount of cost items.
3. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the nonfederal entity.
4. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
5. Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in 2 CFR part 200.
6. Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program in either the current or a prior period.
7. Be adequately documented.

Selected Items of Cost

2 CFR sections 200.420 through 200.475 provide the principles to be applied in establishing the allowability of certain items of cost, in addition to the basic considerations identified above. (For a listing of costs, by type of nonfederal entity, refer to Exhibit 1 of Part 3.2 of the Compliance Supplement.) These principles apply whether or not a particular item of cost is treated as a direct cost or indirect (F&A) cost. Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment provided for similar or related items of cost and the principles described in 2 CFR sections 200.402 through 200.411.

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**Source of Governing Requirements**

The requirements for allowable costs/cost principles are contained in 2 CFR part 200, subpart E, program legislation, federal awarding agency regulations, and the terms and conditions of the award.

Applicability of Cost Principles

The cost principles in 2 CFR part 200, subpart E (Cost Principles), prescribe the cost accounting requirements associated with the administration of federal awards. As provided in 2 CFR section 200.101, the cost principles requirements apply to all federal awards with the exception of grant agreements and cooperative agreements providing food commodities; agreements for loans, loan guarantees, interest subsidies, insurance; and programs listed in 2 CFR section 200.101(d) (see Appendix I of the Compliance Supplement). The cost principles applicable to a nonfederal entity apply to all federal awards received by the entity, regardless of whether the awards are received directly from the federal awarding agency or indirectly through a pass-through entity. For this purpose, federal awards include cost-reimbursement contracts under the Federal Acquisition Regulation. The cost principles do not apply to federal awards under which a nonfederal entity is not required to account to the federal awarding agency or pass-through entity for actual costs incurred.

**Internal Control**

The suggested audit procedures below for internal control should be performed for all types of compliance requirements (i.e., direct costs, indirect costs).

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p style="text-align: center;"><b>Internal Control—All Costs</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>2. 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 2 CFR section 200.514(c)(4), including reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, assessing the control risk at the maximum, and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol>		

**De Minimis Indirect Cost Rate**

Except for those nonfederal entities described in 2 CFR part 200, Appendix VII, paragraph D.1.b, if a nonfederal entity has never received a negotiated indirect cost rate, it may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC). Such a rate may be used indefinitely or until the nonfederal entity chooses to negotiate a rate, which the nonfederal entity may do at any time. If a nonfederal entity chooses to use the de minimis rate, that rate must be used consistently for all of its federal awards. Also, as described in 2 CFR section 200.403, costs must be consistently charged as either indirect or direct cost, but may not be double charged or inconsistently charged as

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both. In accordance with 2 CFR section 200.400(g), a nonfederal entity may not earn or keep any profit resulting from federal financial assistance, unless explicitly authorized by the terms and conditions of the award.

**Audit Objectives—De Minimis Indirect Cost Rate**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine that the de minimis rate is applied to the appropriate base amount.
3. Determine that the de minimis rate is used consistently by a nonfederal entity under its federal awards.

**Compliance—De Minimis Indirect Cost Rate**

The following suggested audit procedures apply to any nonfederal entity using a de minimis indirect cost rate, whether as a recipient or subrecipient. None of the procedures related to indirect costs in the sections of the Allowable Costs/Cost Principles compliance requirement organized by type of nonfederal entity apply when a de minimis rate is used.

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<p align="center"><b>Compliance—De Minimis Indirect Cost Rate</b></p> <ol style="list-style-type: none"> <li>1. Determine that the nonfederal entity has not previously claimed indirect costs on the basis of a negotiated rate. Auditors are required to test only for the three fiscal years immediately prior to the current audit period.</li> <li>2. Test a sample of transactions for conformance with 2 CFR section 200.414(f)—                             <ol style="list-style-type: none"> <li>a. Select a sample of claims for reimbursement of indirect costs and verify that the de minimis rate was used consistently, the rate was applied to the appropriate base, and the amounts claimed were the product of applying the rate to a modified total direct costs base.</li> <li>b. Verify that the costs included in the base are consistent with the costs that were included in the base year; i.e., verify that current year modified total direct costs do not include costs items that were treated as indirect costs in the base year.</li> </ol> </li> <li>3. For a nonfederal entity conducting a single function, which is predominantly funded by federal awards, determine whether use of the de minimis indirect cost rate resulted in the nonfederal entity double-charging or inconsistently charging costs as both direct and indirect.</li> </ol>		

**Specific Information for This ED Program**

Alternative Fiscal and Administrative Requirements

A state may adopt its own written fiscal and administrative requirements, which are consistent with the provisions of 2 CFR part 200, subpart E, 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

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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)].

#### Documentation of Employee Time and Effort

1. *Consolidated Administrative Funds*—An LEA that consolidates federal administrative funds is not required to keep separate records by individual program {Sections 8201 or 8203 of ESEA [20 USC 7821(c) or 7823(e)]}. The SEA or LEA may treat the consolidated administrative funds as a consolidated administrative cost objective.

Time-and-effort requirements with respect to consolidated administrative funds vary under different circumstances.

- a. For an employee who works solely on the consolidated administrative cost objective, an LEA is not required to maintain records reflecting the distribution of the employee's salary and wages among the programs included in the consolidation.
- b. For an employee who works in part on 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, an LEA must maintain time and effort distribution records in accordance with 2 CFR section 200.430(i)(1)(vii) that support the portion of time and effort dedicated to—
  - (1) the consolidated cost objective, and
  - (2) each program or other cost objective supported by nonconsolidated federal funds or other revenue sources.

2. *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. A school that consolidates Federal funds with State and local funds in a consolidated schoolwide pool 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)}. If a schoolwide program school does not consolidate federal funds in a consolidated schoolwide pool, the school must keep separate records by program. [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 at [www.ed.gov/programs/titleparta/fiscalguid.doc](http://www.ed.gov/programs/titleparta/fiscalguid.doc).]

Time-and-effort requirements in schoolwide program schools vary under different circumstances.

- a. If a school operating a schoolwide program consolidates federal, state, and local funds in a consolidated schoolwide pool, there is no distinction between staff paid with federal funds and staff paid with state or local funds. Under these circumstances, payment from the single consolidated schoolwide pool is sufficient to demonstrate that an employee works only on activities of the schoolwide program, and no other documentation is required.
- b. 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:
  - (1) For an employee who works solely on a single cost objective (e.g., 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), an LEA is not required to maintain records reflecting the distribution of the employee's salary and wages, including among the federal programs included in the consolidation, if applicable.

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- (2) For an employee who works on multiple activities or cost objectives (e.g., 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 that are not part of the same cost objective), an LEA must maintain time and effort distribution records in accordance with 2 CFR section 200.430(i)(1)(vii) that support the portion of time and effort dedicated to—
- (i) the federal program or cost objective;
  - (ii) each other program or cost objective supported by consolidated federal funds or other revenue sources.
3. *Substitute System for Employees on a Predetermined Schedule*—In a September 7, 2012, letter to Chief State School Officers, ED authorized SEAs to approve LEAs' use of a substitute system for time-and-effort reporting for employees whose salaries are supported by multiple cost objectives, but who work on a predetermined schedule. ED also provided guidance to clarify the meaning of a "single cost objective." For more detail, see *Letter to Chief State School Officers on Granting Administrative Flexibility for Better Measures of Success* (September 7, 2012) ([www2.ed.gov/policy/fund/guid/gposbul/time-and-effort-reporting.html](http://www2.ed.gov/policy/fund/guid/gposbul/time-and-effort-reporting.html)).

#### Indirect Costs

A "restricted" indirect cost rate (RICR) must be used for programs administered by state and local governments and their governmental subgrantees that have a statutory requirement prohibiting the use of federal funds to supplant nonfederal funds. Nongovernmental grantees or subgrantees administering such programs have the option of using the RICR, or an indirect cost rate of 8%, 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:

1. Divisional administration that is limited to one component of the grantee,
2. The governing body of the grantee,
3. Compensation of the chief executive officer of the grantee,
4. Compensation of the chief executive officer of any component of the grantee, and
5. 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.

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Other expenditures are the grantee's total expenditures for its federally and nonfederally 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 nonsupplant requirement) that allow indirect costs do not require a restricted rate and should follow the cost principles in 2 CFR part 200, subpart E (34 CFR sections 76.560 and 76.563-76.569).

### 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 2 CFR part 200, subpart E.

1. Separation leave costs [2 CFR section 200.431(b)].
2. Severance costs [2 CFR section 200.431(i)].
3. Post-retirement health benefit (PRHB) costs [2 CFR section 200.431(h)].

### 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 2 CFR section 200.465(c).

### **Audit Objectives—Direct Costs**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether the organization complied with the provisions of 2 CFR part 200 as follows:
  - a. Direct charges to federal awards were for allowable costs.
  - b. Unallowable costs determined to be direct costs were included in the allocation base for the purpose of computing an indirect cost rate.

### **Audit Objectives—Indirect Costs**

3. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).

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4. Determine whether the governmental unit complied with the provisions of 2 CFR part 200 as follows:
  - a. Charges to cost pools used in calculating indirect cost rates were for allowable costs.
  - b. The methods for allocating the costs are in accordance with the 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).
  - c. Indirect cost rates were applied in accordance with negotiated indirect cost rate agreements (ICRA).
  - d. For state/local departments or agencies that do not have to submit an ICRP to the cognizant agency for indirect costs (those that receive less than \$35 million in direct federal awards), indirect cost rates were applied in accordance with the ICRP maintained on file.

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p style="text-align: center;"><b>Compliance—Direct Costs</b></p> <ol style="list-style-type: none"> <li>1. Test a sample of transactions for conformance with the following criteria contained in 2 CFR part 200, as applicable:                             <ol style="list-style-type: none"> <li>a. If unallowable direct costs are identified, determine whether unallowable directly associated costs have also 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.)</li> <li>b. Costs were approved by the federal awarding agency, if required. (See Part 3.2, Exhibit 1, "Selected Items of Cost," or 2 CFR section 200.407 for selected items of cost that require prior written approval.)</li> <li>c. Costs did not consist of improper payments, including (1) payments that should not have been made or that were made in incorrect amounts (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; (2) payments that do not account for credit for applicable discounts; (3) duplicate payments; (4) payments that were made to an ineligible party or for an ineligible good or service; and (5) payments for goods or services not received (except for such payments where authorized by law).</li> <li>d. Costs were necessary and reasonable for the performance of the federal award and allocable under the principles of 2 CFR part 200, subpart E.</li> <li>e. Costs conformed to any limitations or exclusions set forth in 2 CFR part 200, subpart E, or in the federal award as to types or amount of cost items.</li> <li>f. Costs were consistent with policies and procedures that apply uniformly to both federally financed and other activities of the state/local government/Indian tribe department or agency.</li> </ol> </li> </ol>		

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<p>g. Costs were accorded consistent treatment. Costs were not assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances was allocated to the federal award as an indirect cost.</p> <p>h. Costs were not included as a cost of any other federally financed program in either the current or a prior period.</p> <p>i. Costs were not used to meet the cost-sharing or matching requirements of another federal program, except where authorized by federal statute.</p> <p>j. Costs were adequately documented.</p> <p align="center"><b>Compliance—Indirect Costs</b></p> <p>If the school district is not required to submit an ICRP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing, and extent of compliance testing.</p> <p><i>General Audit Procedures</i>—The following procedures apply to charges to cost pools that are allocated wholly or partially to federal awards or used in formulating indirect cost rates used for recovering indirect costs under federal awards.</p> <p>2. Test a sample of transactions for conformance with:</p> <p>    a. The criteria contained in the “Basic Considerations” section of 2 CFR sections 200.402 through 200.411. (This test can be performed by completing Step 11 at the end of this section of this program.)</p> <p>    b. The principles to establish allowability or unallowability of certain items of cost (2 CFR sections 200.420 through 200.475). (This test as it relates to payroll and depreciation can be performed by completing Steps 12 and 13 at the end of this program.)</p> <p>3. If unallowable costs are identified, determine whether unallowable directly associated costs have also 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.)</p> <p>4. Verify that the ICRP includes the required documentation in accordance with 2 CFR part 200, Appendix VII, paragraph D.</p>		

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<p>5. <i>Testing of the ICRP.</i> There may be a timing consideration when the audit is completed before the ICRP is completed. In this instance, the auditor should consider performing interim testing of the costs charged to the cost pools and the allocation bases (e.g., determine from management the cost pools that management expects to include in the ICRP and test the costs for compliance with 2 CFR part 200). If there are 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.</p> <p>6. The following procedures are some acceptable options the auditor may use to obtain assurance that the costs collected in the cost pools and the allocation methods used are in compliance with 2 CFR part 200, subpart E:</p> <p>a. <i>Indirect Cost Pool.</i> Test the indirect cost pool to ascertain if it includes only allowable costs in accordance with 2 CFR part 200.</p> <p>(1) Test to ensure that unallowable costs are identified and eliminated from the indirect cost pool (e.g., capital expenditures, general costs of government).</p> <p>(2) 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.</p> <p>(3) Trace the central service costs that are included in the indirect cost pool to the approved state/local government or central service CAP or to plans on file when submission is not required.</p> <p>b. <i>Direct Cost Base.</i> Test the methods of allocating the costs to ascertain if they are in accordance with the applicable provisions of 2 CFR part 200 and produce an equitable distribution of costs.</p> <p>(1) Determine that the proposed base(s) includes all activities that benefit from the indirect costs being allocated.</p> <p>(2) 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.</p> <p>(3) Determine the appropriateness of the allocation base (e.g., salaries and wages, modified total direct costs).</p> <p>c. <i>Other Procedures.</i> Examine the records for employee compensation to ascertain if they are accurate, and the costs are allowable and properly allocated to the various functional and programmatic activities to which salary and wage costs are charged. (Refer to 2 CFR section 200.430 for additional information on support of salaries and wages.)</p>		

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<p>d. For an ICRP using the multiple allocation base method, test statistical data (e.g., square footage, audit hours, salaries and wages) to ascertain if the proposed allocation or rate bases are reasonable, updated as necessary, and do not contain any material omissions.</p> <p><i>Testing of Charges Based Upon the ICRA</i></p> <p>Perform the following procedures to test the application of charges to federal awards based upon an ICRA:</p> <p>7. Obtain and read the current ICRA and determine the terms in effect.</p> <p>8. 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).</p> <p><i>Other Procedures—No Negotiated ICRA</i></p> <p>If an indirect cost rate has not been negotiated by a cognizant agency for indirect costs, the auditor should determine whether documentation exists to support the costs.</p> <p>9. Where the auditee has documentation, the suggested general audit procedures under Step 8 should be performed to determine the appropriateness of the indirect cost charges to awards.</p> <p>10. When documentation to support the indirect costs does not exist, the auditor should question the costs based on a lack of supporting documentation.</p> <p style="text-align: center;"><b>Test of Transactions</b></p> <p>11. Test a sample of transactions for conformance with the following criteria contained in the “Basic Considerations” section of 2 CFR sections 200.402 through 200.411. Determine that the charges were: (See <i>Sample Size</i> in the Introduction section of this program.)</p> <p>a. Supported by adequate documentation, such as approved purchase orders, receiving reports, vendor invoices, and canceled checks, and were correctly charged as to account, amount, and period.</p> <p>b. Necessary and reasonable for the performance of the federal award and allocable to it under the cost principles.</p> <p>Practical Considerations:</p> <ul style="list-style-type: none"> <li>• Considerations for determining reasonableness of a given cost are provided in 2 CFR sections 200.404 and 200.407.</li> <li>• Considerations for determining allocability of costs are provided in 2 CFR sections 200.405 and 200.407.</li> </ul> <p>c. In conformity with any limitations or exclusions set forth in subpart E or in the federal award as to types or amount of cost items.</p>		

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<p>d. Consistent with policies and procedures that apply uniformly to both federally financed and other activities of the nonfederal entity.</p> <p>e. Given 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.)</p> <p>f. Determined in accordance with generally accepted accounting principles (unless otherwise provided for in subpart E for state and local governments and Indian tribes only).</p> <p>g. Not 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.</p> <p>h. Net of all applicable credits, e.g., purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges.</p> <p>i. Not in excess of any limits on allowability of costs established by statutory requirements.</p> <p>12. Test a sample of payroll transactions for conformance with the following:</p> <p>a. The individual's total wage or salary was reasonable for the service rendered; i.e., it was consistent with wages or salaries paid for similar work in other activities of the entity (or, in cases where the kinds of employees required for federal awards are not found in the other activities of the nonfederal entity, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the nonfederal entity competes for the kind of employees involved).</p> <p>b. The individual's employment conformed to local employment laws and regulations meeting federal merit system or other requirements, where applicable. (Generally applies only to governments.)</p> <p>c. The payroll charge was supported by documentation prescribed in 2 CFR section 200.430(i).</p> <p>d. The payroll charge was supported by personnel activity reports; e.g., time and attendance records and salary distribution reports for the entity.</p> <p>e. Charges for leave, employee insurance, pension plans, etc., were reasonable and required by law, employee agreements, or provided under an established written policy of the entity and were distributed equitably to federal programs and other activities.</p> <p>f. Charges for authorized absences such as annual leave, sick leave, holidays, court leave, military leave and other similar benefits were allowable, provided under established written leave policies, and were allocated equitably to all federal programs and other activities.</p>		

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<p>13. Test a sample of depreciation charges for conformance with the criteria in Step 11 where applicable, and the following: (2 CFR section 200.436)</p> <p>a. The allocation for depreciation was made in accordance with 2 CFR part 200, Appendices III–IX, as applicable.</p> <p>Practical Consideration:</p> <ul style="list-style-type: none"> <li>• Depreciation is the method for allocating the cost of capital assets to periods benefitting from asset use. The nonfederal entity may be compensated (by computing depreciation) for the use of its buildings, capital improvements, equipment, and software projects capitalized in accordance with GAAP, provided that they are used, needed in the entity’s activities, and properly allocated to federal awards.</li> </ul> <p>b. The depreciation computation was based on acquisition cost or the fair market value of assets donated by a third party at the time of donation and did not include the cost of land; any portion of the cost of buildings and equipment borne by or donated by the federal government; any portion of the cost of buildings and equipment contributed by or for the nonfederal entity where law or agreement prohibits recovery; and any asset acquired solely for the performance of a nonfederal award.</p> <p>c. The asset being depreciated was not also claimed as matching.</p> <p>d. The period of useful service or useful life takes into consideration such factors as type of construction, nature of the equipment, technological developments in the particular area, historical data, and the renewal and replacement policies followed for the individual items or classes of assets involved.</p> <p>e. 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.</p> <p>Practical Considerations:</p> <ul style="list-style-type: none"> <li>• In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight-line method is presumed to be the appropriate method.</li> <li>• Depreciation methods once used may not be changed unless approved in advance by the cognizant agency.</li> <li>• The depreciation methods used to calculate the depreciation amounts for indirect (F&amp;A) rate purposes must be the same methods the entity used for its financial statements.</li> <li>• The entire building, including the shell and all components, may be treated as a single asset and depreciated over a single useful life. A building may also be divided into multiple components, each of which may be depreciated over its estimated useful life. The building components must be grouped into three general components of a building: building shell (including construction and design costs), building services systems (e.g., elevators, HVAC, plumbing system, and heating and air-conditioning system) and fixed equipment (e.g., sterilizers, casework, fume hoods, cold rooms, and glassware/washers). In exceptional cases, a cognizant agency may authorize a nonfederal entity to use more than these three groupings. When an entity elects to depreciate its buildings by its components, the same depreciation methods must be used for indirect (F&amp;A) purposes and financial statements purposes.</li> </ul>		

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f. No depreciation was taken on assets that have outlived their depreciable lives. g. If the depreciation method replaced the use allowance method, depreciation was computed as if the asset had been depreciated over its entire life. h. Charges for depreciation are supported by adequate property records and physical inventories have been taken at least once every two years. i. Adequate depreciation records showing the amount of depreciation taken each period have been maintained.		

**E. ELIGIBILITY** This Section is N/A—

**Compliance Requirements**

Eligibility applies to most federal programs which provide benefits to individuals, groups of individuals, or make subawards. This compliance requirement specifies the criteria for determining the individuals (including area of service delivery), groups, or subrecipients that can participate in the program and the amounts for which they qualify. The specific requirements for eligibility are unique to each federal program and are found in the statutes, regulations, and the terms and conditions of the federal award pertaining to the program.

**Source of Governing Requirements**

The requirements for eligibility are contained in program legislation, federal awarding agency regulations, and the terms and conditions of the award.

**Specific Information for This ED Program**

Eligibility for Group of Individuals or Area of Service Delivery

1. *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%. 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% poverty, including any middle or high schools, before it serves any with a poverty-percentage at or below 75%. After an LEA has served all areas and schools with a poverty rate above 75% or, at its discretion, high schools at or above 50%, the LEA may serve lower-poverty areas and schools either by continuing with the district-wide ranking or by ranking its schools at or below 75% poverty according to grade-span grouping (e.g., K–6, 7–9, 10–12). If an LEA ranks by grade span, the LEA may

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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 only if (1) the school meets the Title I, Part A 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 fewer than 1,000 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)).

2. *Allocating funds to eligible school attendance areas and schools* (LEAs with either schoolwide programs or targeted assistance programs)

From its total Part A allocation and before reserving any funds for allowable activities or allocating Part A funds to participating public school attendance areas or schools, an LEA must reserve, to provide equitable services to eligible private school students, the proportionate share generated by students from low-income families who reside in participating public school attendance areas and who attend private schools. For the purpose of determining the proportionate share, the LEA must use 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 from a survey of families of private school students. If an LEA uses a survey of families of private school children, the LEA may extrapolate, from the survey, based 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 school attendance 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 private school children from low-income families in order to calculate the proportionate share of Title I, Part A funds available to serve private school children. An LEA may count private school children from low-income families every year or every 2 years.

After reserving Part A funds to provide equitable services to eligible private school students, homeless children, children in local institutions for neglected children, and any other allowable reservations, an LEA must allocate Part A funds to each participating school attendance area or school, in rank order, on the basis of the number of public school children from low-income families residing in the area or attending the school.

If an LEA serves any attendance area with less than a 35% poverty rate, the LEA must allocate to all its participating areas an amount per child from a low-income family that equals at least 125% of the LEA's Part A allocation per child from a low-income family. (An LEA's allocation per child from a low-income family is the total LEA allocation under subpart 2 of Part A divided by the number of children from low-income families 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%.) 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 public school children from low-income families in each area or school but is not required to allocate a per-pupil amount of at least 125 percent. If an LEA serves areas or schools below 75% poverty by grade-span groupings, the LEA may allocate different amounts per child from a low-income family for different grade-span groupings as long as those amounts do not exceed the amount per child from a low-income family allocated to any area or school above 75% poverty. Amounts per child from a low-income family within grade spans may also vary as long as the LEA allocates higher amounts per child from a low-income family to higher-poverty areas or schools within the grade span than it allocates to lower-poverty areas or schools (Title I, Section 1113(c) of ESEA [20 USC 6313(c)], and Title I, Section 1117(a)(4) of ESEA [20 USC 6320(a)(4)]; 34 CFR sections 200.77 and 200.78).

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3. *Serving homeless children in participating and nonparticipating schools and children in local institutions for neglected or delinquent children*
  - a. Before allocating Title I, Part A funds to school attendance areas and schools and based on its total allocation, an LEA must reserve funds to provide services comparable to those provided to children in participating school attendance areas and schools to serve:
    - (1) Children in local institutions for neglected children; and
    - (2) Homeless children, including providing educationally related support services to children in shelters and other locations where homeless children may live and services not ordinarily provided to other children served by Title I, Part A.
  - b. An LEA may reserve funds to provide services comparable to those provided to children in participating school attendance areas and schools to serve:
    - (1) Children in local institutions for delinquent children; and
    - (2) Neglected and delinquent children in community day school programs.

{Title I, Section 1113(c) of ESEA [20 USC 6313(c)]; 34 CFR section 200.77}.

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether required eligibility determinations were made (including obtaining any required documentation/verification), that groups of participants (including area of service delivery) were determined to be eligible, and that only eligible groups of individuals participated in the program.
3. Determine whether amounts provided to or on behalf of eligible groups of participants were calculated in accordance with program requirements.

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p style="text-align: center;"><b>Internal Control</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>2. Plan the testing of internal control over compliance 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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol>		

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<p style="text-align: center;"><b>Compliance</b></p> <p>4. Eligibility for Group of Individuals or Area of Service Delivery.</p> <p style="padding-left: 20px;">a. In some cases, the nonfederal 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.</p> <p style="padding-left: 20px;">b. Perform tests to ascertain if (1) the population or area served was eligible, and (2) the benefits paid to or on behalf of the individuals or area of service delivery were calculated correctly.</p>		

**G. MATCHING, LEVEL OF EFFORT, EARMARKING** This Section is N/A—

**Compliance Requirements**

The specific requirements for matching, level of effort, and earmarking are not universal and, if applicable, are found in the statutes, regulations, and the terms and conditions of awards pertaining to the program. For programs listed in the Compliance Supplement, these specific requirements are in Part 4 or Part 5 of the Supplement, as applicable.

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

1. *Matching or cost sharing* includes requirements to provide contributions (usually nonfederal) 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 nonfederal or federal sources for specified activities to be maintained from period to period, and (c) federal funds to supplement and not supplant nonfederal funding of services.
3. *Earmarking* includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered.

**Source of Governing Requirements**

The requirements for matching are contained in 2 CFR section 200.306, program legislation, federal awarding agency regulations, and the terms and conditions of the award. The requirements for level of effort and earmarking are contained in program legislation, federal awarding agency regulations, and the terms and conditions of the award.

**Specific Information for This ED Program**

Level of Effort—Maintenance of Effort

*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

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preceding year was not less than 90% 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, an SEA must reduce an LEA's allocation under a covered program if the LEA also failed to maintain effort in one or more of the five immediately preceding fiscal years in the exact proportion by which the LEA fails to maintain effort by falling below 90% of both the combined fiscal effort per student and aggregate expenditures (using the measure most favorable to the LEA) [Section 8521 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 suggested audit procedures for compliance contained in Part 3G for "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.

### Level of Effort—Supplement Not Supplant

*General.* An 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 nonfederal sources for the education of participating students. In no case may an LEA use federal program funds to supplant funds from nonfederal sources {Title I, Part A, Section 1118(b) of ESEA [20 USC 6321(b)]}.

*Compliance under Title I, Part A as Amended by the ESSA.* The ESSA amended the Title I, Part A supplement not supplant requirement {Title I, Part A, Section 1118(b)(2) [20 USC 6321(b)(2)]}. To demonstrate compliance, an LEA must have a methodology or methodologies to allocate State and local funds to each Title I school that ensures that the school receives all of the State and local funds it would otherwise receive if it were not receiving Title I funds. This requirement applies to both schoolwide program schools and targeted assistance schools. Thus, a Title I targeted assistance school is not required to use Title I, Part A funds to provide supplemental services to identified children or identify that an individual cost or service supported with Title I, Part A funds is supplemental. Title I, Part A funds still must be used only for allowable activities. [See Sections 1114 and 1115 of ESEA (20 USC 6314 and 6315)].

An 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 1118(d) and 1304(c)(2) of ESEA [20 USC 6321(d) and 6394(c)(2)]; 34 CFR sections 200.79 and 200.88}.

### **Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. *Level of Effort*—Determine whether specified service or expenditure levels were maintained.

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<p align="center"><b>Internal Control</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>2. Plan the testing of internal control to support a low assessed level of control risk for level of effort and 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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol> <p align="center"><b>Compliance</b></p> <ol style="list-style-type: none"> <li>4. Level of Effort—Maintenance of Effort.               <ol style="list-style-type: none"> <li>a. Identify the required level of effort and perform tests to verify that the level of effort requirement was met.</li> <li>b. Perform tests 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.)</li> <li>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.</li> <li>d. Perform procedures to verify that nonmonetary effort indicators were supported by official records.</li> </ol> </li> <li>5. Level of Effort—Supplement Not Supplant.               <ol style="list-style-type: none"> <li>a. Ascertain if the nonfederal entity used federal funds to provide services that they were required to make available under federal, state, or local law and were also made available by funds subject to the supplement not supplant requirement.</li> <li>b. Ascertain if the nonfederal entity used federal funds to provide services that were provided with nonfederal funds in the prior year.                   <ol style="list-style-type: none"> <li>(1) Identify the federally funded services.</li> <li>(2) Perform procedures to determine whether the federal program funded services were previously provided with nonfederal funds.</li> </ol> </li> </ol> </li> </ol>		

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(3) Perform procedures to ascertain if the total level of services applicable to the requirement increased in proportion to the level of federal contribution.		

#### M. SUBRECIPIENT MONITORING This Section is N/A—

##### Compliance Requirements

A subrecipient is a nonfederal entity that expends federal awards received from a pass-through entity to carry out a federal program. (Part 3, Section M, of the Compliance Supplement notes that transfers of federal awards to another component of the same auditee under 2 CFR part 200, subpart F, do not constitute a subrecipient or contractor relationship.) Subrecipients are discussed in Chapter 13 of *PPC's Guide to Audits of Local Governments*.

A pass-through entity (PTE) must—

- *Identify the Award and Applicable Requirements*—Clearly identify to the subrecipient (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the award [2 CFR section 200.331(a)(2)]; (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the federal award (e.g., financial, performance, and special reports) [2 CFR section 200.331(a)(3)]; (4) an approved federally recognized indirect cost rate negotiated between the subrecipient and the federal government or, if no such rate exists, either a rate negotiated between the PTE and the subrecipient, or a de minimis indirect cost rate [2 CFR section 200.331(a)(4)]; (5) a requirement that the subrecipient permit the PTE and auditors to have access to the subrecipient's records and financial statements as necessary for the PTE to meet the requirements of this part [2 CFR section 200.331(a)(5)]; and (6) appropriate terms and conditions concerning closeout of the subaward [2 CFR section 200.331(a)(6)]. [Although the Compliance Supplement lists only Items (1)–(3) as information that must be provided, 2 CFR section 200.331 also identifies Items (4)–(6) as required information.]
- *Evaluate Risk*—Evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward [2 CFR section 200.331(b)]. This evaluation of risk may include consideration of such factors as the following:
  - The subrecipient's prior experience with the same or similar subawards;
  - The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
  - Whether the subrecipient has new personnel or new or substantially changed systems; and
  - The extent and results of federal awarding agency monitoring (e.g., if the subrecipient also receives federal awards directly from a federal awarding agency).
- *Monitor*—Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals [2 CFR sections 200.331(d) through (f)]. In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:

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- Reviewing financial and programmatic (performance and special reports) required by the PTE.
- Following up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient from the PTE detected through audits, onsite reviews, and other means.
- Issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.
- *Ensure Accountability of For-profit Subrecipients*—Some federal awards may be passed through to for-profit entities. For-profit subrecipients are accountable to the PTE for the use of the federal funds provided. Because 2 CFR part 200 does not make subpart F applicable to for-profit subrecipients, the PTE is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients for the subaward. The agreement with the for-profit subrecipient must describe applicable compliance requirements and the for-profit subrecipient’s compliance responsibility. Methods to ensure compliance for federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the agreement, and post-award audits [2 CFR section 200.501(h)].

**Source of Governing Requirements**

The requirements for subrecipient monitoring for the subaward are contained in 31 USC 7502(f)(2) [Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)]; 2 CFR sections 200.330, .331, and .501(h); 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 2 CFR section 200.514(c).
2. Determine whether the PTE identified the subaward and applicable requirements at the time of the subaward (or subsequent subaward modification) in the terms and conditions of the subaward and other award documents sufficient for the PTE to comply with federal statutes, regulations, and the terms and conditions of the federal award.
3. Determine whether the PTE monitored subrecipient activities to provide reasonable assurance that the subrecipient administered federal awards in compliance with the terms and conditions of the subaward.

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<p style="text-align: center;"><b>Internal Control</b></p> <p><b>Note:</b> The auditor may consider coordinating the tests related to subrecipients performed as part of Compliance Requirements C, “Cash Management” (tests of cash reporting submitted by subrecipients); E, “Eligibility” (tests that subawards were made only to eligible subrecipients); and I, “Procurement and Suspension and Debarment” (tests ensuring that a subrecipient is not suspended or debarred ), with the testing of “Subrecipient Monitoring.”</p> <ol style="list-style-type: none"> <li>1. 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.</li> </ol>		

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<p>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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</p> <p>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</p> <p align="center"><b>Compliance</b></p> <p>4. Review the PTE's subrecipient monitoring policies and procedures to gain an understanding of the PTE's process to identify subawards, evaluate risk of noncompliance, and perform monitoring procedures based upon identified risks.</p> <p>5. Review subaward documents including the terms and conditions of the subaward to ascertain if, at the time of subaward (or subsequent subaward modification), the PTE made the subrecipient aware of the award information required by 2 CFR section 200.331(a) sufficient for the PTE to comply with federal statutes, regulations, and the terms and conditions of the award.</p> <p>6. Review the PTE's documentation of monitoring the subaward and consider if the PTE's monitoring provided reasonable assurance that the subrecipient used the subaward for authorized purposes in compliance with federal statutes, regulations, and the terms and conditions of the subaward.</p> <p>7. Ascertain if the PTE verified that subrecipients expected to be audited as required by 2 CFR part 200, subpart F, met this requirement [2 CFR section 200.331(f)]. This verification may be performed as part of the required monitoring under 2 CFR section 200.331(d)(2) to ensure that the subrecipient takes timely and appropriate action on deficiencies detected through audits.</p>		

**N. SPECIAL TESTS AND PROVISIONS** This Section is N/A—

**Compliance Requirements**

The specific requirements for Special Tests and Provisions are unique to each federal program and are found in the statutes, regulations, and the provisions of contracts or grant agreements pertaining to the program.

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

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### Specific Information for This ED Program

#### Participation of Private School Children

*Depending on how the 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.*

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 the ESEA [20 USC 6315(b)]. The amount of funds an LEA makes available for equitable services under Title I, Part A must be equal to the proportion of funds allocated to participating public school attendance areas based on the number of children from low-income families who reside in those attendance areas and attend private schools. An LEA must determine the proportional share prior to any expenditures or transfers of funds within the program, such as reservations for administration, parental involvement, and district-wide activities. [20 USC 6320(a)(4)(A)]. LEAs determine the proportional share by multiplying the proportion of children from low-income families who attend private schools and live in participating Title I attendance areas by the LEA's total Title I allocation (including any funds transferred into Title I). For more information, see pages 29–30 in the ESSA Fiscal Changes & Equitable Services guidance (November 2016) ([www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf)).

#### Access to Federal Funds for New or Significantly Expanded Charter Schools

*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 IV, Part C of the ESEA {Section 4310(2) of ESEA [20 USC 7221h(2)]}. 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.*

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

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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.

For purposes of implementing the hold harmless protections in sections 1122(c) and 1125A(g)(3) of Title I, Part A of ESEA for a new or expanding charter school LEA, an SEA must calculate a hold-harmless based on the prior year that, as applicable, reflects the new or expanding enrollment of the charter school LEA {Section 4306(c) of ESEA [20 USC 7221e(c)]}. For more detail, see pages 4–7 of the ESSA Fiscal Changes & Equitable Services guidance (November 2016) ([www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf)).

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 4306 of ESEA (20 USC 7221e); 34 CFR sections 76.785 through 76.799].

#### Annual Report Card, High School Graduation Rate

An SEA and its LEAs must report graduation rate data for all public high schools at the school, LEA, and State levels using the 4-year adjusted cohort rate and, at an SEA's or LEA's discretion, extended-year adjusted cohort rates. Graduation rate data must be reported both in the aggregate and disaggregated by subgroup in section 1111(c)(2) of the ESEA using a 4-year adjusted cohort graduation rate (and any extended-year adjusted cohort rates). [ESEA sections 1111(h)(1)(C)(iii)(II) and 8101(25), (23)]. Except as noted below, only students who earn a regular high school diploma may be counted as a graduate for purposes of calculating graduation rates. The term "regular high school diploma" means the standard high school diploma that is awarded to the preponderance students in the State and that is fully aligned with the State standards (but not to alternate academic achievement standards for students with the most significant cognitive disabilities) or a higher diploma. A regular high school diploma does not include a recognized equivalent of a diploma, such as a general equivalency diploma, certificate of completion, certificate of attendance, or similar lesser credential [ESEA section 8101(43)]. An SEA may, but is not required to, award a State-defined alternate diploma for students with the most significant cognitive disabilities who take an alternate assessment aligned with alternate academic achievement standards. That diploma must be standards based, aligned with the State's requirements for a regular high school diploma, and obtained within the time period for which the State ensure the availability of a free appropriate public education. If an SEA awards an alternate diploma, the SEA may count those students in its four-year and any extended-year adjusted cohort graduation rate, even if the student takes more than four years to receive the alternate diploma.

## Audit Program—Compliance Requirements for Title I Grants to LEAs (CFDA 84.010)

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

To remove a student from the cohort, a school or LEA must confirm, in writing, that the student transferred out, emigrated to another country, transferred to a prison or juvenile facility, or is deceased. To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma. A student who is retained in grade, enrolls in a GED program, or leaves school for any other reason may not be counted as having transferred out for the purpose of calculating graduation rate and must remain in the adjusted cohort [ESEA sections 1111(h)(1)(C)(iii)(II) and 8101(25), (23)].

### Assessment System Security

States, in consultation with LEAs, are required to establish and maintain an assessment system that is valid, reliable, and consistent with relevant professional and technical standards. Within their assessment system, SEAs must have policies and procedures to maintain test security and ensure that LEAs implement those policies and procedures {Section 1111(b)(2)(B)(iii) of the ESEA [20 USC 6311(b)(2)(B)(iii)]}.

### Oversight and Monitoring Responsibilities with Respect to Charter Schools with relationships with Charter Management Organizations

*This requirement is a program-specific cross-cutting eligibility requirement that needs to be tested separately for each covered program in the Supplement.*

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

As grantees, LEAs are responsible for overseeing and monitoring subrecipients, including charter schools with relationships with Charter Management Organizations (CMOs). The LEA must: (1) evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining appropriate subrecipient monitoring (2 CFR section 200.331(b)); and (2) monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved (2 CFR section 200.331(d)).

Charter schools with relationships with CMOs that receive federal grant funds must comply with statutes authorizing the applicable grant program, regulations, the terms and conditions of their grant awards, and relevant Department-issued guidance. Additionally, under Title 2 of the Code of Federal Regulations Part 200—Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grant Guidance), nonfederal entities that receive federal grants must: (1) establish and maintain effective internal controls over those funds and (2) have internal controls that comply with the U.S. Government Accountability Office (GAO) "Standards for Internal Control in the Federal Government" (Green Book), issued in November 1999 and updated in September 2014, or the "Internal Control—Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992 and updated in May 2013. The Green Book and the COSO Internal Control—Integrated Framework (COSO framework) provide specific requirements for assessing and reporting on controls in the federal government.

Additional requirements applicable to nonfederal entities receiving federal funds include: (1) the Code of Federal Regulations (CFR) requirements regarding conflicts of interest, (2) the American Institute of Certified Public Accountants guidance regarding related-party transactions, and (3) the GAO Green Book and COSO framework guidance regarding segregation of duties applicable to charter schools with relationships with CMOs.

**Audit Program—Compliance Requirements for Title I Grants to LEAs (CFDA 84.010)**

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether (a) the LEA 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, (b) the planned services were provided, and (c) the required amount was used for private school children.
3. (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.
4. Determine whether LEAs have implemented appropriate policies and procedures for documenting the removal of a student from the regulatory adjusted cohort.
5. Determine whether LEAs have implemented policies and procedures regarding test security for the assessments.
6. Determine whether the LEA is fulfilling its oversight and monitoring responsibilities with respect to charter schools with relationships with CMOs and whether the LEA has effective internal controls to mitigate identified risks.

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p align="center"><b>Internal Control</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol> <p align="center"><b>Compliance</b></p> <ol style="list-style-type: none"> <li>4. Determine that the LEA complied with requirements related to participation of private school children.                     <ol style="list-style-type: none"> <li>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.</li> </ol> </li> </ol>		

**Audit Program—Compliance Requirements for Title I Grants to LEAs (CFDA 84.010)**

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<p>b. Review program expenditure and other records to verify that educational services that were planned were provided.</p> <p>c. For Title I, Part A, verify that the amount of funds available for equitable services in an LEA was determined by multiplying the proportion of private school children from low-income families residing in a participating public school attendance area by the LEA's total Title I, Part A allocation.</p> <p>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:</p> <p style="padding-left: 40px;">(1) Describes the services to be provided.</p> <p style="padding-left: 40px;">(2) Provides that the LEA retains ownership of materials, equipment, and property purchased with federal I funds.</p> <p>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.</p> <p>5. Determine whether the SEA or LEA is responsible for funding charter schools. If the LEA is responsible, perform the following procedures:</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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 5 months of the opening or expansion date (provided that SEA or LEA notification, data submission, and application requirements were met).</p>		

**Audit Program—Compliance Requirements for Title I Grants to LEAs (CFDA 84.010)**

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p>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 <i>pro rata</i> 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).</p> <p>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.</p> <p>6. Related to high school graduation rates, verify that the LEA maintains appropriate written documentation to support the removal of a student from the regulatory adjusted cohort.</p> <p>7. Determine that LEAs, with their SEAs, have complied with requirements for test security for assessments.</p> <p>    a. Ascertain that the LEA has policies and procedures for ensuring that the LEA and its schools implement test security measures.</p> <p>    b. Verify that the LEA and its schools implemented test security measures, for example, by reviewing documentation and interviewing LEA officials and school administrators and teachers.</p> <p>8. Based on inquiries of entity management and reviews of contracts and grant agreements pertaining to major programs, identify any additional compliance requirements not based in statute or regulation (e.g., were agreed to as part of audit resolution of prior audit findings) that could be material to a major program. (Applies to both programs included and not included in the Compliance Supplement.) (See <i>“Safe Harbor” Status of the Compliance Supplement</i> in the Introduction section of this program.)</p> <p>    a. Develop and complete audit procedures designed to test compliance with the requirements. (The authors suggest the requirements be documented and the audit procedures be attached and signed as an audit program.)</p> <p>Practical Consideration:</p> <ul style="list-style-type: none"> <li>• Reasonable procedures to identify such compliance requirements would be inquiry of nonfederal entity management and review of the contract and grant agreements pertaining to the program. Any such requirements that may have a direct and material effect on a major program should be included in the audit.</li> </ul>		

**Audit Program—Compliance Requirements for Title I Grants to LEAs (CFDA 84.010)**

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<p>9. Determine if the LEA has fulfilled its oversight and monitoring responsibilities with respect to charter schools with relationships with CMOs by performing the following:</p> <ul style="list-style-type: none"> <li>a. Determine if the entity has subrecipient monitoring policies and procedures that include a review of charter schools with relationships with CMOs, including procedures to assess the risk posed by conflicts of interest, related party transactions, and insufficient segregation of duties.</li> <li>b. Determine whether the entity’s subrecipient monitoring policies and procedures with regard to charter schools with relationships with CMOs have been implemented.</li> <li>c. Review documentation of subrecipient monitoring of charter schools with relationships with CMOs, including review of monitoring reports and follow-up activities to track the correction of identified noncompliance, such as completion of corrective action plans.</li> <li>d. Determine whether the entity has internal controls designed to provide reasonable assurance that charter schools with relationships with CMOs have effective controls to mitigate financial risks, provide for accountability over federal funds, and mitigate performance risks.</li> </ul>		

**O. CONCLUSION**

We have performed procedures and obtained audit evidence sufficient to achieve the audit objectives for federal award program compliance requirements. The procedures performed, evidence obtained, and our conclusions are adequately documented. (If you are unable to conclude on any objective, prepare a memo documenting your reason and the implications for the engagement, including the audit reports.)

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**PSD-AP-21: Audit Program—Compliance Requirements for Special Education Cluster Grants**

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

Federal Program(s): \_\_\_\_\_

**Instructions**

This program may be used for Single Audits conducted under OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), for periods covered by the 2019 OMB Compliance Supplement [single audits of fiscal years beginning after June 30, 2018 (i.e., first used for June 30, 2019, year-end Single Audits)]. Chapter 13 of *PPC's Guide to Audits of Local Governments* provides an overview of the Uniform Guidance. *PPC's Guide to Single Audits* provides additional information about the Uniform Guidance.

This audit program should be used for audits of federal awards **made on or after December 26, 2014**, and for funding increments (additional funding on existing awards) with modified terms and conditions that are awarded on or after that date. This audit program is based on Part 3.2 of 2 CFR part 200, appendix XI, Compliance Supplement (the Compliance Supplement). See "Considerations for ED Audits" below.

This audit program should *not* be used for audits of awards made before December 26, 2014, or for funding increments that did not have modified terms and conditions. Awards within a major program may still be subject to both Parts 3.1 and 3.2.

This audit program covers the tests of compliance requirements for school districts that received federal awards under the **Special Education Cluster**, when deemed to be a major program. (Major program determination is normally documented using PSD-CX-1.5, "Single Audit and Major Program Determination Worksheet.") That cluster includes:

- Special Education Grants to States under IDEA, Part B—CFDA 84.027
- Special Education Preschool Grants under IDEA Preschool—CFDA 84.173

The following audit procedures were adapted from Parts 2, 3.2, and 4 of the Compliance Supplement issued by the OMB. Due to users noting many errors in the 2019 Compliance Supplement, the AICPA issued a comment letter urging the OMB to immediately correct the errors in the Compliance Supplement. See the comment letter at [www.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/singleaudit/uniformguidanceforfederalrewards/downloadabledocuments/aicpacommentletteron2019csupplement.pdf](http://www.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/singleaudit/uniformguidanceforfederalrewards/downloadabledocuments/aicpacommentletteron2019csupplement.pdf). Auditors should consult the GAQC website at [www.aicpa.org/interestareas/governmentalauditquality.html](http://www.aicpa.org/interestareas/governmentalauditquality.html) for potential future changes to the Compliance Supplement related to these errors.

The procedures in parts 3 and 4 of the Compliance Supplement and this audit program are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. However, the authors suggest that, for procedures not performed, an explanation be provided. This will be helpful in the event of a federal or pass-through entity quality control review.

*Considerations for ED Audits*

Based on a Department of Education (ED) FAQ document dated June 25, 2015, administrative actions (including a time extension) or any supplements to awards made prior to December 26, 2014, are not subject to the Uniform Guidance. However, funds that carryover to a noncompeting continuation (e.g., formula grants) on or after December 26, 2014, are subject to the Uniform Guidance. In essence, once a formula grant is awarded, the requirements apply to all funds under the grant, regardless of whether the funds are new or carried over from the prior budget period.

However, Uniform Guidance allows federal agencies to make certain exceptions, and this could affect compliance audits of ED programs. As previously discussed, this audit program is based on Part 3.2 of the Compliance

## Audit Program—Compliance Requirements for Special Education Cluster Grants

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

Supplement. Auditors should monitor ED, AICPA, and industry websites for additional guidance that may be issued after the completion of these *Practice Aids*.

### *Applicability of Compliance Requirements*

According to the Matrix in Part 2 of the Compliance Supplement, the following compliance requirements have been identified as not being subject to the compliance audit for Special Education Cluster Grants:

- C. Cash Management
- E. Eligibility
- J. Program Income
- L. Reporting
- N. Special Tests and Provisions

However, while a requirement may not be subject to the audit for compliance audit purposes, auditors have a responsibility under GAAS and GAGAS related to noncompliance with provisions of laws, regulations, contracts, and grant agreements that may have a material effect on the financial statements and with requirements related to the auditor's consideration of fraud and abuse.

The program is divided into parts representing the types of compliance requirements that ordinarily apply to school districts participating in Special Education Cluster Grants. A summary of each of the compliance requirements follows. For additional information, see the reference included at each compliance type. This program contains references to the *OMB Compliance Supplement*, which is available at [www.whitehouse.gov/wp-content/uploads/2019/07/2-CFR\\_Part-200\\_Appendix-XI\\_Compliance-Supplement\\_2019\\_FINAL\\_07.01.19.pdf](http://www.whitehouse.gov/wp-content/uploads/2019/07/2-CFR_Part-200_Appendix-XI_Compliance-Supplement_2019_FINAL_07.01.19.pdf). This program also contains references to the Uniform Guidance (2 CFR part 200), which can be accessed at [www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl). It also contains references to 34 CFR, which can be accessed at [www.ecfr.gov/cgi-bin/text-idx?SID=e8f1efb27d8c3eda14c688f471e15a41&mc=true&tpl=/ecfrbrowse/Title34/34tab\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?SID=e8f1efb27d8c3eda14c688f471e15a41&mc=true&tpl=/ecfrbrowse/Title34/34tab_02.tpl).

### *Internal Control*

Consistent with Part 3.2 of the Compliance Supplement and the requirements of 2 CFR part 200, subpart F, the accompanying audit programs include 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 school district'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 2 CFR part 200, subpart F.

### *“Safe Harbor” Status of the Compliance Supplement*

Part 1 of the Compliance Supplement notes that use of the Supplement is “mandatory,” and that auditors must adhere to the Supplement to satisfy 2 CFR part 200, subpart F, requirements. Part 1 also addresses the “safe harbor” status of the Compliance Supplement. Specifically, it states that due to the diversity of programs and administering entities, the suggested audit procedures are general in nature. Because the Compliance Supplement only provides “suggested” audit procedures, it cannot be used as a safe harbor for determining the specific audit procedures to apply in a particular situation. Thus, auditor judgment is necessary in determining whether such procedures are sufficient to achieve the stated audit objectives, or whether alternative audit procedures are necessary. While OMB states that the Compliance Supplement is not a “safe harbor” for identifying the audit procedures to apply in a particular single audit engagement, it clarifies that the Compliance Supplement can be

## Audit Program—Compliance Requirements for Special Education Cluster Grants

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

considered a “safe harbor” for identification of the types of compliance requirements subject to the compliance audit for programs included in the Compliance Supplement if the auditor both:

- Performs reasonable procedures to ensure that the requirements subject to the audit in the Compliance Supplement are current and determine whether there are any additional provisions of federal awards relevant to the compliance requirements subject to the audit that should be covered by the audit.
- Updates or augments the requirements contained in the Compliance Supplement as appropriate.

### *Sample Size*

For certain of its suggested audit procedures, the Compliance Supplement says to “select a sample.” Minimum “sample” sizes and acceptable selection methods are not specified. Appendix VIII of the Compliance Supplement does, however, discuss audit sampling guidance provided by the AICPA. The Uniform Guidance permits these matters to be determined based on the auditor’s professional judgment. The authors believe that a “sample” as used here does not necessarily mean use of sampling. In many instances because of other procedures performed, low inherent and control risk of noncompliance, and/or small population sizes, sampling may not be necessary. The authors have developed the worksheet PSD-CX-8.1, “Planning Worksheet to Determine Extent of Substantive Procedures,” to aid the auditor in determining whether sampling is necessary. Planning the extent of substantive tests of compliance is discussed at Chapter 5 (section 503) in *PPC’s Guide to Single Audits* and Chapter 13 in *PPC’s Guide to Audits of Local Governments*.

The AICPA provides guidance on sampling in an audit of compliance that provides suggested minimum sample sizes as well as methods for determining sample size, including different tables and methods for tests of controls than for tests of compliance. This guidance is provided in Chapter 11, “Audit Sampling Considerations of Uniform Guidance Compliance Audits,” of the GAS/SA Audit Guide. This sampling guidance is reflected in these *Practice Aids*. Chapter 5 of *PPC’s Guide to Single Audits* has an extensive discussion about using audit sampling in a Single Audit.

## **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) that emphasizes special education and related services designed to meet their unique needs and prepares them for further education, employment, and independent living; (2) ensure that the rights of children with disabilities and their parents 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) and the Preschool Grants for Children with Disabilities Program (IDEA Preschool) provide grants to states to assist them in meeting these purposes (20 USC 1400 *et seq.*).

IDEA’s Special Education—Grants to States Program (IDEA, Part B) provides grants to states, and through them to LEAs, to assist them in providing special education and related services to eligible children with disabilities ages 3 through 21 (20 USC 1411). (The obligation to make FAPE available to children with disabilities ages 3 through 5 and 18 through 21 depends on state law. All states require that FAPE be made available to children with disabilities ages 3 through 5, and most states mandate FAPE through age 20 or 21.) IDEA’s Special Education—Preschool Grants Program (IDEA Preschool), 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 2-year-old children with disabilities who will turn three during the school year (20 USC 1419).

## Audit Program—Compliance Requirements for Special Education Cluster Grants

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

### 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 ages 3 through 5 years residing in the state [20 USC 1419(b)]. 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)].

#### Source of Governing Requirements

These programs are 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.

#### Availability of Other Program Information

A number of documents posted on ED's website contain information pertinent to the IDEA, Part B requirements in this Compliance Supplement:

- Office of Special Education Programs (OSEP) Memorandum 18-04, *Procedures for Receiving a Federal Fiscal Year (FFY) 2018 Grant Award Under Part B of the Individuals with Disabilities Education Act (IDEA)* (<https://osep.grads360.org/#communities/pdc/documents/15594>)
- OSEP Memorandum 10-5, *Maintenance of Financial Support under the Individuals with Disabilities Education Act*, dated December 2, 2009 ([www2.ed.gov/policy/speced/guid/idea/memosdcltrs/osep10-05maintenanceoffinancialsupport.pdf](http://www2.ed.gov/policy/speced/guid/idea/memosdcltrs/osep10-05maintenanceoffinancialsupport.pdf))
- OSEP Memorandum 15-10, *Issuance of Guidance on the Final Local Educational Agency (LEA) Maintenance of Effort (MOE) Regulations under Part B of the Individuals with Disabilities Education Act (IDEA)*, dated July 27, 2015 ([www2.ed.gov/policy/speced/guid/idea/memosdcltrs/osepmemo1510leamoeqa.pdf](http://www2.ed.gov/policy/speced/guid/idea/memosdcltrs/osepmemo1510leamoeqa.pdf))

### III. COMPLIANCE REQUIREMENTS

**A. ACTIVITIES ALLOWED OR UNALLOWED** This Section is N/A—

#### Compliance Requirements

This compliance requirement specifies the activities that can or cannot be funded under a specific program and almost always applies to federal programs. The specific requirements for activities allowed or unallowed are unique to each federal program and are found in the federal statutes, regulations, and the terms and conditions of the federal award pertaining to the program.

#### Source of Governing Requirements

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

## Audit Program—Compliance Requirements for Special Education Cluster Grants

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

### Specific Information for These ED Programs

#### IDEA, Part B

An LEA may only 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 (1) for services and aids that also benefit nondisabled children; (2) for early intervening services; (3) to establish and implement high-cost or risk-sharing funds; and (4) for administrative case management. Excess costs are those costs for the education of an elementary school or secondary school student with a disability that are in excess of the average annual per student expenditure in an LEA during the preceding school-year. LEAs are required to compute the minimum average amount of per pupil expenditure separately for children with disabilities in its elementary schools and for children with disabilities in its secondary schools, and not on a combination of the enrollments in both. Appendix A to 34 CFR part 300 provides detailed guidance and an example for calculating the average per pupil expenditures and the minimum average amounts that the LEA must spend before using IDEA funds [20 USC 1401(8), (26) and (29); 20 USC 1413(a)(2) and (4); 34 CFR sections 300.16, 300.34, 300.39, 300.202, and 300.208].

#### IDEA Preschool

An 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 2-year-old children with disabilities who will turn three during the school year [20 USC 1419(a); 34 CFR section 300.800].

#### Both IDEA Programs

##### *Schoolwide Programs*

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.

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

##### *Prima Facie Case Requirement for Audit Findings*

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

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

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether federal awards were expended only for allowable activities.

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p style="text-align: center;"><b>Internal Control</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol> <p style="text-align: center;"><b>Compliance</b></p> <ol style="list-style-type: none"> <li>4. Identify the types of activities which are either specifically allowed or prohibited by federal statutes, regulations, and the terms and conditions of the federal award pertaining to the program.</li> <li>5. When allowability is determined based upon summary level data, perform procedures to verify that the activities were allowable and that the individual transactions were properly classified and accumulated into the activity total.</li> <li>6. 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.</li> <li>7. The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities.</li> </ol>		

**B. ALLOWABLE COSTS /COST PRINCIPLES** This Section is N/A—

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.

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### Compliance Requirements—Allowability of Costs

Part 3.2 of the Compliance Supplement provides basic guidelines for allowability of costs. It states that, except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under federal awards:

1. Be necessary and reasonable for the performance of the federal award and be allocable thereto under the principles in 2 CFR part 200, subpart E.
2. Conform to any limitations or exclusions set forth in 2 CFR part 200, subpart E, or in the federal award as to types or amount of cost items.
3. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the nonfederal entity.
4. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
5. Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in 2 CFR part 200.
6. Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program in either the current or a prior period.
7. Be adequately documented.

#### Selected Items of Cost

2 CFR sections 200.420 through 200.475 provide the principles to be applied in establishing the allowability of certain items of cost, in addition to the basic considerations identified above. (For a listing of costs, by type of nonfederal entity, refer to Exhibit 1 of Part 3.2 of the Compliance Supplement.) These principles apply whether or not a particular item of cost is treated as a direct cost or indirect (F&A) cost. Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment provided for similar or related items of cost and the principles described in 2 CFR sections 200.402 through 200.411.

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

The requirements for allowable costs/cost principles are contained in 2 CFR part 200, subpart E, program legislation, federal awarding agency regulations, and the terms and conditions of the award.

#### Applicability of Cost Principles

The cost principles in 2 CFR part 200, subpart E (Cost Principles), prescribe the cost accounting requirements associated with the administration of federal awards. As provided in 2 CFR section 200.101, the cost principles requirements apply to all federal awards with the exception of grant agreements and cooperative agreements providing food commodities; agreements for loans, loan guarantees, interest subsidies, insurance; and programs listed in 2 CFR section 200.101(d) (see Appendix I of the Compliance Supplement). The cost principles applicable to a nonfederal entity apply to all federal awards received by the entity, regardless of whether the awards are received directly from the federal awarding agency or indirectly through a pass-through entity. For this purpose, federal awards include cost-reimbursement contracts under the Federal Acquisition Regulation. The cost principles do not apply to federal awards under which a nonfederal entity is not required to account to the federal awarding agency or pass-through entity for actual costs incurred.

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**Internal Control**

The suggested audit procedures below for internal control should be performed for all types of compliance requirements (i.e., direct costs, indirect costs).

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p style="text-align: center;"><b>Internal Control—All Costs</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>2. 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 2 CFR section 200.514(c)(4), including reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, assessing the control risk at the maximum, and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol>		

**De Minimis Indirect Cost Rate**

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

**Audit Objectives—De Minimis Indirect Cost Rate**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine that the de minimis rate is applied to the appropriate base amount.
3. Determine that the de minimis rate is used consistently by a nonfederal entity under its federal awards.

**Compliance—De Minimis Indirect Cost Rate**

The following suggested audit procedures apply to any nonfederal entity using a de minimis indirect cost rate, whether as a recipient or subrecipient. None of the procedures related to indirect cost in the sections of the Allowable Costs/Cost Principles compliance requirement organized by type of nonfederal entity apply when a de minimis rate is used.

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<p style="text-align: center;"><b>Compliance—De Minimis Indirect Cost Rate</b></p> <ol style="list-style-type: none"> <li>1. Determine that the nonfederal entity has not previously claimed indirect costs on the basis of a negotiated rate. Auditors are required to test only for the three fiscal years immediately prior to the current audit period.</li> <li>2. Test a sample of transactions for conformance with 2 CFR section 200.414(f)—                             <ol style="list-style-type: none"> <li>a. Select a sample of claims for reimbursement of indirect costs and verify that the de minimis rate was used consistently, the rate was applied to the appropriate base, and the amounts claimed were the product of applying the rate to a modified total direct costs base.</li> <li>b. Verify that the costs included in the base are consistent with the costs that were included in the base year; i.e., verify that current year modified total direct costs do not include costs items that were treated as indirect costs in the base year.</li> </ol> </li> <li>3. For a nonfederal entity conducting a single function, which is predominantly funded by federal awards, determine whether use of the de minimis indirect cost rate resulted in the nonfederal entity double-charging or inconsistently charging costs as both direct and indirect.</li> </ol>		

**Specific Information for These ED Programs**

Both IDEA Programs

The use of IDEA funds by a state, for the acquisition of equipment, or the construction or alteration of facilities must be approved by ED based on a determination by ED that the program would be improved by allowing funds to be used for these purposes (20 USC 1404).

*Documentation of Employee Time and Effort*

1. *Consolidated Administrative Funds*—An LEA that consolidates federal administrative funds is not required to keep separate records by individual program {Sections 8201(c) or 8203(e) of ESEA [20 USC 7821(c) or 7823(e)]}. The SEA or LEA may treat the consolidated administrative funds as a consolidated administrative cost objective.

Time-and-effort requirements with respect to consolidated administrative funds vary under different circumstances.

- a. For an employee who works solely on the consolidated administrative cost objective, an LEA is not required to maintain records reflecting the distribution of the employee’s salary and wages among the programs included in the consolidation.
- b. For an employee who works in part on 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, an LEA must maintain time and effort distribution records in accordance with 2 CFR section 200.430(i)(1)(vii) that support the portion of time and effort dedicated to—

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- (1) the consolidated cost objective, and
  - (2) each program or other cost objective supported by nonconsolidated Federal funds or other revenue sources.
2. *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. A school that consolidates federal funds with state and local funds in a consolidated schoolwide pool 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)}. If a schoolwide program school does not consolidate Federal funds in a consolidated schoolwide pool, the school must keep separate records by program. [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 at [www.ed.gov/programs/titleiparta/fiscalguid.doc](http://www.ed.gov/programs/titleiparta/fiscalguid.doc).]

Time-and-effort requirements in schoolwide program schools vary under different circumstances.

- a. If a school operating a schoolwide program consolidates federal, state, and local funds in a consolidated schoolwide pool, there is no distinction between staff paid with federal funds and staff paid with state or local funds. Under these circumstances, payment from the single consolidated schoolwide pool is sufficient to demonstrate that an employee works only on activities of the schoolwide program, and no other documentation is required.
  - b. 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:
    - (1) For an employee who works solely on a single cost objective (e.g., 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), an LEA is not required to maintain records reflecting the distribution of the employee's salary and wages, including among the federal programs included in the consolidation, if applicable.
    - (2) For an employee who works on multiple activities or cost objectives (e.g., 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 that are not part of the same cost objective), an LEA must maintain time and effort distribution records in accordance with 2 CFR section 200.430(i)(1)(vii) that support the portion of time and effort dedicated to—
      - the federal program or cost objective;
      - each other program or cost objective supported by consolidated federal funds or other revenue sources.
3. *Substitute System for Employees on a Predetermined Schedule*—In a September 7, 2012, letter to Chief State School Officers, ED authorized SEAs to approve LEAs' use of a substitute system for time and-effort reporting for employees whose salaries are supported by multiple cost objectives, but who work on a predetermined schedule. ED also provided guidance to clarify the meaning of a "single cost objective." For more detail, see *Letter to Chief State School Officers on Granting Administrative Flexibility for Better Measures of Success* (September 7, 2012) ([www2.ed.gov/policy/fund/guid/gposbul/time-and-effort-reporting.html](http://www2.ed.gov/policy/fund/guid/gposbul/time-and-effort-reporting.html)).

### *Indirect Costs*

A "restricted" indirect cost rate (RICR) must be used for programs administered by state and local governments and their governmental subgrantees that have a statutory requirement prohibiting the use of federal funds to supplant

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nonfederal funds. Nongovernmental grantees or subgrantees administering such programs have the option of using the RICR, or an indirect cost rate of 8%, 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:

1. Divisional administration that is limited to one component of the grantee,
2. The governing body of the grantee,
3. Compensation of the chief executive officer of the grantee,
4. Compensation of the chief executive officer of any component of the grantee, and
5. 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 nonfederally 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 nonsupplant requirement) that allow indirect costs do not require a restricted rate and should follow the cost principles in 2 CFR part 200, subpart E (34 CFR sections 76.560 and 76.563–76.569).

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### *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 2 CFR part 200, subpart E.

1. Separation leave costs [2 CFR section 200.431(b)].
2. Severance costs [2 CFR section 200.431(i)].
3. Post-retirement health benefit (PRHB) costs [2 CFR section 200.431(h)].

### *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 2 CFR section 200.465(c).

### **Audit Objectives—Direct Costs**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether the organization complied with the provisions of 2 CFR part 200 as follows:
  - a. Direct charges to federal awards were for allowable costs.
  - b. Unallowable costs determined to be direct costs were included in the allocation base for the purpose of computing an indirect cost rate.

### **Audit Objectives—Indirect Costs**

3. Obtain an understanding of internal control assess risk, and test internal control as required by 2 CFR section 200.514(c).
4. Determine whether the governmental unit complied with the provisions of 2 CFR part 200 as follows:
  - a. Charges to cost pools used in calculating indirect cost rates were for allowable costs.
  - b. The methods for allocating the costs are in accordance with the 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).
  - c. Indirect cost rates were applied in accordance with negotiated indirect cost rate agreements (ICRA).
  - d. For state/local departments or agencies that do not have to submit an ICRP to the cognizant agency for indirect costs (those that receive less than \$35 million in direct federal awards), indirect cost rates were applied in accordance with the ICRP maintained on file.

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<p align="center"><b>Compliance—Direct Costs</b></p> <p>1. Test a sample of transactions for conformance with the following criteria contained in 2 CFR part 200, as applicable:</p> <ul style="list-style-type: none"> <li>a. If unallowable direct costs are identified, determine whether unallowable directly associated costs have also 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.)</li> <li>b. Costs were approved by the federal awarding agency, if required. (See Part 3.2, Exhibit 1, "Selected Items of Cost," or 2 CFR section 200.407 for selected items of cost that require prior written approval.)</li> <li>c. Costs did not consist of improper payments, including (1) payments that should not have been made or that were made in incorrect amounts (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; (2) payments that do not account for credit for applicable discounts; (3) duplicate payments; (4) payments that were made to an ineligible party or for an ineligible good or service; and (5) payments for goods or services not received (except for such payments where authorized by law).</li> <li>d. Costs were necessary and reasonable for the performance of the federal award and allocable under the principles of 2 CFR part 200, subpart E.</li> <li>e. Costs conformed to any limitations or exclusions set forth in 2 CFR part 200, subpart E, or in the federal award as to types or amount of cost items.</li> <li>f. Costs were consistent with policies and procedures that apply uniformly to both federally financed and other activities of the state/local government/Indian tribe department or agency.</li> <li>g. Costs were accorded consistent treatment. Costs were not assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances was allocated to the federal award as an indirect cost.</li> <li>h. Costs were not included as a cost of any other federally financed program in either the current or a prior period.</li> <li>i. Costs were not used to meet the cost-sharing or matching requirements of another federal program, except where authorized by federal statute.</li> <li>j. Costs were adequately documented.</li> </ul>		

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<p align="center"><b>Compliance—Indirect Costs</b></p> <p>If the school district is not required to submit an ICRP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing, and extent of compliance testing.</p> <p><i>General Audit Procedures</i>—The following procedures apply to charges to cost pools that are allocated wholly or partially to federal awards or used in formulating indirect cost rates used for recovering indirect costs under federal awards.</p> <p>2. Test a sample of transactions for conformance with:</p> <p style="padding-left: 20px;">a. The criteria contained in the “Basic Considerations” section of 2 CFR sections 200.402 through 200.411. (This test can be performed by completing Step 11 at the end of this section of this program.)</p> <p style="padding-left: 20px;">b. The principles to establish allowability or unallowability of certain items of cost (2 CFR sections 200.420 through 200.475). (This test as it relates to payroll and depreciation can be performed by completing Steps 12 and 13 at the end of this program.)</p> <p>3. If unallowable costs are identified, determine whether unallowable directly associated costs have also 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.)</p> <p>4. Verify that the ICRP includes the required documentation in accordance with 2 CFR part 200, Appendix VII, paragraph D.</p> <p>5. <i>Testing of the ICRP.</i> There may be a timing consideration when the audit is completed before the ICRP is completed. In this instance, the auditor should consider performing interim testing of the costs charged to the cost pools and the allocation bases (e.g., determine from management the cost pools that management expects to include in the ICRP and test the costs for compliance with 2 CFR part 200). If there are 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.</p> <p>6. The following procedures are some acceptable options the auditor may use to obtain assurance that the costs collected in the cost pools and the allocation methods used are in compliance with 2 CFR part 200, subpart E:</p> <p style="padding-left: 20px;">a. <i>Indirect Cost Pool.</i> Test the indirect cost pool to ascertain if it includes only allowable costs in accordance with 2 CFR part 200.</p> <p style="padding-left: 40px;">(1) Test to ensure that unallowable costs are identified and eliminated from the indirect cost pool (e.g., capital expenditures, general costs of government).</p>		

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<p>(2) 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.</p> <p>(3) Trace the central service costs that are included in the indirect cost pool to the approved state/local government or central service CAP or to plans on file when submission is not required.</p> <p>b. <i>Direct Cost Base.</i> Test the methods of allocating the costs to ascertain if they are in accordance with the applicable provisions of 2 CFR part 200 and produce an equitable distribution of costs.</p> <p>(1) Determine that the proposed base(s) includes all activities that benefit from the indirect costs being allocated.</p> <p>(2) 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.</p> <p>(3) Determine the appropriateness of the allocation base (e.g., salaries and wages, modified total direct costs).</p> <p>c. <i>Other Procedures.</i> Examine the records for employee compensation to ascertain if they are accurate, and the costs are allowable and properly allocated to the various functional and programmatic activities to which salary and wage costs are charged. (Refer to 2 CFR section 200.430 for additional information on support of salaries and wages.)</p> <p>d. For an ICRP using the multiple allocation base method, test statistical data (e.g., square footage, audit hours, salaries and wages) to ascertain if the proposed allocation or rate bases are reasonable, updated as necessary, and do not contain any material omissions.</p> <p><i>Testing of Charges Based Upon the ICRA</i></p> <p>Perform the following procedures to test the application of charges to federal awards based upon an ICRA:</p> <p>7. Obtain and read the current ICRA and determine the terms in effect.</p> <p>8. 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).</p>		

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<p><i>Other Procedures—No Negotiated ICRA</i></p> <p>If an indirect cost rate has not been negotiated by a cognizant agency for indirect costs, the auditor should determine whether documentation exists to support the costs.</p> <p>9. Where the auditee has documentation, the suggested general audit procedures under Step 8 should be performed to determine the appropriateness of the indirect cost charges to awards.</p> <p>10. When documentation to support the indirect costs does not exist, the auditor should question the costs based on a lack of supporting documentation.</p> <p align="center"><b>Test of Transactions</b></p> <p>11. Test a sample of transactions for conformance with the following criteria contained in the “Basic Considerations” section of 2 CFR sections 200.402 through 200.411. Determine that the charges were: (See <i>Sample Size</i> in the Introduction section of this program.)</p> <p>a. Supported by adequate documentation, such as approved purchase orders, receiving reports, vendor invoices, and canceled checks, and were correctly charged as to account, amount, and period.</p> <p>b. Necessary and reasonable for the performance of the federal award and allocable to it under the cost principles.</p> <p>Practical Considerations:</p> <ul style="list-style-type: none"> <li>• Considerations for determining reasonableness of a given cost are provided in 2 CFR sections 200.404 and 200.407.</li> <li>• Considerations for determining allocability of costs are provided in 2 CFR sections 200.405 and 200.407.</li> </ul> <p>c. In conformity with any limitations or exclusions set forth in subpart E or in the federal award as to types or amount of cost items.</p> <p>d. Consistent with policies and procedures that apply uniformly to both federally financed and other activities of the nonfederal entity.</p> <p>e. Given 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.)</p> <p>f. Determined in accordance with generally accepted accounting principles (unless otherwise provided for in subpart E for state and local governments and Indian tribes only).</p> <p>g. Not 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.</p> <p>h. Net of all applicable credits, e.g., purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges.</p>		

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<p>i. Not in excess of any limits on allowability of costs established by statutory requirements.</p> <p>12. Test a sample of payroll transactions for conformance with the following:</p> <p>a. The individual's total wage or salary was reasonable for the service rendered; i.e., it was consistent with wages or salaries paid for similar work in other activities of the entity (or, in cases where the kinds of employees required for federal awards are not found in the other activities of the nonfederal entity, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the nonfederal entity competes for the kind of employees involved).</p> <p>b. The individual's employment conformed to local employment laws and regulations meeting federal merit system or other requirements, where applicable. (Generally applies only to governments.)</p> <p>c. The payroll charge was supported by documentation prescribed in 2 CFR section 200.430(i).</p> <p>d. The payroll charge was supported by personnel activity reports; e.g., time and attendance records and salary distribution reports for the entity.</p> <p>e. Charges for leave, employee insurance, pension plans, etc., were reasonable and required by law, employee agreements, or provided under an established written policy of the entity and were distributed equitably to federal programs and other activities.</p> <p>f. Charges for authorized absences such as annual leave, sick leave, holidays, court leave, military leave and other similar benefits were allowable, provided under established written leave policies, and were allocated equitably to all federal programs and other activities.</p> <p>13. Test a sample of depreciation charges for conformance with the following: (2 CFR section 200.436)</p> <p>a. The allocation for depreciation was made in accordance with 2 CFR part 200, Appendices III–IX, as applicable.</p> <p>Practical Consideration:</p> <ul style="list-style-type: none"> <li>• Depreciation is the method for allocating the cost of capital assets to periods benefitting from asset use. The nonfederal entity may be compensated (by computing depreciation) for the use of its buildings, capital improvements, equipment, and software projects capitalized in accordance with GAAP, provided that they are used, needed in the entity's activities, and properly allocated to federal awards.</li> </ul> <p>b. The depreciation computation was based on acquisition cost or the fair market value of assets donated by a third party at the time of donation and did not include the cost of land; any portion of the cost of buildings and equipment borne by or donated by the federal government; any portion of the cost of buildings and equipment contributed by or for the nonfederal entity where law or agreement prohibits recovery; and any asset acquired solely for the performance of a nonfederal award.</p>		

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<p>c. The asset being depreciated was not also claimed as matching.</p> <p>d. The period of useful service or useful life takes into consideration such factors as type of construction, nature of the equipment, technological developments in the particular area, historical data, and the renewal and replacement policies followed for the individual items or classes of assets involved.</p> <p>e. 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.</p> <p>Practical Considerations:</p> <ul style="list-style-type: none"> <li>• In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight-line method is presumed to be the appropriate method.</li> <li>• Depreciation methods once used may not be changed unless approved in advance by the cognizant agency.</li> <li>• The depreciation methods used to calculate the depreciation amounts for indirect (F&amp;A) rate purposes must be the same methods the entity used for its financial statements.</li> <li>• The entire building, including the shell and all components, may be treated as a single asset and depreciated over a single useful life. A building may also be divided into multiple components, each of which may be depreciated over its estimated useful life. The building components must be grouped into three general components of a building: building shell (including construction and design costs), building services systems (e.g., elevators, HVAC, plumbing system, and heating and air-conditioning system) and fixed equipment (e.g., sterilizers, casework, fume hoods, cold rooms, and glassware/washers). In exceptional cases, a cognizant agency may authorize a nonfederal entity to use more than these three groupings. When an entity elects to depreciate its buildings by its components, the same depreciation methods must be used for indirect (F&amp;A) purposes and financial statements purposes.</li> </ul> <p>f. No depreciation was taken on assets that have outlived their depreciable lives.</p> <p>g. If the depreciation method replaced the use allowance method, depreciation was computed as if the asset had been depreciated over its entire life.</p> <p>h. Charges for depreciation are supported by adequate property records and physical inventories have been taken at least once every two years.</p> <p>i. Adequate depreciation records showing the amount of depreciation taken each period have been maintained.</p>		

**F. EQUIPMENT AND REAL PROPERTY MANAGEMENT** This Section is N/A—

**Compliance Requirements**

Equipment and Real Property Management requirements apply to federal programs that purchase equipment or real property.

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### *Equipment Management—Grants and Cooperative Agreements*

Equipment means tangible personal property, including information technology systems, having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the nonfederal entity for financial statement purposes or \$5,000 (2 CFR section 200.33). Title to equipment acquired by a nonfederal entity under grants and cooperative agreements vests in the nonfederal entity subject to certain obligations and conditions [2 CFR section 200.313(a)].

Nonfederal entities other than states must follow 2 CFR sections 200.313(c) through (e) which require that—

1. Equipment, including replacement equipment, be used in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by the federal award or, when appropriate, under other federal awards; however, the nonfederal entity must not encumber the equipment without prior approval of the federal awarding agency [2 CFR sections 200.313(c) and (e)].
2. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the federal award identification number), who holds title, the acquisition date, cost of the property, percentage of federal participation in the project costs for the federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property [2 CFR section 200.313(d)(1)].
3. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years [2 CFR section 200.313(d)(2)].
4. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated [2 CFR section 200.313(d)(3)].
5. Adequate maintenance procedures must be developed to keep the property in good condition [2 CFR section 200.313(d)(4)].
6. If the nonfederal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return [2 CFR section 200.313(d)(5)].
7. When original or replacement equipment acquired under a federal award is no longer needed for a federal program (whether the original project or program or other activities currently or previously supported by the federal government), the nonfederal entity must request disposition instructions from the federal awarding agency if required by the terms and conditions of the award. Items of equipment with a current per-unit fair market value of \$5,000 or less may be retained, sold, or otherwise disposed of with no further obligation to the federal awarding agency. If the federal awarding agency fails to provide requested disposition instructions within 120 days, items of equipment with a current per-unit fair market value in excess of \$5,000 may be retained or sold. The federal awarding agency is entitled to the federal interest in the equipment, which is the amount calculated by multiplying the current market value or sale proceeds by the federal agency's participation in total project costs [2 CFR section 200.313(e) and 200.41].

### *Real Property Management—Grants and Cooperative Agreements*

Title to real property acquired or improved by nonfederal entities under grants and cooperative agreements vests in the nonfederal entity subject to the obligations and conditions specified in 2 CFR section 200.311(a). Real property will be used for the originally authorized purpose as long as needed for that purpose, during which time the nonfederal entity must not dispose of or encumber title to or other interests in the real property [2 CFR section 200.311(b)].

When real property is no longer needed for the originally authorized purpose, the nonfederal entity must obtain disposition instructions from the federal awarding agency or the pass-through entity, as applicable. When real

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property is sold, sales procedures must be followed that provide for competition to the extent practicable and result in the highest possible return. If sold, nonfederal entities must compensate the federal awarding agency for the portion of the net sales proceeds that represents the federal agency’s interest in the real property, which is the amount calculated by multiplying the current market value or sale proceeds by the federal agency’s participation in total project costs. If the property is retained, the nonfederal entity must compensate the federal awarding agency for the federal portion of the current fair market value of the property. Disposition instructions may also provide for transfer of title to the federal awarding agency or a designated third party, in which case the nonfederal entity is entitled to the nonfederal interest in the property, which is calculated by multiplying the current market value or sale proceeds by the nonfederal entity’s share in total project costs [2 CFR section 200.311(c)(3)].

**Source of Governing Requirements**

The requirements for equipment and real property are contained in 2 CFR section 200.313 (equipment), 2 CFR section 200.311 (real property), 48 CFR section 52.245-1 (equipment and real property), program legislation, federal awarding agency regulations, and the terms and conditions of the federal award.

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by CFR section 200.514(c).
2. Determine whether the nonfederal 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 or improved under federal awards is in accordance with federal requirements and that the federal awarding agency was properly compensated for its portion of any property sold or converted to nonfederal use.

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<p style="text-align: center;"><b>Internal Control</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol>		

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<p>4. Inventory Management of Equipment Acquired under Federal Awards.</p> <ul style="list-style-type: none"> <li>a. Identify equipment acquired and trace selected purchases to the property records. Verify that the property records contain the required information.</li> <li>b. Verify that the required physical inventory of equipment was performed. Test whether any differences between the physical inventory and equipment records were resolved.</li> <li>c. Select a sample from all equipment acquired under federal awards from the property records and physically inspect the equipment and determine whether the equipment is appropriately safeguarded and maintained.</li> </ul> <p>5. Disposition of Equipment Acquired under Federal Awards.</p> <ul style="list-style-type: none"> <li>a. Identify equipment dispositions for the audit period and perform procedures to verify that the dispositions of equipment acquired under federal awards were properly reflected in the property records.</li> <li>b. For dispositions of equipment acquired under grants and cooperative agreements with a current per-unit fair market value of \$5,000 or more, verify whether the federal awarding agency was reimbursed for the federal portion of the current market value or sales proceeds.</li> <li>c. For dispositions of equipment acquired under cost-reimbursement contracts, verify that the nonfederal entity followed federal awarding agency disposition instructions.</li> </ul> <p>6. Disposition of Real Property Acquired under Federal Awards.</p> <ul style="list-style-type: none"> <li>a. Identify real property dispositions for the audit period and determine whether such real property was acquired or improved under federal awards.</li> <li>b. For dispositions of real property acquired or improved under federal awards, perform procedures to verify that the nonfederal entity followed the instructions of the federal awarding agency or pass-through entity, which normally require reimbursement to the federal awarding agency for the federal portion of net sales proceeds or fair market value at the time of disposition, as applicable.</li> </ul>		

**G. MATCHING, LEVEL OF EFFORT, EARMARKING** This Section is N/A—

**Compliance Requirements**

The specific requirements for matching, level of effort, and earmarking are not universal and, if applicable, are found in the statutes, regulations, and the terms and conditions of awards pertaining to the program. For programs listed in the Compliance Supplement, these specific requirements are in Part 4 or Part 5 of the Supplement, as applicable.

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

1. *Matching or cost sharing* includes requirements to provide contributions (usually nonfederal) 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 nonfederal or federal sources for specified activities to be maintained from period to period, and (c) federal funds to supplement and not supplant nonfederal funding of services.
3. *Earmarking* includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered.

### Source of Governing Requirements

The requirements for matching are contained in 2 CFR section 200.306, program legislation, federal awarding agency regulations, and the terms and conditions of the award. The requirements for level of effort and earmarking are contained in program legislation, federal awarding agency regulations, and the terms and conditions of the award.

### Specific Information for These ED Programs

#### Applicable to Both IDEA Programs

#### *Level of Effort—Maintenance of Effort*

1. *General*—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, LEAs must meet (a) the eligibility standard and (b) the compliance standard. These standards are described in detail below in paragraphs 2 and 3, respectively.

Allowances may be made for (a) the voluntary departure, by retirement or otherwise, or departure for just cause, of special education or related services 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 (i) left the jurisdiction of the agency, (ii) has reached the age at which the obligation of the agency to provide a FAPE has terminated, or (iii) 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].

Appendix E of 34 CFR part 300 provides LEA maintenance of effort calculation examples. For more information on the LEA maintenance of effort requirements, see OSEP Memorandum 15-10, Issuance of Guidance on the Final Local Educational Agency (LEA) Maintenance of Effort (MOE) Regulations under Part B of the Individuals with Disabilities Education Act (IDEA), dated July 27, 2015. This guidance is available at [www2.ed.gov/policy/speced/guid/idea/memosdcltrs/osepmemo1510leamoeqa.pdf](http://www2.ed.gov/policy/speced/guid/idea/memosdcltrs/osepmemo1510leamoeqa.pdf).

2. *Eligibility Standard*—To meet the eligibility standard for an award for a fiscal year, the LEA must budget for the education of children with disabilities at least the same amount, from at least one of the following sources, as the LEA spent for that purpose from the same source for the most recent fiscal year for which information is available:

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- a. Local funds only;
- b. The combination of state and local funds;
- c. Local funds only on a per capita basis; or
- d. The combination of state and local funds on a per capita basis.

When determining the amount of funds that the LEA must budget to meet the requirement, the LEA may take into consideration, to the extent the information is available, the exceptions and adjustment provided in 34 CFR sections 300.204 and 300.205 that the LEA—

- a. Took in the intervening year or years between the most recent fiscal year for which information is available and the fiscal year for which the LEA is budgeting; and
- b. Reasonably expects to take in the fiscal year for which the LEA is budgeting.

Expenditures made from funds provided by the federal government for which the SEA is required to account to the federal government or for which the LEA is required to account to the federal government directly or through the SEA may not be considered in determining whether an LEA meets the eligibility standard [34 CFR section 300.203(a)].

3. **Compliance Standard**—Except as provided in 34 CFR sections 300.204 and 300.205, funds provided to an LEA under IDEA, Part B must not be used to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year.

An LEA meets this standard if it does not reduce the level of expenditures for the education of children with disabilities made by the LEA from at least one of the following sources below the level of those expenditures from the same source for the preceding fiscal year, except as provided in 34 CFR sections 300.204 and 300.205:

- a. Local funds only;
- b. The combination of state and local funds;
- c. Local funds only on a per capita basis; or
- d. The combination of state and local funds on a per capita basis.

Expenditures made from funds provided by the federal government for which the SEA is required to account to the federal government or for which the LEA is required to account to the federal government directly or through the SEA may not be considered in determining whether an LEA meets the compliance standard [34 CFR section 300.203(b)].

4. **Subsequent Years Rule**—If, in the fiscal year beginning on July 1, 2013, or July 1, 2014, an LEA fails to meet the eligibility standard or compliance standard in effect at that time, the level of expenditures required of the LEA for the fiscal year subsequent to the year of the failure is the amount that would have been required in the absence of that failure, not the LEA's reduced level of expenditures.

If, in any fiscal year beginning on or after July 1, 2015, an LEA fails to meet the requirements of 34 CFR section 300.203(b)(2)(i) or (iii) and the LEA is relying on local funds only, or local funds only on a per capita basis, to meet the eligibility standard or compliance standard, the level of expenditures required of the LEA for the fiscal year subsequent to the year of the failure is the amount that would have been required under 34 CFR section 300.203(b)(2)(i) or (iii) in the absence of that failure, not the LEA's reduced level of expenditures.

If, in any fiscal year beginning on or after July 1, 2015, an LEA fails to meet the requirement of 34 CFR section 300.203(b)(2)(ii) or (iv) and the LEA is relying on the combination of state and local funds, or the combination of

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state and local funds on a per capita basis, to meet the eligibility standard or compliance standard, the level of expenditures required of the LEA for the fiscal year subsequent to the year of the failure is the amount that would have been required under 34 CFR section 300.203(b)(2)(ii) or (iv) in the absence of that failure, not the LEA's reduced level of expenditures [34 CFR section 300.203(c)].

5. *Consequence of Failure to Maintain Effort*—If an LEA fails to maintain its level of expenditures for the education of children with disabilities in accordance with 34 CFR section 300.203(b), the SEA is liable in a recovery action under Section 452 of the General Education Provisions Act (20 USC 1234a) to return to the Department of Education, using nonfederal funds, an amount equal to the amount by which the LEA failed to maintain its level of expenditures in accordance the compliance standard in that fiscal year, or the amount of the LEA's Part B subgrant in that fiscal year, whichever is lower [34 CFR section 300.203(d)].
6. *Adjustment to Local Fiscal Effort*—For any fiscal year for which the federal allocation received by an 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% of the excess [20 USC 1413(a)(2)(C)(i) and 34 CFR section 300.205(a)]. 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. If, in making its annual determinations, an SEA determines that an LEA is not meeting the requirements of Part B of the IDEA, including the targets in the state's performance plan, the SEA must prohibit the LEA from reducing its maintenance of effort under 20 USC 1413(a)(2)(C) for any fiscal year [20 USC 1413(a)(2)(C) and 1416(f); 34 CFR sections 300.205 and 300.608(a)].

### *Earmarking*

1. *Schoolwide Programs*. 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 with disabilities in the jurisdiction of the LEA multiplied by the number of children with disabilities participating in the schoolwide program [20 USC 1413(a)(2)(D); 34 CFR section 300.206].
2. *Coordinated Early Intervening Services*. An LEA can use not more than 15% of the amount of federal Part B funds the LEA receives for any fiscal year [less any amount by which it reduces its expenditures under 20 USC 1413(a)(2)(C)] (see III. G.2.1.b in this section), in combination with other funds for coordinated, 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); 34 CFR section 300.226].

### **Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. *Level of Effort*—Determine whether specified service or expenditure levels were maintained.
3. *Earmarking*—Determine whether minimum or maximum limits for specified purposes or types of participants were met.

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<p align="center"><b>Internal Control</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>2. Plan the testing of internal control to support a low assessed level of control risk for level of effort and 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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol> <p align="center"><b>Compliance</b></p> <ol style="list-style-type: none"> <li>4. Level of Effort—Maintenance of Effort.               <ol style="list-style-type: none"> <li>a. Identify the required level of effort and perform tests to verify that the level of effort requirement was met.</li> <li>b. Perform tests 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.)</li> <li>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.</li> <li>d. Perform procedures to verify that nonmonetary effort indicators were supported by official records.</li> </ol> </li> <li>5. Earmarking.               <ol style="list-style-type: none"> <li>a. Identify the applicable percentage of dollar requirements for earmarking.</li> <li>b. Perform procedures to verify that the amounts recorded in the financial records meet 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).</li> </ol> </li> </ol>		

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<p>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.</p> <p>d. When the earmarking requirements specify a maximum percentage or amount, review the financial records to identify transactions for the specified activity that were improperly classified in another account (e.g., if only 10% may be spent for administrative costs, review accounts to identify administrative costs which were improperly classified elsewhere and cause the maximum percentage or amount to be exceeded).</p> <p>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.</p> <p>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.</p>		

**H. PERIOD OF PERFORMANCE** This Section is N/A—

**Compliance Requirements**

A nonfederal entity may charge to the federal award only allowable costs incurred during the period of performance and any costs incurred before the federal awarding agency or pass-through entity made the federal award that were authorized by the federal awarding agency or pass-through entity (2 CFR section 200.309).

Unless the federal awarding agency or pass-through entity authorizes an extension, a nonfederal entity must liquidate all obligations incurred under the federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the federal award [2 CFR section 200.343(b)]. When used in connection with a nonfederal entity’s utilization of funds under a federal award, *obligations* means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the nonfederal entity during the same or a future period (2 CFR section 200.71).

**Source of Governing Requirements**

The requirements for the period of performance are contained in 2 CFR section 200.71 (definition of *obligations*), 2 CFR section 200.77 (definition of *period of performance*), 2 CFR section 200.309 (period of performance), 2 CFR section 200.343 (closeout), program legislation, federal awarding agency regulations, and the terms and conditions of the award.

**Specific Information for These ED Programs**

Applicable to Both IDEA Programs

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

### Audit Program—Compliance Requirements for Special Education Cluster Grants

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

15-month period of initial availability plus a 12-month period for carryover. For example, funds from the fiscal year 2018 appropriation initially became available on July 1, 2018 and may be obligated by the grantee and subgrantee through September 30, 2020 {Section 421(b) of GEPA [20 USC 1225(b)]; 34 CFR sections 76.703 through 76.710}.

*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. See 34 CFR section 76.707.

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 ends.

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 ends in an attempt to offset audit disallowances. The disallowed costs must be refunded.

**Audit Objective**

1. Obtain an understanding of internal control, assess risk, and test internal control as required 2 CFR section 200.514(c).
2. Determine whether the federal award was only charged for (a) allowable costs incurred during the period of performance or (b) costs incurred prior to the date the federal award was made that were authorized by the federal awarding agency or pass-through entity.
3. Determine whether obligations were liquidated within the required time period.

Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<b>Internal Control</b>		
<ol style="list-style-type: none"> <li>1. 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.</li> <li>2. Plan the testing of internal control to support a low assessed level of control risk for the period of performance 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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol>		
<b>Compliance</b>		
<ol style="list-style-type: none"> <li>4. Review the award documents and regulations pertaining to the program and determine any award-specific requirements related to the period of performance.</li> </ol>		

**Audit Program—Compliance Requirements for Special Education Cluster Grants**

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Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
5. For federal awards with performance period beginning dates during the audit period, test transactions for costs recorded during the beginning of the period of performance and verify that the costs were not incurred prior to the start of the period of performance unless authorized by the federal awarding agency or the pass-through entity.  6. For federal awards with performance period ending dates during the audit period, test transactions for costs recorded during the latter part and after the period of performance and verify that the costs had been incurred within the period of performance.  7. For federal awards with performance period ending dates during the audit period, test transactions for federal award costs for which the obligation had not been liquidated (payment made) as of the end of the period of performance and verify that the liquidation occurred within the allowed time period.  8. Test adjustments (e.g., manual journal entries) for federal award costs and verify that these adjustments were for transactions that occurred during the period of performance.		

**I. PROCUREMENT, SUSPENSION, AND DEBARMENT** This Section is N/A—

**Compliance Requirements**

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

Nonfederal entities other than states, including those operating federal programs as subrecipients of states, must follow the procurement standards set out at 2 CFR sections 200.318 through 200.326. They must use their own documented procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal statutes and the procurement requirements identified in 2 CFR part 200. A nonfederal entity must—

1. Meet the general procurement standards in 2 CFR section 200.318, which include oversight of contractors' performance, maintaining written standards of conduct for employees involved in contracting, awarding contracts only to responsible contractors, and maintaining records to document history of procurement.
2. Conduct all procurement transactions in a manner providing full and open competition, in accordance with 2 CFR section 200.319.
3. Use the micro-purchase and small purchase methods only for procurements that meet the applicable criteria under 2 CFR sections 200.320(a) and (b). Under the micro-purchase method, the aggregate dollar amount does not exceed \$3,500 [\$2,000 in the case of acquisition for construction subject to the Wage Rate Requirements (Davis-Bacon Act)]. Small purchase procedures are used for purchases that exceed the micro-purchase amount but do not exceed the simplified acquisition threshold. Micro-purchases may be awarded without soliciting competitive quotations if the nonfederal entity considers the price to be reasonable [2 CFR section 200.320(a)]. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources [2 CFR section 200.320(b)]. See discussion regarding higher thresholds for micro-purchase and small purchase methods in NDAA 2017 and 2018 sections below.
4. For acquisitions exceeding the simplified acquisition threshold, the nonfederal entity must use one of the following procurement methods: (a) the sealed bid method if the acquisition meets the criteria in 2 CFR section

## Audit Program—Compliance Requirements for Special Education Cluster Grants

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200.320(c); (b) the competitive proposals method under the conditions specified in 2 CFR section 200.320(d); or (c) the noncompetitive proposals method (i.e., solicit a proposal from only one source) but only when one or more of four circumstances are met, in accordance with 2 CFR section 200.320(f).

5. Perform a cost or price analysis in connection with every procurement action in excess of the simplified acquisition threshold, including contract modifications [2 CFR section 200.323(a)]. The cost plus a percentage of cost and percentage of construction cost methods of contracting must not be used [2 CFR section 200.323(d)].
6. Ensure that every purchase order or other contract includes applicable provisions required by 2 CFR section 200.326. These provisions are described in Appendix II to 2 CFR part 200, "Contract Provisions for Non-Federal Entity Contracts Under Federal Awards."

### Source of Governing Requirements—Procurement

The requirements that apply to procurement under grants and cooperative agreements are contained in 2 CFR sections 200.317 through 200.326, program legislation, federal awarding agency regulations, and the terms and conditions of the award. The requirements that apply to procurement under cost-reimbursement contracts under the FAR are contained in 48 CFR parts 03, 15, 44; the clauses at 48 CFR sections 52.244-2, 52.244-5, 52.203-13, 52.203-16, and 52.215-12; agency FAR Supplements; and the terms and conditions of the contract.

### Compliance Requirements—Suspension and Debarment

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

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

Nonfederal entities receiving contracts from the federal government are required to comply with the contract clause at FAR 52.209-6 before entering into a subcontract that will exceed \$30,000, other than a subcontract for a commercially available off-the-shelf item.

### Source of Governing Requirements—Suspension and Debarment

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

Most of the federal agencies have adopted or implemented 2 CFR part 180, generally by relocating their associated agency rules in Title 2 of the CFR. Appendix II to the Compliance Supplement includes the current CFR citations for all agencies' adoption or implementation of the nonprocurement suspension and debarment guidance.

## Audit Program—Compliance Requirements for Special Education Cluster Grants

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

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

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

#### *NDAA of 2017*

The NDAA of 2017, Section 217 [Pub. L. No. 114-328, 130 Stat. 6 (2015)] and 41 USC 1902(a)(2) contained the following provisions.

- Raise the micro-purchase threshold to \$10,000 for procurements under grants and cooperative agreements to institutions of higher education, or related or affiliated nonprofit entities, independent research institutes, and nonprofit research organizations.
- Allow a threshold higher than \$10,000 as determined appropriate by the head of the relevant executive agency.

The provisions of this Act are specific to, institutions of higher education, or related or affiliated nonprofit entities, independent research institutes and nonprofit research organizations. Official OMB guidance M-18-18 ([www.whitehouse.gov/wp-content/uploads/2018/06/M-18-18.pdf](http://www.whitehouse.gov/wp-content/uploads/2018/06/M-18-18.pdf)) was issued on June 20, 2018, and indicated that the effective date of this Act was when the NDAA 2017 was signed into law on December 23, 2016. It also states that the nonfederal entity must document this decision in its internal procurement policies.

Note that the exception for the higher micro-purchase threshold is not available to *all* auditees and that when implemented eligible auditees, it would apply to procurements purchased under *all* federal grants and cooperative agreements.

Institutions of higher education, or related or affiliated nonprofit entities, independent research institutes and nonprofit research organizations also can request micro-purchase threshold higher than \$10,000, but in accordance with OMB M-18-18, it requires a formal approval from the entity’s cognizant federal agency for indirect cost rates. Once approved, the nonfederal entity must document this decision to use the higher threshold in its internal procurement policies.

#### *NDAA of 2018*

The NDAA of 2018, Sections 805 (41 USC 134) and 806 [41 USC. 1902(a)(1)], increased the simplified acquisition threshold to \$250,000 and the micro-purchase threshold to \$10,000, respectively. These changes effectively redefine the level for the simplified acquisition threshold (section 200.88 of the Uniform Guidance) and the micro-purchase threshold (section 200.67 of the Uniform Guidance). These changes will become effective when they are formally codified in the Federal Acquisition Regulations (FAR).

Once codified, the higher thresholds will be available to all auditees. The nonfederal entity must document this decision to use the higher thresholds in its internal procurement policies.

OMB M-18-18 allows the federal agencies to permit the use of the higher thresholds by the grant recipients and states that “agencies should apply this exception to all recipients.” This action allows the maximum flexibility to grant recipients for early implementation, effectively June 20, 2018, with the approval of the federal cognizant agency for indirect costs rates. Grant recipients should document any change based on this exception in its internal procurement policies. Also see Appendix VII of the Compliance Supplement related to audit findings.

## Audit Program—Compliance Requirements for Special Education Cluster Grants

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

### Availability of Other Information

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

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

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

### Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether procurements under federal awards were made in compliance with applicable federal regulations and other procurement requirements specific to an award or subaward.
3. For covered transactions, determine whether the nonfederal entity verified that entities are not suspended, debarred, or otherwise excluded.

Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<b>Internal Control</b>		
<ol style="list-style-type: none"> <li>1. 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.</li> <li>2. Plan the testing of internal control to support a low assessed level of control risk for procurement and suspension and debarment requirements 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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol>		
<b>Compliance</b>		
<ol style="list-style-type: none"> <li>4. Obtain the entity's procurement policies and verify that the policies comply with the compliance requirements highlighted above.</li> </ol>		

### Audit Program—Compliance Requirements for Special Education Cluster Grants

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<p>5. Verify that the entity has written standards of conduct that cover conflicts of interest and govern the performance of its employees engaged in the selection, award, and administration of contracts [2 CFR section 200.318(c) and 48 CFR sections 52.203-13 and 52.303-16].</p> <p>6. Ascertain if the entity has a policy to use statutorily or administratively imposed in-state or local geographical preferences in the evaluation of bids or proposals. If yes, verify that these limitations were not applied to federally funded procurements except where applicable federal statutes expressly mandate or encourage geographic preference [2 CFR section 200.319(b)].</p> <p>7. Select a sample of procurements and perform the following procedures:</p> <ul style="list-style-type: none"> <li>a. Examine contract files and verify that they document the history of the procurement, including the rationale for the method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract price [2 CFR section 200.318(i) and 48 CFR part 44 and section 52.244-2].</li> <li>b. For grants and cooperative agreements, verify that the procurement method used was appropriate based on the dollar amount and conditions specified in 2 CFR section 200.320.</li> <li>c. Verify that procurements provide full and open competition (2 CFR section 200.319 and 48 CFR section 52.244-5).</li> <li>d. Examine documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified [2 CFR sections 200.319 and 200.320(f) and 48 CFR section 52.244-5].</li> <li>e. Ascertain if cost or price analysis was performed in connection with all procurement actions exceeding the simplified acquisition threshold, including contract modifications and that this analysis supported the procurement action (2 CFR section 200.323 and 48 CFR section 15.404-3).                      Practical Consideration:                     <ul style="list-style-type: none"> <li>• A cost or price analysis is required for each procurement action, including each contract modification, when the total amount of the contract and related modifications is greater than the simplified acquisition threshold.</li> </ul> </li> <li>f. Verify consent to subcontract was obtained when required by the terms and conditions of a cost reimbursement contract under the FAR (48 CFR section 52.244-2).                      Practical Consideration:                     <ul style="list-style-type: none"> <li>• If the school district has an approved purchasing system, consent to subcontract may not be required unless specifically identified by contract terms or conditions. The auditor should verify that the approval of the purchasing system is effective for the audit period being reviewed.</li> </ul> </li> </ul> <p>8. Refer to Appendix VII for guidance on reporting audit test results during the implementation periods for the National Defense Authorization Acts of 2017 and 2018.</p>		

## Audit Program—Compliance Requirements for Special Education Cluster Grants

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<p>9. Review the school district's procedures for verifying that an entity with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded [2 CFR sections 200.212 and 200.318(h); 2 CFR section 180.300; and 48 CFR section 52.209-6].</p> <p>10. Select a sample of procurements and subawards and test whether the nonfederal entity followed its procedures before entering into a covered transaction.</p>		

### M. SUBRECIPIENT MONITORING This Section is N/A—

#### Compliance Requirements

A subrecipient is a nonfederal entity that expends federal awards received from a pass-through entity to carry out a federal program. (Part 3, Section M, of the Compliance Supplement notes that transfers of federal awards to another component of the same auditee under 2 CFR part 200, subpart F, do not constitute a subrecipient or contractor relationship.) Subrecipients are discussed in Chapter 13 of *PPC's Guide to Audits of Local Governments*.

A pass-through entity (PTE) must—

- *Identify the Award and Applicable Requirements*—Clearly identify to the subrecipient (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the award [2 CFR section 200.331(a)(2)]; (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the federal award (e.g., financial, performance, and special reports) [2 CFR section 200.331(a)(3)].
- *Evaluate Risk*—Evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward [2 CFR section 200.331(b)]. This evaluation of risk may include consideration of such factors as the following:
  - The subrecipient's prior experience with the same or similar subawards;
  - The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
  - Whether the subrecipient has new personnel or new or substantially changed systems; and
  - The extent and results of federal awarding agency monitoring (e.g., if the subrecipient also receives federal awards directly from a federal awarding agency).
- *Monitor*—Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals [2 CFR sections 200.331(d) through (f)]. In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:

### Audit Program—Compliance Requirements for Special Education Cluster Grants

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

- Reviewing financial and programmatic (performance and special reports) required by the PTE.
- Following up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient from the PTE detected through audits, onsite reviews, and other means.
- Issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.
- *Ensure Accountability of For-profit Subrecipients*—Some federal awards may be passed through to for-profit entities. For-profit subrecipients are accountable to the PTE for the use of the federal funds provided. Because 2 CFR part 200 does not make subpart F applicable to for-profit subrecipients, the PTE is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients for the subaward. The agreement with the for-profit subrecipient must describe applicable compliance requirements and the for-profit subrecipient’s compliance responsibility. Methods to ensure compliance for federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the agreement, and post-award audits [2 CFR section 200.501(h)].

**Source of Governing Requirements**

The requirements for subrecipient monitoring for the subaward are contained in 31 USC 7502(f)(2) [Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)]; 2 CFR sections 200.330, .331, and .501(h); 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 2 CFR section 200.514(c).
2. Determine whether the PTE identified the subaward and applicable requirements at the time of the subaward (or subsequent subaward modification) in the terms and conditions of the subaward and other award documents sufficient for the PTE to comply with federal statutes, regulations, and the terms and conditions of the federal award.
3. Determine whether the PTE monitored subrecipient activities to provide reasonable assurance that the subrecipient administered federal awards in compliance with the terms and conditions of the subaward.

Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<p style="text-align: center;"><b>Internal Control</b></p> <p><b>Note:</b> The auditor may consider coordinating the tests related to subrecipients performed as part of Compliance Requirements E, "Eligibility" (tests that subawards were made only to eligible subrecipients) and I, "Procurement and Suspension and Debarment" (tests of ensuring that a subrecipient is not suspended or debarred), with the testing of "Subrecipient Monitoring."</p> <ol style="list-style-type: none"> <li>1. 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.</li> </ol>		

**Audit Program—Compliance Requirements for Special Education Cluster Grants**

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p>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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</p> <p>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</p> <p align="center"><b>Compliance</b></p> <p>4. Review the PTE's subrecipient monitoring policies and procedures to gain an understanding of the PTE's process to identify subawards, evaluate risk of noncompliance, and perform monitoring procedures based upon identified risks.</p> <p>5. Review subaward documents including the terms and conditions of the subaward to ascertain if, at the time of subaward (or subsequent subaward modification), the PTE made the subrecipient aware of the award information required by 2 CFR section 200.331(a) sufficient for the PTE to comply with federal statutes, regulations, and the terms and conditions of the award.</p> <p>6. Review the PTE's documentation of monitoring the subaward and consider if the PTE's monitoring provided reasonable assurance that the subrecipient used the subaward for authorized purposes in compliance with federal statutes, regulations, and the terms and conditions of the subaward.</p> <p>7. Ascertain if the PTE verified that subrecipients expected to be audited as required by 2 CFR part 200, subpart F, met this requirement [2 CFR section 200.331(f)]. This verification may be performed as part of the required monitoring under 2 CFR section 200.331(d)(2) to ensure that the subrecipient takes timely and appropriate action on deficiencies detected through audits.</p>		

**O. CONCLUSION**

We have performed procedures and obtained audit evidence sufficient to achieve the audit objectives for federal award program compliance requirements. The procedures performed, evidence obtained, and our conclusions are adequately documented. (If you are unable to conclude on any objective, prepare a memo documenting your reason and the implications for the engagement, including the audit reports.)

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**PSD-AP-22: Audit Program—Compliance Requirements for Supporting Effective Instruction Grants  
(Formerly Improving Teacher Quality Grants) (CFDA 84.367)**

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

Federal Program(s): \_\_\_\_\_

### Instructions

This program may be used for Single Audits conducted under OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), for periods covered by the 2019 OMB Compliance Supplement [single audits of fiscal years beginning after June 30, 2018 (i.e., first used for June 30, 2019, year-end Single Audits)]. Chapter 13 of *PPC's Guide to Audits of Local Governments* provides an overview of the Uniform Guidance. *PPC's Guide to Single Audits* provides additional information about the Uniform Guidance.

This audit program should be used for audits of federal awards **made on or after December 26, 2014**, and for funding increments (additional funding on existing awards) with modified terms and conditions that are awarded on or after that date. This audit program is based on Part 3.2 of 2 CFR part 200, appendix XI, Compliance Supplement (the Compliance Supplement). See "Considerations for ED Audits" below.

This audit program should *not* be used for audits of awards made before December 26, 2014, or for funding increments that did not have modified terms and conditions. Awards within a major program may still be subject to both Parts 3.1 and 3.2.

This audit program covers the tests of compliance requirements for school districts that received federal awards for Supporting Effective Instruction (Formerly Improving Teacher Quality) State Grants (CFDA 84.367) under Title II, Part A of ESEA when deemed to be a major program. (Major program determination is normally documented using PSD-CX-1.5, "Single Audit and Major Program Determination Worksheet.")

The following audit procedures were adapted from Parts 2, 3.2, and 4 of the Compliance Supplement issued by the OMB. Due to users noting many errors in the 2019 Compliance Supplement, the AICPA issued a comment letter urging the OMB to immediately correct the errors in the Compliance Supplement. See the comment letter at [www.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/singleaudit/uniformguidanceforfederalrewards/downloadabledocuments/aicpacommentletteron2019csupplement.pdf](http://www.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/singleaudit/uniformguidanceforfederalrewards/downloadabledocuments/aicpacommentletteron2019csupplement.pdf). Auditors should consult the GAQC website at [www.aicpa.org/interestareas/governmentalauditquality.html](http://www.aicpa.org/interestareas/governmentalauditquality.html) for potential future changes to the Compliance Supplement related to these errors.

The procedures in parts 3 and 4 of the Compliance Supplement and this audit program are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. However, the authors suggest that, for procedures not performed, an explanation be provided. This will be helpful in the event of a federal or pass-through entity quality control review.

#### *Considerations for ED Audits*

Based on a Department of Education (ED) FAQ document dated June 25, 2015, administrative actions (including a time extension) or any supplements to awards made prior to December 26, 2014, are not subject to the Uniform Guidance. However, funds that carryover to a noncompeting continuation (e.g., formula grants) on or after December 26, 2014, are subject to the Uniform Guidance. In essence, once a formula grant is awarded, the requirements apply to all funds under the grant, regardless of whether the funds are new or carried over from the prior budget period.

However, Uniform Guidance allows federal agencies to make certain exceptions, and this could affect compliance audits of ED programs. Auditors should monitor ED, AICPA, and industry websites for additional guidance that may be issued after the completion of these *Practice Aids*.

**Audit Program—Compliance Requirements for Supporting Effective Instruction Grants  
(Formerly Improving Teacher Quality Grants) (CFDA 84.367)**

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

*Applicability of Compliance Requirements*

According to the Matrix in Part 2 of the Compliance Supplement, the following compliance requirements have been identified as not being subject to the compliance audit for Supporting Effective Instruction Grants:

- C. Cash Management
- F. Equipment/Real Property Management
- H. Period of Performance
- I. Procurement Suspension & Debarment
- J. Program Income
- L. Reporting

However, while a requirement may not be subject to the audit for compliance audit purposes, auditors have a responsibility under GAAS and GAGAS related to noncompliance with provisions of laws, regulations, contracts, and grant agreements that may have a material effect on the financial statements and with requirements related to the auditor's consideration of fraud and abuse.

The program is divided into parts representing the types of compliance requirements that ordinarily apply to school districts participating in Improving Teacher Quality State Grants. A summary of each of the compliance requirements follows. For additional information, see the reference included at each compliance type. This program contains references to the *OMB Compliance Supplement*, which is available at [www.whitehouse.gov/wp-content/uploads/2019/07/2-CFR\\_Part-200\\_Appendix-XI\\_Compliance-Supplement\\_2019\\_FINAL\\_07.01.19.pdf](http://www.whitehouse.gov/wp-content/uploads/2019/07/2-CFR_Part-200_Appendix-XI_Compliance-Supplement_2019_FINAL_07.01.19.pdf). This program also contains references to the Uniform Guidance (2 CFR part 200), which can be accessed at [www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl). It also contains references to 34 CFR, which can be accessed at [www.ecfr.gov/cgi-bin/text-idx?SID=e8f1efb27d8c3eda14c688f471e15a41&mc=true&tpl=/ecfrbrowse/Title34/34tab\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?SID=e8f1efb27d8c3eda14c688f471e15a41&mc=true&tpl=/ecfrbrowse/Title34/34tab_02.tpl).

*Internal Control*

Consistent with Part 3.2 of the Compliance Supplement and the requirements of 2 CFR part 200, subpart F, the accompanying audit programs include 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 school district'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 2 CFR part 200, subpart F.

*“Safe Harbor” Status of the Compliance Supplement*

Part 1 of the Compliance Supplement notes that use of the Supplement is “mandatory,” and that auditors must adhere to the Supplement to satisfy 2 CFR part 200, subpart F, requirements. Part 1 also addresses the “safe harbor” status of the Compliance Supplement. Specifically, it states that due to the diversity of programs and administering entities, the suggested audit procedures are general in nature. Because the Compliance Supplement only provides “suggested” audit procedures, it cannot be used as a safe harbor for determining the specific audit procedures to apply in a particular situation. Thus, auditor judgment is necessary in determining whether such procedures are sufficient to achieve the stated audit objectives, or whether alternative audit procedures are necessary. While OMB states that the Compliance Supplement is not a “safe harbor” for identifying the audit procedures to apply in a particular single audit engagement, it clarifies that the Compliance Supplement can be considered a “safe harbor” for identification of the types of compliance requirements subject to the compliance audit for programs included in the Compliance Supplement if the auditor both:

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- Performs reasonable procedures to ensure that the requirements subject to the audit in the Compliance Supplement are current and determine whether there are any additional provisions of federal awards relevant to the compliance requirements subject to the audit that should be covered by the audit.
- Updates or augments the requirements contained in the Compliance Supplement as appropriate.

### *Sample Size*

For certain of its suggested audit procedures, the Compliance Supplement says to “select a sample.” Minimum “sample” sizes and acceptable selection methods are not specified. Appendix VIII of the Compliance Supplement does, however, discuss audit sampling guidance provided by the AICPA. The Uniform Guidance permits these matters to be determined based on the auditor’s professional judgment. The authors believe that a “sample” as used here does not necessarily mean use of sampling. In many instances because of other procedures performed, low inherent and control risk of noncompliance, and/or small population sizes, sampling may not be necessary. The authors have developed the worksheet PSD-CX-8.1, “Planning Worksheet to Determine Extent of Substantive Procedures,” to aid the auditor in determining whether sampling is necessary. Planning the extent of substantive tests of compliance is discussed at Chapter 5 (section 503) in *PPC’s Guide to Single Audits* and Chapter 13 in *PPC’s Guide to Audits of Local Governments*.

The AICPA provides guidance on sampling in an audit of compliance that provides suggested minimum sample sizes as well as methods for determining sample size, including different tables and methods for tests of controls than for tests of compliance. This guidance is provided in Chapter 11, “Audit Sampling Considerations of Uniform Guidance Compliance Audits,” of the GAS/SA Audit Guide. This sampling guidance is reflected in these *Practice Aids*. Chapter 5 of *PPC’s Guide to Single Audits* has an extensive discussion about using audit sampling in a Single Audit.

## **I. PROGRAM OBJECTIVES**

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

## **II. PROGRAM PROCEDURES**

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

### **Equitable Service**

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

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also Section G of *Non-Regulatory Guidance: Improving Teacher Quality State Grants ESEA Title II, Part A*, which is available at [www2.ed.gov/programs/teacherqual/guidance.pdf](http://www2.ed.gov/programs/teacherqual/guidance.pdf).

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

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

**Source of Governing Requirements**

This program is authorized by Title II, Part A, Subparts 1–3 of the ESEA, as amended by the ESSA (Pub. L. No. 114-95) (20 USC 6611-6614). The program purpose and definitions in Title II, Part A of the ESEA, Sections 2101 and 2102 (20 USC 6601 and 6602) also apply to this program.

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

**Availability of Other Program Information**

- Building Systems of Support for Excellent Teaching and Leading—Non-Regulatory Guidance (September 27, 2016) ([www2.ed.gov/policy/elsec/leg/essa/essatitleiipartaguidance.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essatitleiipartaguidance.pdf))
- Improving Teacher Quality State Grants—Non-Regulatory Guidance (October 5, 2006) ([www2.ed.gov/programs/teacherqual/guidance.pdf](http://www2.ed.gov/programs/teacherqual/guidance.pdf))
- Non-Regulatory Guidance: Fiscal Changes and Equitable Services Requirements Under the Elementary and Secondary Education Act of 1965 (ESEA), as Amended by the Every Student Succeeds Act (ESSA) (November 21, 2016) [www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf).

The ESEA, as reauthorized by the ESSA, is available with a hypertext index at <https://legcounsel.house.gov/Comps/Elementary And Secondary Education Act Of 1965.pdf>.

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

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

- ESSA Fiscal Changes & Equitable Services (which includes guidance on Transferability Authority) (November 21, 2016) ([www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf))
- ESSA Schoolwide Guidance (September 29, 2016) ([www2.ed.gov/policy/elsec/leg/essa/essaswpguidance9192016.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essaswpguidance9192016.pdf))
- Guidance on the Rural Education Achievement Program (REAP) (June 2003) ([www.ed.gov/policy/elsec/guid/reap03guidance.doc](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) ([www.ed.gov/programs/titleiparta/seaguidanceforadjustingallocations.doc](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? (December 2000) ([www.ed.gov/policy/elsec/guid/cschoools/cguedec2000.doc](http://www.ed.gov/policy/elsec/guid/cschoools/cguedec2000.doc))

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- Title I Services to Eligible Private School Children (October 17, 2003) ([www.ed.gov/programs/titleiparta/psguidance.doc](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 (March 2009) ([www.ed.gov/policy/elsec/guid/equitableseguidance.doc](http://www.ed.gov/policy/elsec/guid/equitableseguidance.doc))
- Serving Preschool Children Through Title I, Part A of the Elementary and Secondary Education Act of 1965, as Amended (April 16, 2012) ([www2.ed.gov/policy/elsec/guid/preschoolguidance2012.pdf](http://www2.ed.gov/policy/elsec/guid/preschoolguidance2012.pdf))
- Non-Regulatory Guidance: Early Learning in the Every Student Succeeds Act (January 2017) ([www2.ed.gov/policy/elsec/leg/essa/essaelguidance11717.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essaelguidance11717.pdf))
- Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; and Grantback Requirements (February 2008) ([www.ed.gov/programs/titleiparta/fiscalguid.doc](http://www.ed.gov/programs/titleiparta/fiscalguid.doc))
- Letter to Chief State School Officers on Granting Administrative Flexibility for Better Measures of Success (September 7, 2012) ([www2.ed.gov/policy/fund/guid/gposbul/time-and-effort-reporting.html](http://www2.ed.gov/policy/fund/guid/gposbul/time-and-effort-reporting.html))

### III. COMPLIANCE REQUIREMENTS

#### A. ACTIVITIES ALLOWED OR UNALLOWED This Section is N/A—

##### Compliance Requirements

This compliance requirement specifies the activities that can or cannot be funded under a specific program and almost always applies to federal programs. The specific requirements for activities allowed or unallowed are unique to each federal program and are found in the federal statutes, regulations, and the terms and conditions of the federal award pertaining to the program.

##### Source of Governing Requirements

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

##### Specific Information for This ED Program

After conducting meaningful consultation, as required by ESEA Section 2102(b)(3), LEAs may use funds for a broad range of activities designed to improve educator effectiveness that are identified in ESEA Section 2103(b). While not an exhaustive list, examples of allowable activities include: (1) providing “professional development” {as the term is defined in ESEA Section 8101(42) [20 USC 7801(42)]} to teachers, instructional leadership teams, principals, or other school leaders that is focused on improving teaching and student learning and achievement; (2) developing and implementing initiatives to recruit, hire, and retain teachers, principals, and other school leaders; (3) providing training, technical assistance, and capacity-building in local educational agencies to assist teachers, principals, or other school leaders with selecting and implementing formative assessments, designing classroom-based assessments, and using data from such assessments to improve instruction and student academic achievement; and (4) carrying out initiatives that provide teacher, paraprofessional, principal, or other school leader advancement and professional growth, and an emphasis on leadership opportunities, multiple career paths, and pay differentiation.

##### Consolidation of Administrative Funds

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

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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 8203 of ESEA (20 USC 7823)].

An 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 8201(c) and 8203(e) of ESEA [20 USC 7821(c) and 7823(e)]).

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

#### Schoolwide Programs

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.

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

#### Transferability

SEAs may transfer up to 100% of the nonadministrative funds allocated for state-level activities from one or more of the listed applicable programs to one or more of those programs, or to Title I, Part A (CFDA 84.010); Title I, Part C (CFDA 84.011); Title I, Part D (CFDA 84.013); Title III, Part A (CFDA 84.365A); or Title V, Part B (CFDA 84.358). Except for 21st CCLC (CFDA 84.287), LEAs may transfer up to 100% of their allotment from one or more of the listed applicable programs to one or more of those programs or to Title I, Part A (CFDA 84.010); Title I, Part C (CFDA 84.011); Title I, Part D (CFDA 84.013); Title III, Part A (CFDA 84.365A); or Title V, Part B (CFDA 84.358).

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

#### Small Rural School Achievement (SRSA) Program

LEAs that (1) 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 (2) 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 programs for local activities authorized under one or more of the following five programs:

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- CFDA 84.010 Title I Grants to Local Educational Agencies (LEAs) (Title I, Part A of the ESEA)
- CFDA 84.287 Twenty-First Century Community Learning Centers (21st CCLC)
- CFDA 84.365 English Language Acquisition Grants (Title III, Part A)
- CFDA 84.367 Supporting Effective Instruction State Grants (Title II, Part A)
- CFDA 84.424 Student Support and Academic Enrichment Grants (Title IV, Part A)

{Section 5211(a)–(c) of ESEA [20 USC 7345(a)–(c)]}.

Funds under the Small Rural Schools Achievement (SRSA) Alternative Uses of Funds Program (CFDA 84.358A) may be used for activities allowed under other programs, including this program (CFDA 84.367). Expenditures under CFDA 84.367 from funds awarded for the SRSA Alternative Uses of Funds Program should be included in the audit universe and total expenditures of CFDA 84.358A (i.e., from the program from which they originated) for purposes of (1) determining Type A programs, and (2) completing the Schedule of Expenditures of Federal Awards (SEFA).

Prima Facie Case Requirement for Audit Findings

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

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

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether federal awards were expended only for allowable activities.

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p align="center"><b>Internal Control</b></p> <p>1. 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.</p>		

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<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p>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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</p> <p>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</p> <p align="center"><b>Compliance</b></p> <p>4. Identify the types of activities which are either specifically allowed or prohibited by federal statutes, regulations, and the terms and conditions of the federal award pertaining to the program.</p> <p>5. When allowability is determined based upon summary level data, perform procedures to verify that the activities were allowable and that the individual transactions were properly classified and accumulated into the activity total.</p> <p>6. 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.</p> <p>7. The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities.</p>		

**B. ALLOWABLE COSTS/COST PRINCIPLES** This Section is N/A—

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.

**Compliance Requirements—Allowability of Costs**

Part 3.2 of the Compliance Supplement provides basic guidelines for allowability of costs. It states that, except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under federal awards:

1. Be necessary and reasonable for the performance of the federal award and be allocable thereto under the principles in 2 CFR part 200, subpart E.
2. Conform to any limitations or exclusions set forth in 2 CFR part 200, subpart E, or in the federal award as to types or amount of cost items.
3. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the nonfederal entity.

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4. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
5. Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in 2 CFR part 200.
6. Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program in either the current or a prior period.
7. Be adequately documented.

Selected Items of Cost

2 CFR sections 200.420 through 200.475 provide the principles to be applied in establishing the allowability of certain items of cost, in addition to the basic considerations identified above. (For a listing of costs, by type of nonfederal entity, refer to Exhibit 1 of Part 3.2 of the Compliance Supplement.) These principles apply whether or not a particular item of cost is treated as a direct cost or indirect (F&A) cost. Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment provided for similar or related items of cost and the principles described in 2 CFR sections 200.402 through 200.411.

**Source of Governing Requirements**

The requirements for allowable costs/cost principles are contained in 2 CFR part 200, subpart E, program legislation, federal awarding agency regulations, and the terms and conditions of the award.

Applicability of Cost Principles

The cost principles in 2 CFR part 200, subpart E (Cost Principles), prescribe the cost accounting requirements associated with the administration of federal awards. As provided in 2 CFR section 200.101, the cost principles requirements apply to all federal awards with the exception of grant agreements and cooperative agreements providing food commodities; agreements for loans, loan guarantees, interest subsidies, insurance; and programs listed in 2 CFR section 200.101(d) (see Appendix I of the Compliance Supplement). The cost principles applicable to a nonfederal entity apply to all federal awards received by the entity, regardless of whether the awards are received directly from the federal awarding agency or indirectly through a pass-through entity. For this purpose, federal awards include cost-reimbursement contracts under the Federal Acquisition Regulation. The cost principles do not apply to federal awards under which a nonfederal entity is not required to account to the federal awarding agency or pass-through entity for actual costs incurred.

**Internal Control**

The suggested audit procedures below for internal control should be performed for all types of compliance requirements (i.e., direct costs, indirect costs).

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<b>Internal Control—All Costs</b>		
1. 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.		

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Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<p>2. 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 2 CFR section 200.514(c)(4), including reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, assessing the control risk at the maximum, and considering whether additional compliance tests and reporting are required because of ineffective internal control.</p> <p>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</p>		

**De Minimis Indirect Cost Rate**

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

**Audit Objectives—De Minimis Indirect Cost Rate**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine that the de minimis rate is applied to the appropriate base amount.
3. Determine that the de minimis rate is used consistently by a nonfederal entity under its federal awards.

**Compliance—De Minimis Indirect Cost Rate**

The following suggested audit procedures apply to any nonfederal entity using a de minimis indirect cost rate, whether as a recipient or subrecipient. None of the procedures related to indirect costs in the sections of the Allowable Costs/Cost Principles compliance requirement organized by type of nonfederal entity apply when a de minimis rate is used.

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Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<p align="center"><b>Compliance—De Minimis Indirect Cost Rate</b></p> <ol style="list-style-type: none"> <li>1. Determine that the nonfederal entity has not previously claimed indirect costs on the basis of a negotiated rate. Auditors are required to test only for the three fiscal years immediately prior to the current audit period.</li> <li>2. Test a sample of transactions for conformance with 2 CFR section 200.414(f)—               <ol style="list-style-type: none"> <li>a. Select a sample of claims for reimbursement of indirect costs and verify that the de minimis rate was used consistently, the rate was applied to the appropriate base, and the amounts claimed were the product of applying the rate to a modified total direct costs base.</li> <li>b. Verify that the costs included in the base are consistent with the costs that were included in the base year; i.e., verify that current year modified total direct costs do not include costs items that were treated as indirect costs in the base year.</li> </ol> </li> <li>3. For a nonfederal entity conducting a single function, which is predominantly funded by federal awards, determine whether use of the de minimis indirect cost rate resulted in the nonfederal entity double-charging or inconsistently charging costs as both direct and indirect.</li> </ol>		

**Specific Information for This ED Program**

Alternative Fiscal and Administrative Requirements

A state may adopt its own written fiscal and administrative requirements, which are consistent with the provisions of 2 CFR part 200, subpart E, for expending and accounting for all funds received by SEAs and LEAs under ESEA programs. The written fiscal and administrative requirements must (1) 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; (2) ensure that funds received are spent only for reasonable and necessary costs of the program; and (3) 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)].

Documentation of Employee Time and Effort

1. *Consolidated Administrative Funds*—An LEA that consolidates federal administrative funds is not required to keep separate records by individual program {Sections 8201(c) or 8203(e) of ESEA [20 USC 7821(c) or 7823(e)]}. The SEA or LEA may treat the consolidated administrative funds as a consolidated administrative cost objective.

Time-and-effort requirements with respect to consolidated administrative funds vary under different circumstances.

- a. For an employee who works solely on the consolidated administrative cost objective, an LEA is not required to maintain records reflecting the distribution of the employee’s salary and wages among the programs included in the consolidation.

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- b. For an employee who works in part on 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, an LEA must maintain time and effort distribution records in accordance with 2 CFR section 200.430(i)(1)(vii) that support the portion of time and effort dedicated to—
- (1) the consolidated cost objective, and
  - (2) each program or other cost objective supported by nonconsolidated federal funds or other revenue sources.
2. *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. A school that consolidates federal funds with state and local funds in a consolidated schoolwide pool 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)]. If a schoolwide program school does not consolidate federal funds in a consolidated schoolwide pool, the school must keep separate records by program. [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 at [www.ed.gov/programs/titleiparta/fiscalguid.doc](http://www.ed.gov/programs/titleiparta/fiscalguid.doc).]

Time-and-effort requirements in schoolwide program schools vary under different circumstances.

- a. If a school operating a schoolwide program consolidates federal, state, and local funds in a consolidated schoolwide pool, there is no distinction between staff paid with federal funds and staff paid with state or local funds. Under these circumstances, payment from the single consolidated schoolwide pool is sufficient to demonstrate that an employee works only on activities of the schoolwide program, and no other documentation is required.
  - b. 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:
    - (1) For an employee who works solely on a single cost objective (e.g., 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), an LEA is not required to maintain records reflecting the distribution of the employee's salary and wages, including among the federal programs included in the consolidation, if applicable.
    - (2) For an employee who works on multiple activities or cost objectives (e.g., 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 that are not part of the same cost objective), an LEA must maintain time and effort distribution records in accordance with 2 CFR section 200.430(i)(1)(vii) that support the portion of time and effort dedicated to—
      - The federal program or cost objective; and
      - Each other program or cost objective supported by consolidated federal funds or other revenue sources.
3. *Substitute System for Employees on a Predetermined Schedule*—In a September 7, 2012, letter to Chief State School Officers, ED authorized SEAs to approve LEAs' use of a substitute system for time-and-effort reporting for employees whose salaries are supported by multiple cost objectives, but who work on a predetermined schedule. ED also provided guidance to clarify the meaning of a "single cost objective." For more detail, see

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*Letter to Chief State School Officers on Granting Administrative Flexibility for Better Measures of Success*  
(September 7, 2012) ([www2.ed.gov/policy/fund/guid/gposbul/time-and-effort-reporting.html](http://www2.ed.gov/policy/fund/guid/gposbul/time-and-effort-reporting.html)).

Indirect Costs

A “restricted” indirect cost rate (RICR) must be used for programs administered by state and local governments and their governmental subgrantees that have a statutory requirement prohibiting the use of federal funds to supplant nonfederal funds. Nongovernmental grantees or subgrantees administering such programs have the option of using the RICR, or an indirect cost rate of 8%, 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:

1. Divisional administration that is limited to one component of the grantee;
2. The governing body of the grantee;
3. Compensation of the chief executive officer of the grantee;
4. Compensation of the chief executive officer of any component of the grantee; and
5. 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 nonfederally 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.

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The other ED programs (those not having a statutory nonsupplant requirement) that allow indirect costs do not require a restricted rate and should follow the cost principles in 2 CFR part 200, subpart E (34 CFR sections 76.560 and 76.563–76.569).

Unallowable Direct Costs to Programs

Officials from ED have noted that some entities have charged costs in the following areas that 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 2 CFR part 200, subpart E.

1. Separation leave costs [2 CFR section 200.431(b)].
2. Severance costs [2 CFR section 200.431(i)].
3. Post-retirement health benefit (PRHB) costs [2 CFR section 200.431(h)].

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 2 CFR section 200.465(c).

**Audit Objectives—Direct Costs**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether the organization complied with the provisions of 2 CFR part 200 as follows:
  - a. Direct charges to federal awards were for allowable costs.
  - b. Unallowable costs determined to be direct costs were included in the allocation base for the purpose of computing an indirect cost rate.

**Audit Objectives—Indirect Costs**

3. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
4. Determine whether the governmental unit complied with the provisions of 2 CFR part 200 as follows:
  - a. Charges to cost pools used in calculating indirect cost rates were for allowable costs.
  - b. The methods for allocating the costs are in accordance with the 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).
  - c. Indirect cost rates were applied in accordance with negotiated indirect cost rate agreements (ICRA).
  - d. For state/local departments or agencies that do not have to submit an ICRP to the cognizant agency for indirect costs (those that receive less than \$35 million in direct federal awards), indirect cost rates were applied in accordance with the ICRP maintained on file.

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<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p align="center"><b>Compliance—Direct Costs</b></p> <p>1. Test a sample of transactions for conformance with the following criteria contained in 2 CFR part 200, as applicable:</p> <ul style="list-style-type: none"> <li>a. If unallowable direct costs are identified, determine whether unallowable directly associated costs have also 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.)</li> <li>b. Costs were approved by the federal awarding agency, if required. (See Part 3.2, Exhibit 1, "Selected Items of Cost," or 2 CFR section 200.407 for selected items of cost that require prior written approval.)</li> <li>c. Costs did not consist of improper payments, including (1) payments that should not have been made or that were made in incorrect amounts (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; (2) payments that do not account for credit for applicable discounts; (3) duplicate payments; (4) payments that were made to an ineligible party or for an ineligible good or service; and (5) payments for goods or services not received (except for such payments where authorized by law).</li> <li>d. Costs were necessary and reasonable for the performance of the federal award and allocable under the principles of 2 CFR part 200, subpart E.</li> <li>e. Costs conformed to any limitations or exclusions set forth in 2 CFR part 200, subpart E, or in the federal award as to types or amount of cost items.</li> <li>f. Costs were consistent with policies and procedures that apply uniformly to both federally financed and other activities of the state/local government/Indian tribe department or agency.</li> <li>g. Costs were accorded consistent treatment. Costs were not assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances was allocated to the federal award as an indirect cost.</li> <li>h. Costs were not included as a cost of any other federally financed program in either the current or a prior period.</li> <li>i. Costs were not used to meet the cost-sharing or matching requirements of another federal program, except where authorized by federal statute.</li> <li>j. Costs were adequately documented.</li> </ul>		

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<p align="center"><b>Compliance—Indirect Costs</b></p> <p>If the school district is not required to submit an ICRP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing, and extent of compliance testing.</p> <p><i>General Audit Procedures</i>—The following procedures apply to charges to cost pools that are allocated wholly or partially to federal awards or used in formulating indirect cost rates used for recovering indirect costs under federal awards.</p> <ol style="list-style-type: none"> <li>2. Test a sample of transactions for conformance with:               <ol style="list-style-type: none"> <li>a. The criteria contained in the “Basic Considerations” section of 2 CFR sections 200.402 through 200.411. (This test can be performed by completing Step 11 at the end of this section of this program.)</li> <li>b. The principles to establish allowability or unallowability of certain items of cost (2 CFR sections 200.420 through 200.475). (This test as it relates to payroll and depreciation can be performed by completing Steps 12 and 13 at the end of this program.)</li> </ol> </li> <li>3. If unallowable costs are identified, determine whether unallowable directly associated costs have also 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.)</li> <li>4. Verify that the ICRP includes the required documentation in accordance with 2 CFR part 200, Appendix VII, paragraph D.</li> <li>5. <i>Testing of the ICRP.</i> There may be a timing consideration when the audit is completed before the ICRP is completed. In this instance, the auditor should consider performing interim testing of the costs charged to the cost pools and the allocation bases (e.g., determine from management the cost pools that management expects to include in the ICRP and test the costs for compliance with 2 CFR part 200). If there are 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.</li> <li>6. The following procedures are some acceptable options the auditor may use to obtain assurance that the costs collected in the cost pools and the allocation methods used are in compliance with 2 CFR part 200, subpart E:               <ol style="list-style-type: none"> <li>a. <i>Indirect Cost Pool.</i> Test the indirect cost pool to ascertain if it includes only allowable costs in accordance with 2 CFR part 200.                   <ol style="list-style-type: none"> <li>(1) Test to ensure that unallowable costs are identified and eliminated from the indirect cost pool (e.g., capital expenditures, general costs of government).</li> </ol> </li> </ol> </li> </ol>		

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<p>(2) 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.</p> <p>(3) Trace the central service costs that are included in the indirect cost pool to the approved state/local government or central service CAP or to plans on file when submission is not required.</p> <p>b. <i>Direct Cost Base.</i> Test the methods of allocating the costs to ascertain if they are in accordance with the applicable provisions of 2 CFR part 200 and produce an equitable distribution of costs.</p> <p>(1) Determine that the proposed base(s) includes all activities that benefit from the indirect costs being allocated.</p> <p>(2) 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.</p> <p>(3) Determine the appropriateness of the allocation base (e.g., salaries and wages, modified total direct costs).</p> <p>c. <i>Other Procedures.</i> Examine the records for employee compensation to ascertain if they are accurate, and the costs are allowable and properly allocated to the various functional and programmatic activities to which salary and wage costs are charged. (Refer to 2 CFR section 200.430 for additional information on support of salaries and wages.)</p> <p>d. For an ICRP using the multiple allocation base method, test statistical data (e.g., square footage, audit hours, salaries and wages) to ascertain if the proposed allocation or rate bases are reasonable, updated as necessary, and do not contain any material omissions.</p> <p><i>Testing of Charges Based Upon the ICRA</i></p> <p>Perform the following procedures to test the application of charges to federal awards based upon an ICRA:</p> <p>7. Obtain and read the current ICRA and determine the terms in effect.</p> <p>8. 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).</p>		

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<p><i>Other Procedures—No Negotiated ICRA</i></p> <p>If an indirect cost rate has not been negotiated by a cognizant agency for indirect costs, the auditor should determine whether documentation exists to support the costs.</p> <p>9. Where the auditee has documentation, the suggested general audit procedures under Step 8 should be performed to determine the appropriateness of the indirect cost charges to awards.</p> <p>10. When documentation to support the indirect costs does not exist, the auditor should question the costs based on a lack of supporting documentation.</p> <p align="center"><b>Test of Transactions</b></p> <p>11. Test a sample of transactions for conformance with the following criteria contained in the “Basic Considerations” section of 2 CFR sections 200.402 through 200.411. Determine that the charges were: (See <i>Sample Size</i> in the Introduction section of this program.)</p> <p>a. Supported by adequate documentation, such as approved purchase orders, receiving reports, vendor invoices, and canceled checks, and were correctly charged as to account, amount, and period.</p> <p>b. Necessary and reasonable for the performance of the federal award and allocable to it under the cost principles.</p> <p>Practical Considerations:</p> <ul style="list-style-type: none"> <li>• Considerations for determining reasonableness of a given cost are provided in 2 CFR sections 200.404 and 200.407.</li> <li>• Considerations for determining allocability of costs are provided in 2 CFR sections 200.405 and 200.407.</li> </ul> <p>c. In conformity with any limitations or exclusions set forth in subpart E or in the federal award as to types or amount of cost items.</p> <p>d. Consistent with policies and procedures that apply uniformly to both federally financed and other activities of the nonfederal entity.</p> <p>e. Given 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.)</p> <p>f. Determined in accordance with generally accepted accounting principles (unless otherwise provided for in subpart E for state and local governments and Indian tribes only).</p> <p>g. Not 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.</p>		

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<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p>h. Net of all applicable credits, e.g., purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges.</p> <p>i. Not in excess of any limits on allowability of costs established by statutory requirements.</p> <p>12. Test a sample of payroll transactions for conformance with the following:</p> <p>a. The individual’s total wage or salary was reasonable for the service rendered; i.e., it was consistent with wages or salaries paid for similar work in other activities of the entity (or, in cases where the kinds of employees required for federal awards are not found in the other activities of the nonfederal entity, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the nonfederal entity competes for the kind of employees involved).</p> <p>b. The individual’s employment conformed to local employment laws and regulations meeting federal merit system or other requirements, where applicable. (Generally applies only to governments.)</p> <p>c. The payroll charge was supported by documentation prescribed in 2 CFR section 200.430(i).</p> <p>d. The payroll charge was supported by personnel activity reports; e.g., time and attendance records and salary distribution reports for the entity.</p> <p>e. Charges for leave, employee insurance, pension plans, etc., were reasonable and required by law, employee agreements, or provided under an established written policy of the entity and were distributed equitably to federal programs and other activities.</p> <p>f. Charges for authorized absences such as annual leave, sick leave, holidays, court leave, military leave and other similar benefits were allowable, provided under established written leave policies, and were allocated equitably to all federal programs and other activities.</p> <p>g. If the depreciation method replaced the use allowance method, depreciation was computed as if the asset had been depreciated over its entire life.</p> <p>h. Charges for depreciation are supported by adequate property records and physical inventories have been taken at least once every two years.</p> <p>i. Adequate depreciation records showing the amount of depreciation taken each period have been maintained.</p>		

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**E. ELIGIBILITY** This Section is N/A—

**Compliance Requirements**

Eligibility applies to most federal programs which provide benefits to individuals, groups of individuals, or make subawards. This compliance requirement specifies the criteria for determining the individuals (including area of service delivery), groups, or subrecipients that can participate in the program and the amounts for which they qualify. The specific requirements for eligibility are unique to each federal program and are found in the statutes, regulations, and the terms and conditions of the federal award pertaining to the program.

**Source of Governing Requirements**

The requirements for eligibility are contained in program legislation, federal awarding agency regulations, and the terms and conditions of the award.

**Specific Information for This ED Program**

Eligibility for Subrecipients

LEAs apply to the SEAs for program funds. The amount of each LEA’s allocation that an SEA provides is based solely on the following formula:

- 20 percent of the funds must be distributed to LEAs based on the relative numbers of individuals ages 5 through 17 who reside in the area the LEA serves (based on the most recent Census data, as determined by the Secretary); and
- 80 percent of the funds must be distributed to LEAs based on the relative numbers of individuals ages 5 through 17 who reside in the area the LEA serves and who are from families with incomes below the poverty line (based on the most recent Census data, as determined by the Secretary). [ESEA Section 2102(a)].

**Authors’ Note:** We believe this compliance requirement may not be applicable to LEAs as the LEA is likely the subrecipient.

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether subawards were made only to eligible subrecipients.

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p align="center"><b>Internal Control</b></p> <p>1. 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.</p>		

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<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p>2. Plan the testing of internal control over compliance 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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</p> <p>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</p> <p align="center"><b>Compliance</b></p> <p>4. Eligibility for Subrecipients.</p> <p>    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.</p> <p>    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. (The auditor may wish to coordinate the subrecipient procedures with the procedures in Sections A, C, and M.)</p>		

**G. MATCHING, LEVEL OF EFFORT, EARMARKING** This Section is N/A—

**Compliance Requirements**

The specific requirements for matching, level of effort, and earmarking are not universal and, if applicable, are found in the statutes, regulations, and the terms and conditions of awards pertaining to the program. For programs listed in the Compliance Supplement, these specific requirements are in Part 4 or Part 5 of the Supplement, as applicable.

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

1. *Matching or cost sharing* includes requirements to provide contributions (usually nonfederal) 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 nonfederal or federal sources for specified activities to be maintained from period to period, and (c) federal funds to supplement and not supplant nonfederal 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.

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**Source of Governing Requirements**

The requirements for matching are contained in 2 CFR section 200.306, program legislation, federal awarding agency regulations, and the terms and conditions of the award. The requirements for level of effort and earmarking are contained in program legislation, federal awarding agency regulations, and the terms and conditions of the award.

**Specific Information for This ED Program**

Level of Effort—Maintenance of Effort

*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% 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: (1) any expenditures for community services, capital outlay, debt service and supplementary expenses as a result of a Presidentially declared disaster and (2) any expenditures made from funds provided by the federal government.

If an LEA fails to maintain fiscal effort, an SEA must reduce an LEA's allocation under a covered program if the LEA also failed to maintain effort in one or more of the five immediately preceding fiscal years in the exact proportion by which the LEA fails to maintain effort by falling below 90% of both the combined fiscal effort per student and aggregate expenditures (using the measure most favorable to the LEA) [Section 8521 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 suggested audit procedures for compliance contained in Part 3G for "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.

Level of Effort—Supplement Not Supplant

*General*—An 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 nonfederal sources for the education of participating students. In no case may an LEA use federal program funds to supplant funds from nonfederal sources {Title I, Part A, Section 1118(b) of ESEA [20 USC 6321(b)] (see additional information below); MEP, Section 1304(c)(2) of ESEA [20 USC 6394(c)(2)]; 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); Title III, Part A, Section 3115(g) [20 USC 6825(g)]; Title II, Part A, Section 2301 of ESEA (20 USC 6691); and Title IV Part A, Section 4110 (20 USC 7120)}.

Except as noted below, in the following instances, it is presumed that supplanting has occurred:

1. The LEA used federal funds to provide services that the SEA or LEA was required to make available under other federal, state or local laws.

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2. The LEA used federal funds to provide services that the SEA or LEA provided with nonfederal funds (or for Title III, Part A, other federal funds, as noted below) in the prior year.
3. The LEA used MEP funds to provide services for participating children that the SEA or LEA provided with nonfederal 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 nonfederal funds had the federal funds not been available.

An SEA or 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 English learners and immigrant children and youth {Section 3115(g) of ESEA [20 USC 6825(g)]}.

Earmarking—Transferability

SEAs may transfer up to 100% of the nonadministrative funds allocated for state-level activities from one or more of the listed applicable programs to one or more of those programs, or to Title I, Part A (CFDA 84.010); Title I, Part C (CFDA 84.011); Title I, Part D (CFDA 84.013); Title III, Part A (CFDA 84.365A); or Title V, Part B (CFDA 84.358). Except for 21st CCLC (CFDA 84.287), LEAs may transfer up to 100% of their allotments from one or more of the listed applicable programs to one or more of those programs, or to Title I, Part A (CFDA 84.010); Title I, Part C (CFDA 84.011); Title I, Part D (CFDA 84.013); Title III, Part A (CFDA 84.365A); or Title V, Part B (CFDA 84.358).

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. 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 5103(a) and (b) of ESEA [20 USC 7305b(a) and (b)]}.

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. *Level of Effort*—Determine whether specified service or expenditure levels were maintained.
3. *Earmarking*—Determine whether minimum or maximum limits for specified purposes or types of participants were met.

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<p align="center"><b>Internal Control</b></p> <p>1. Using the guidance provided in Part 6—Internal Control of the Compliance Supplement, 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.</p>		

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<p>2. Plan the testing of internal control to support a low assessed level of control risk for level of effort and 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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</p> <p>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</p> <p align="center"><b>Compliance</b></p> <p>4. Level of Effort—Maintenance of Effort.</p> <p>    a. Identify the required level of effort and perform tests to verify that the level of effort requirement was met.</p> <p>    b. Perform tests 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.)</p> <p>    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.</p> <p>    d. Perform procedures to verify that nonmonetary effort indicators were supported by official records.</p> <p>5. Level of Effort—Supplement Not Supplant.</p> <p>    a. Ascertain if the nonfederal entity used federal funds to provide services that they were required to make available under federal, state, or local law and were also made available by funds subject to the supplement not supplant requirement.</p> <p>    b. Ascertain if the nonfederal entity used federal funds to provide services that were provided with nonfederal funds in the prior year.</p> <p>        (1) Identify the federally funded services.</p> <p>        (2) Perform procedures to determine whether the federal program funded services were previously provided with nonfederal funds.</p> <p>        (3) Perform procedures to ascertain if the total level of services applicable to the requirement increased in proportion to the level of federal contribution.</p>		

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<p>6. Earmarking.</p> <ul style="list-style-type: none"> <li>a. Identify the applicable percentage of dollar requirements for earmarking.</li> <li>b. Perform procedures to verify that the amounts recorded in the financial records meet 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).</li> <li>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.</li> <li>d. When the earmarking requirements specify a maximum percentage or amount, review the financial records to identify transactions for the specified activity that were improperly classified in another account (e.g., if only 10% may be spent for administrative costs, review accounts to identify administrative costs which were improperly classified elsewhere and cause the maximum percentage or amount to be exceeded).</li> <li>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.</li> <li>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.</li> </ul>		

**M. SUBRECIPIENT MONITORING** This Section is N/A—

**Compliance Requirements**

A subrecipient is a nonfederal entity that expends federal awards received from a pass-through entity to carry out a federal program. (Part 3, Section M, of the Compliance Supplement notes that transfers of federal awards to another component of the same auditee under 2 CFR part 200, subpart F, do not constitute a subrecipient or contractor relationship.) Subrecipients are discussed in Chapter 13 of *PPC’s Guide to Audits of Local Governments*.

A pass-through entity (PTE) must—

- *Identify the Award and Applicable Requirements*—Clearly identify to the subrecipient (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that

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the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the award [2 CFR section 200.331(a)(2)]; (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the federal award (e.g., financial, performance, and special reports) [2 CFR section 200.331(a)(3)]; (4) an approved federally recognized indirect cost rate negotiated between the subrecipient and the federal government or, if no such rate exists, either a rate negotiated between the PTE and the subrecipient, or a de minimis indirect cost rate [2 CFR section 200.331(a)(4)]; (5) a requirement that the subrecipient permit the PTE and auditors to have access to the subrecipient's records and financial statements as necessary for the PTE to meet the requirements of this part [2 CFR section 200.331(a)(5)]; and (6) appropriate terms and conditions concerning closeout of the subaward [2 CFR section 200.331(a)(6)]. [Although the Compliance Supplement lists only Items (1)–(3) as information that must be provided, 2 CFR section 200.331 also identifies Items (4)–(6) as required information.]

- *Evaluate Risk*—Evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward [2 CFR section 200.331(b)]. This evaluation of risk may include consideration of such factors as the following:
  - The subrecipient's prior experience with the same or similar subawards;
  - The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
  - Whether the subrecipient has new personnel or new or substantially changed systems; and
  - The extent and results of federal awarding agency monitoring (e.g., if the subrecipient also receives federal awards directly from a federal awarding agency).
- *Monitor*—Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals [2 CFR sections 200.331(d) through (f)]. In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:
  - Reviewing financial and programmatic (performance and special reports) required by the PTE.
  - Following up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient from the PTE detected through audits, onsite reviews, and other means.
  - Issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.
- *Ensure Accountability of For-profit Subrecipients*—Some federal awards may be passed through to for-profit entities. For-profit subrecipients are accountable to the PTE for the use of the federal funds provided. Because 2 CFR part 200 does not make subpart F applicable to for-profit subrecipients, the PTE is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients for the subaward. The agreement with the for-profit subrecipient must describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the agreement, and post-award audits [2 CFR section 200.501(h)].

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**Source of Governing Requirements**

The requirements for subrecipient monitoring for the subaward are contained in 31 USC 7502(f)(2) [Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)]; 2 CFR sections 200.330, .331, and .501(h); 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 2 CFR section 200.514(c).
2. Determine whether the PTE identified the subaward and applicable requirements at the time of the subaward (or subsequent subaward modification) in the terms and conditions of the subaward and other award documents sufficient for the PTE to comply with federal statutes, regulations, and the terms and conditions of the federal award.
3. Determine whether the PTE monitored subrecipient activities to provide reasonable assurance that the subrecipient administered federal awards in compliance with the terms and conditions of the subaward.

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<p align="center"><b>Internal Control</b></p> <p><b>Note:</b> The auditor may consider coordinating the tests related to subrecipients performed as part of Compliance Requirements C, “Cash Management” (tests of cash reporting submitted by subrecipients); E, “Eligibility” (tests that subawards were made only to eligible subrecipients); and I, “Procurement and Suspension and Debarment” (tests of ensuring that a subrecipient is not suspended or debarred), with the testing of “Subrecipient Monitoring.”</p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol> <p align="center"><b>Compliance</b></p> <ol style="list-style-type: none"> <li>4. Review the PTE’s subrecipient monitoring policies and procedures to gain an understanding of the PTE’s process to identify subawards, evaluate risk of noncompliance, and perform monitoring procedures based upon identified risks.</li> </ol>		

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<p>5. Review subaward documents including the terms and conditions of the subaward to ascertain if, at the time of subaward (or subsequent subaward modification), the PTE made the subrecipient aware of the award information required by 2 CFR section 200.331(a) sufficient for the PTE to comply with federal statutes, regulations, and the terms and conditions of the award.</p> <p>6. Review the PTE's documentation of monitoring the subaward and consider if the PTE's monitoring provided reasonable assurance that the subrecipient used the subaward for authorized purposes in compliance with federal statutes, regulations, and the terms and conditions of the subaward.</p> <p>7. Ascertain if the PTE verified that subrecipients expected to be audited as required by 2 CFR part 200, subpart F, met this requirement [2 CFR section 200.331(f)]. This verification may be performed as part of the required monitoring under 2 CFR section 200.331(d)(2) to ensure that the subrecipient takes timely and appropriate action on deficiencies detected through audits.</p>		

**N. SPECIAL TESTS AND PROVISIONS** This Section is N/A—

**Compliance Requirements**

The specific requirements for Special Tests and Provisions are unique to each federal program and are found in the statutes, regulations, and the provisions of contracts or grant agreements pertaining to the program.

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

**Specific Information for This ED Program**

Participation of Private School Children

*Depending on how the 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").*

For programs other than Title I, Part A, an LEA 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 [Section 8501 of ESEA (20 USC 7881); 34 CFR sections 299.6 through 299.9].

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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 1117(d) and 8501(d) of ESEA [20 USC 6320(d) and 7881(d)]; 34 CFR sections 200.67 and 299.9}.

This compliance requirement also applies to transfers from *Title II, Part A (84.367)*.

Access to Federal Funds for New or Significantly Expanded Charter Schools

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

*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 IV, Part C of the ESEA {Section 4310(2) of ESEA [20 USC 7221h(2)]}. 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.*

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.

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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.

For purposes of implementing the hold harmless protections in sections 1122(c) and 1125A(g)(3) of Title I, Part A of ESEA for a new or expanding charter school LEA, an SEA must calculate a hold-harmless base for the prior year that, as applicable, reflects the new or expanding enrollment of the charter school LEA {Section 4306(c) of ESEA [20 USC 7221e(c)]}. For more detail, see pages 4–7 of the ESSA Fiscal Changes & Equitable Services guidance (November 2016) ([www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf](http://www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf)).

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 4306 of ESEA (20 USC 7221e); 34 CFR sections 76.785 through 76.799.]

Oversight and Monitoring Responsibilities with Respect to Charter Schools with relationships with Charter Management Organizations

*This requirement is a program-specific cross-cutting eligibility requirement that needs to be tested separately for each covered program in the Supplement.*

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

As grantees, LEAs are responsible for overseeing and monitoring subrecipients, including charter schools with relationships with Charter Management Organizations (CMOs). The LEA must: (1) evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining appropriate subrecipient monitoring [2 CFR section 200.331(b)]; and (2) monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved [2 CFR section 200.331(d)].

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Charter schools with relationships with CMOs that receive federal grant funds must comply with statutes authorizing the applicable grant program, regulations, the terms and conditions of their grant awards, and relevant Department-issued guidance. Additionally, under Title 2 of the Code of Federal Regulations Part 200—Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grant Guidance), nonfederal entities that receive federal grants must: (1) establish and maintain effective internal controls over those funds and (2) have internal controls that comply with the U.S. Government Accountability Office (GAO) “Standards for Internal Control in the Federal Government” (Green Book), issued in November 1999 and updated in September 2014, or the “Internal Control—Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992 and updated in May 2013. The Green Book and the COSO Internal Control—Integrated Framework (COSO framework) provide specific requirements for assessing and reporting on controls in the federal government.

Additional requirements applicable to nonfederal entities receiving federal funds include: (1) the Code of Federal Regulations (CFR) requirements regarding conflicts of interest, (2) the American Institute of Certified Public Accountants guidance regarding related-party transactions, and (3) the GAO Green Book and COSO framework guidance regarding segregation of duties applicable to charter schools with relationships with CMOs.

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether (a) the LEA 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, (b) the planned services were provided, and (c) the required amount was used for private school children.
3. (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.
4. Determine whether the LEA is fulfilling its oversight and monitoring responsibilities with respect to charter schools with relationships with CMOs and whether the LEA has effective internal controls to mitigate identified risks.

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p align="center"><b>Internal Control</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> </ol>		

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<p>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</p> <p align="center"><b>Compliance</b></p> <p>4. Determine that the LEA complied with requirements related to participation of private school children.</p> <ul style="list-style-type: none"> <li>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.</li> <li>b. Review program expenditure and other records to verify that educational services that were planned were provided.</li> <li>c. 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—               <ul style="list-style-type: none"> <li>(1) Describes the services to be provided.</li> <li>(2) Provides that the LEA retains ownership of materials, equipment, and property purchased with federal I funds.</li> </ul> </li> <li>d. 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.</li> </ul> <p>5. Determine whether the SEA or LEA is responsible for funding charter schools. If the LEA is responsible, perform the following procedures:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ul>		

**Audit Program—Compliance Requirements for Supporting Effective Instruction Grants  
(Formerly Improving Teacher Quality Grants) (CFDA 84.367)**

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<p>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 5 months of the opening or expansion date (provided that SEA or LEA notification, data submission, and application requirements were met).</p> <p>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).</p> <p>f. Review documentation to determine whether the SEA or LEA made necessary adjustments to account for over-allocations or under-allocations once actual eligibility and enrollment data became available.</p> <p>6. Based on inquiries of entity management and reviews of contracts and grant agreements pertaining to major programs, identify any additional compliance requirements not based in statute or regulation (e.g., were agreed to as part of audit resolution of prior audit findings) that could be material to a major program. (Applies to both programs included and not included in the Compliance Supplement.) (See <i>“Safe Harbor” Status of the Compliance Supplement</i> in the Introduction section of this program.)</p> <p>a. Develop and complete audit procedures designed to test compliance with the requirements. (The authors suggest the requirements be documented and the audit procedures be attached and signed as an audit program.)</p> <p>Practical Consideration:</p> <ul style="list-style-type: none"> <li>Reasonable procedures to identify such compliance requirements would be inquiry of nonfederal entity management and review of the contract and grant agreements pertaining to the program. Any such requirements that may have a direct and material effect on a major program should be included in the audit.</li> </ul> <p>7. Determine if the LEA has fulfilled its oversight and monitoring responsibilities with respect to charter schools with relationships with CMOs by performing the following:</p> <p>a. Determine if the entity has subrecipient monitoring policies and procedures that include a review of charter schools with relationships with CMOs, including procedures to assess the risk posed by conflicts of interest, related party transactions, and insufficient segregation of duties.</p>		

**Audit Program—Compliance Requirements for Supporting Effective Instruction Grants  
(Formerly Improving Teacher Quality Grants) (CFDA 84.367)**

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<ul style="list-style-type: none"> <li>b. Determine whether the entity’s subrecipient monitoring policies and procedures with regard to charter schools with relationships with CMOs have been implemented.</li> <li>c. Review documentation of subrecipient monitoring of charter schools with relationships with CMOs, including review of monitoring reports and follow-up activities to track the correction of identified noncompliance, such as completion of corrective action plans.</li> <li>d. Determine whether the entity has internal controls designed to provide reasonable assurance that charter schools with relationships with CMOs have effective controls to mitigate financial risks, provide for accountability over federal funds, and mitigate performance risks.</li> </ul>		

**O. CONCLUSION**

We have performed procedures and obtained audit evidence sufficient to achieve the audit objectives for federal award program compliance requirements. The procedures performed, evidence obtained, and our conclusions are adequately documented. (If you are unable to conclude on any objective, prepare a memo documenting your reason and the implications for the engagement, including the audit reports.)

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## PSD-AP-23: Audit Program—Compliance Requirements for Child Nutrition Cluster Grants

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

Federal Program(s): \_\_\_\_\_

### Instructions

This program may be used for Single Audits conducted under OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) for periods covered by the 2019 OMB Compliance Supplement [single audits of fiscal years beginning after June 30, 2018 (i.e., first used for June 30, 2019, year-end Single Audits)]. Chapter 13 of *PPC's Guide to Audits of Local Governments* provides an overview of the Uniform Guidance. *PPC's Guide to Single Audits* provides additional information about the Uniform Guidance.

This audit program should be used for audits of federal awards **made on or after December 26, 2014**, and for funding increments (additional funding on existing awards) with modified terms and conditions that are awarded on or after that date. This audit program is based on Part 3.2 of 2 CFR part 200, appendix XI, Compliance Supplement (the Compliance Supplement).

This audit program should *not* be used for audits of awards made before December 26, 2014, or for funding increments that did not have modified terms and conditions. Awards within a major program may still be subject to both Parts 3.1 and 3.2.

This audit program covers the tests of compliance requirements for school districts that received federal awards under the **Child Nutrition Cluster**, when deemed to be a major program. (Major program determination is normally documented using PSD-CX-1.5, "Single Audit and Major Program Determination Worksheet.") That cluster includes—

- School Breakfast Program—CFDA 10.553
- National School Lunch Program—CFDA 10.555
- Special Milk Program for Children—CFDA 10.556
- Summer Food Service Program for Children—CFDA 10.559

The following audit procedures were adapted from Parts 2, 3.2, and 4 of the Compliance Supplement issued by the OMB. Due to users noting many errors in the 2019 Compliance Supplement, the AICPA issued a comment letter urging the OMB to immediately correct the errors in the Compliance Supplement. See the comment letter at [www.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/singleaudit/uniformguidanceforfederalrewards/downloadabledocuments/aicpacommentletteron2019csupplement.pdf](http://www.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/singleaudit/uniformguidanceforfederalrewards/downloadabledocuments/aicpacommentletteron2019csupplement.pdf). Auditors should consult the GAQC website at [www.aicpa.org/interestareas/governmentalauditquality.html](http://www.aicpa.org/interestareas/governmentalauditquality.html) for potential future changes to the Compliance Supplement related to these errors.

The procedures in Parts 3 and 4 of the Compliance Supplement and this audit program are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. However, the authors suggest that, for procedures not performed, an explanation be provided. This will be helpful in the event of a federal or pass-through entity quality control review.

#### *Applicability of Compliance Requirements*

According to the Matrix in Part 2 of the Compliance Supplement, the following compliance requirements have been identified as not being subject to the compliance audit for the Child Nutrition Cluster.

- F. Equipment and Real Property Management
- G. Matching, Level of Effort, Earmarking
- H. Period of Performance
- L. Reporting

## Audit Program—Compliance Requirements for Child Nutrition Cluster Grants

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

- M. Subrecipient Monitoring

However, while a requirement may not be subject to the audit for compliance audit purposes, auditors have a responsibility under GAAS and GAGAS related to noncompliance with provisions of laws, regulations, contracts, and grant agreements that may have a material effect on the financial statements and with requirements related to the auditor's consideration of fraud and abuse.

The program is divided into parts representing the types of compliance requirements that ordinarily apply to school districts participating in the Child Nutrition Cluster. A summary of each of the compliance requirements follows. For additional information, see the reference included at each compliance type. This program contains references to the *OMB Compliance Supplement*, which is available at [www.whitehouse.gov/wp-content/uploads/2019/07/2-CFR\\_Part-200\\_Appendix-XI\\_Compliance-Supplement\\_2019\\_FINAL\\_07.01.19.pdf](http://www.whitehouse.gov/wp-content/uploads/2019/07/2-CFR_Part-200_Appendix-XI_Compliance-Supplement_2019_FINAL_07.01.19.pdf). This program also contains references to the Uniform Guidance (2 CFR part 200), which can be accessed at [www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl). It also contains references to 34 CFR, which can be accessed at [www.ecfr.gov/cgi-bin/text-idx?SID=e8f1efb27d8c3eda14c688f471e15a41&mc=true&tpl=/ecfrbrowse/Title34/34tab\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?SID=e8f1efb27d8c3eda14c688f471e15a41&mc=true&tpl=/ecfrbrowse/Title34/34tab_02.tpl).

### *Internal Control*

Consistent with Part 3.2 of the Compliance Supplement and the requirements of 2 CFR part 200, subpart F, the accompanying audit programs include 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 school district'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 2 CFR part 200, subpart F.

### *“Safe Harbor” Status of the Compliance Supplement*

Part 1 of the Compliance Supplement notes that use of the Supplement is “mandatory,” and that auditors must adhere to the Supplement to satisfy 2 CFR part 200, subpart F, requirements. Part 1 also addresses the “safe harbor” status of the Compliance Supplement. Specifically, it states that due to the diversity of programs and administering entities, the suggested audit procedures are general in nature. Because the Compliance Supplement only provides “suggested” audit procedures, it cannot be used as a safe harbor for determining the specific audit procedures to apply in a particular situation. Thus, auditor judgment is necessary in determining whether such procedures are sufficient to achieve the stated audit objectives, or whether alternative audit procedures are necessary. While OMB states that the Compliance Supplement is not a “safe harbor” for identifying the audit procedures to apply in a particular single audit engagement, it clarifies that the Compliance Supplement can be considered a “safe harbor” for identification of the types of compliance requirements subject to the compliance audit for programs included in the Compliance Supplement if the auditor both:

- Performs reasonable procedures to ensure that the requirements subject to the audit in the Compliance Supplement are current and determine whether there are any additional provisions of federal awards relevant to the compliance requirements subject to the audit that should be covered by the audit.
- Updates or augments the requirements contained in the Compliance Supplement as appropriate.

### *Sample Size*

For certain of its suggested audit procedures, the Compliance Supplement says to “select a sample.” Minimum “sample” sizes and acceptable selection methods are not specified. Appendix VIII of the Compliance Supplement does, however, discuss audit sampling guidance provided by the AICPA. The Uniform Guidance permits these matters to be determined based on the auditor's professional judgment. The authors believe that a “sample” as used here does not necessarily mean use of sampling. In many instances because of other procedures performed, low

## Audit Program—Compliance Requirements for Child Nutrition Cluster Grants

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

inherent and control risk of noncompliance, and/or small population sizes, sampling may not be necessary. The authors have developed the worksheet PSD-CX-8.1, "Planning Worksheet to Determine Extent of Substantive Procedures," to aid the auditor in determining whether sampling is necessary. Planning the extent of substantive tests of compliance is discussed at Chapter 5 (section 503) in *PPC's Guide to Single Audits* and Chapter 13 in *PPC's Guide to Audits of Local Governments*.

The AICPA provides guidance on sampling in an audit of compliance that provides suggested minimum sample sizes as well as methods for determining sample size, including different tables and methods for tests of controls than for tests of compliance. This guidance is provided in Chapter 11, "Audit Sampling Considerations of Uniform Guidance Compliance Audits," of the GAS/SA Audit Guide. This sampling guidance is reflected in these *Practice Aids*. Chapter 5 of *PPC's Guide to Single Audits* has an extensive discussion about using audit sampling in a Single Audit.

### 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 nonprofit 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

These programs are administered by the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture (USDA) through grants to state agencies. Each state agency 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."

The USDA makes donated agricultural commodities available for use in the operation of all child nutrition programs except the School Milk Program for Children (SMP). FNS enters into agreements with state distributing agencies for the distribution of USDA-donated foods. The state distributing agencies 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 USDA-donated foods 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:

1. Local program operators provide prepared meals to children in structured settings. Four types of meal services may be authorized: breakfast, lunch, snacks, and supper. Milk-only service may be authorized 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.
2. 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.

## Audit Program—Compliance Requirements for Child Nutrition Cluster Grants

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3. Federal assistance to local program operators takes the form of cash reimbursement. In addition, USDA donates food under 7 CFR part 250 for use in preparing meals to be served under the National School Lunch Program (NSLP), School Breakfast Program (SBP), and Summer Food Service Program for Children (SFSP).
4. To obtain cash and donated food 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.
5. 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.

1. *NSLP and SBP*. These programs target children enrolled in schools. For program purposes, a *school* is a public or nonprofit private school of high school grade or under, or a public or licensed nonprofit 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. An 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 an SFA may be approved to serve breakfast and lunch. A school participating in the NSLP that also has an afterschool care program with an educational or enrichment component may be approved to serve afterschool snacks. Refer also to the description of the SMP below.
2. *SFSP*. The SFSP 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 nonprofit SFAs, public or private nonprofit residential summer camps, or units of local, municipal, county, or state governments, or other private nonprofit 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.

Residential camps and migrant sites may receive reimbursement for up to three meals, or two meals and one snack, per child per day, whereas all other sites may receive reimbursement for any combination of two meals (except lunch and supper) or one meal and one snack per child per day. All participating children receive their meals free. Participating summer camps must identify children eligible for free or reduced-price meals and may receive SFSP meal reimbursement only for meals served to eligible children.

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

3. *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. An 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.

## Audit Program—Compliance Requirements for Child Nutrition Cluster Grants

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

### Program Funding

FNS provides 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 Program Benefits

FNS provides cash reimbursement to each state agency for each meal served under the NSLP, SBP, and SFSP, 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 snacks, 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 SFSP is the product obtained by multiplying the number of meals served by maximum rates of reimbursement established by FNS.

The 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. A *severe need* school receives a higher rate and is one in which at least 40 percent of the school lunches served in the second preceding school year were served free or at reduced price. Milk served free under the SMP is funded at the average cost of milk. In addition, performance-based cash reimbursement is currently 6 cents per lunch for eligible schools.

State agencies earn donated food assistance based on the number of program meals served in schools participating in the NSLP and for certain sponsors participating in the SFSP. The state agency's level of donated food 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 SFSP to reflect changes in the Consumer Price Index, and for the SMP to reflect changes in the Producer Price Index. FNS adjusts donated food 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 are available at [www.fns.usda.gov/school-meals/rates-reimbursement](http://www.fns.usda.gov/school-meals/rates-reimbursement) [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 SFSP sponsors receive donated foods to the extent they can use them for program purposes; however, certain types of products are limited by an entitlement.

### Source of Governing Requirements

The programs included in this cluster are authorized by the Richard B. Russell National School Lunch Act, as amended (NSLA) (42 USC 1751 *et seq.*), and the Child Nutrition Act of 1966, as amended (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 (SFSP), 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 foods provided for use in the Child Nutrition Cluster of programs.

**Audit Program—Compliance Requirements for Child Nutrition Cluster Grants**

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

**Availability of Other Program Information**

Other program information is available from the FNS’s Child Nutrition site at [www.fns.usda.gov/cnd](http://www.fns.usda.gov/cnd). Information on the distribution of USDA-donated foods for the Child Nutrition Cluster programs is available from the FNS Food Distribution website at [www.fns.usda.gov/fdd/programs/schcnp/](http://www.fns.usda.gov/fdd/programs/schcnp/).

**III. COMPLIANCE REQUIREMENTS**

**A. ACTIVITIES ALLOWED OR UNALLOWED** This Section is N/A—

**Compliance Requirements**

This compliance requirement specifies the activities that can or cannot be funded under a specific program and almost always applies to federal programs. The specific requirements for activities allowed or unallowed are unique to each federal program and are found in the federal statutes, regulations, and the terms and conditions of the federal award pertaining to the program.

**Source of Governing Requirements**

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

**Specific Information for This USDA Program**

Sponsors are not required to separately 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 times 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).

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether federal awards were expended only for allowable activities.

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p style="text-align: center;"><b>Internal Control</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> </ol>		

**Audit Program—Compliance Requirements for Child Nutrition Cluster Grants**

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</p> <p align="center"><b>Compliance</b></p> <p>4. Identify the types of activities which are either specifically allowed or prohibited by federal statutes, regulations, and the terms and conditions of the federal award pertaining to the program.</p> <p>5. When allowability is determined based upon summary level data, perform procedures to verify that the activities were allowable and that the individual transactions were properly classified and accumulated into the activity total.</p> <p>6. 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.</p> <p>7. The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities.</p>		

**B. ALLOWABLE COSTS/COST PRINCIPLES** This Section is N/A—

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.

**Compliance Requirements—Allowability of Costs**

Part 3.2 of the Compliance Supplement provides basic guidelines for allowability of costs. It states that, except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under federal awards:

1. Be necessary and reasonable for the performance of the federal award and be allocable thereto under the principles in 2 CFR part 200, subpart E.
2. Conform to any limitations or exclusions set forth in 2 CFR part 200, subpart E, or in the federal award as to types or amount of cost items.
3. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the nonfederal entity.
4. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
5. Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in 2 CFR part 200.
6. Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program in either the current or a prior period.

### Audit Program—Compliance Requirements for Child Nutrition Cluster Grants

School District: \_\_\_\_\_ Balance Sheet Date: \_\_\_\_\_

- 7. Be adequately documented.

Selected Items of Cost

2 CFR sections 200.420 through 200.475 provide the principles to be applied in establishing the allowability of certain items of cost, in addition to the basic considerations identified above. (For a listing of costs, by type of nonfederal entity, refer to Exhibit 1 of Part 3.2 of the Compliance Supplement.) These principles apply whether or not a particular item of cost is treated as a direct cost or indirect (F&A) cost. Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment provided for similar or related items of cost and the principles described in 2 CFR sections 200.402 through 200.411.

**Source of Governing Requirements**

The requirements for allowable costs/cost principles are contained in 2 CFR part 200, subpart E, program legislation, federal awarding agency regulations, and the terms and conditions of the award.

Applicability of Cost Principles

The cost principles in 2 CFR part 200, subpart E (Cost Principles), prescribe the cost accounting requirements associated with the administration of federal awards. As provided in 2 CFR section 200.101, the cost principles requirements apply to all federal awards with the exception of grant agreements and cooperative agreements providing food commodities; agreements for loans, loan guarantees, interest subsidies, insurance; and programs listed in 2 CFR section 200.101(d) (see Appendix I of the Compliance Supplement). The cost principles applicable to a nonfederal entity apply to all federal awards received by the entity, regardless of whether the awards are received directly from the federal awarding agency or indirectly through a pass-through entity. For this purpose, federal awards include cost-reimbursement contracts under the Federal Acquisition Regulation. The cost principles do not apply to federal awards under which a nonfederal entity is not required to account to the federal awarding agency or pass-through entity for actual costs incurred.

**Internal Control**

The suggested audit procedures below for internal control should be performed for all types of compliance requirements (i.e., direct costs, indirect costs).

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p style="text-align: center;"><b>Internal Control—All Costs</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>2. 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 2 CFR section 200.514(c)(4), including reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, assessing the control risk at the maximum, and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> </ol>		

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Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.		

**De Minimis Indirect Cost Rate**

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

**Audit Objectives—De Minimis Indirect Cost Rate**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine that the de minimis rate is applied to the appropriate base amount.
3. Determine that the de minimis rate is used consistently by a nonfederal entity under its federal awards.

**Compliance—De Minimis Indirect Cost Rate**

The following suggested audit procedures apply to any nonfederal entity using a de minimis indirect cost rate, whether as a recipient or subrecipient. None of the procedures related to indirect costs in the sections of the Allowable Costs/Cost Principles compliance requirement organized by type of nonfederal entity apply when a de minimis rate is used.

Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<p style="text-align: center;"><b>Compliance—De Minimis Indirect Cost Rate</b></p> <ol style="list-style-type: none"> <li>1. Determine that the nonfederal entity has not previously claimed indirect costs on the basis of a negotiated rate. Auditors are required to test only for the three fiscal years immediately prior to the current audit period.</li> <li>2. Test a sample of transactions for conformance with 2 CFR section 200.414(f)—                             <ol style="list-style-type: none"> <li>a. Select a sample of claims for reimbursement of indirect costs and verify that the de minimis rate was used consistently, the rate was applied to the appropriate base, and the amounts claimed were the product of applying the rate to a modified total direct costs base.</li> </ol> </li> </ol>		

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<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p>b. Verify that the costs included in the base are consistent with the costs that were included in the base year; i.e., verify that current year modified total direct costs do not include costs items that were treated as indirect costs in the base year.</p> <p>3. For a nonfederal entity conducting a single function, which is predominantly funded by federal awards, determine whether use of the de minimis indirect cost rate resulted in the nonfederal entity double-charging or inconsistently charging costs as both direct and indirect.</p>		

**Audit Objectives—Direct Costs**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether the organization complied with the provisions of 2 CFR part 200 as follows:
  - a. Direct charges to federal awards were for allowable costs.
  - b. Unallowable costs determined to be direct costs were included in the allocation base for the purpose of computing an indirect cost rate.

**Audit Objectives—Indirect Costs**

3. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
4. Determine whether the governmental unit complied with the provisions of 2 CFR part 200 as follows:
  - a. Charges to cost pools used in calculating indirect cost rates were for allowable costs.
  - b. The methods for allocating the costs are in accordance with the 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).
  - c. Indirect cost rates were applied in accordance with negotiated indirect cost rate agreements (ICRA).
  - d. For state/local departments or agencies that do not have to submit an ICRP to the cognizant agency for indirect costs (those that receive less than \$35 million in direct federal awards), indirect cost rates were applied in accordance with the ICRP maintained on file.

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<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p align="center"><b>Compliance—Direct Costs</b></p> <p>1. Test a sample of transactions for conformance with the following criteria contained in 2 CFR part 200, as applicable:</p> <ul style="list-style-type: none"> <li>a. If unallowable direct costs are identified, determine whether unallowable directly associated costs have also 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.)</li> <li>b. Costs were approved by the federal awarding agency, if required. (See Part 3.2, Exhibit 1, "Selected Items of Cost," or 2 CFR section 200.407 for selected items of cost that require prior written approval.)</li> <li>c. Costs did not consist of improper payments, including (1) payments that should not have been made or that were made in incorrect amounts (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; (2) payments that do not account for credit for applicable discounts; (3) duplicate payments; (4) payments that were made to an ineligible party or for an ineligible good or service; and (5) payments for goods or services not received (except for such payments where authorized by law).</li> <li>d. Costs were necessary and reasonable for the performance of the federal award and allocable under the principles of 2 CFR part 200, subpart E.</li> <li>e. Costs conformed to any limitations or exclusions set forth in 2 CFR part 200, subpart E, or in the federal award as to types or amount of cost items.</li> <li>f. Costs were consistent with policies and procedures that apply uniformly to both federally financed and other activities of the state/local government/Indian tribe department or agency.</li> <li>g. Costs were accorded consistent treatment. Costs were not assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances was allocated to the federal award as an indirect cost.</li> <li>h. Costs were not included as a cost of any other federally financed program in either the current or a prior period.</li> <li>i. Costs were not used to meet the cost-sharing or matching requirements of another federal program, except where authorized by federal statute.</li> <li>j. Costs were adequately documented.</li> </ul>		

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Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<p style="text-align: center;"><b>Compliance—Indirect Costs</b></p> <p>If the school district is not required to submit an ICRP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing, and extent of compliance testing.</p> <p><i>General Audit Procedures</i>—The following procedures apply to charges to cost pools that are allocated wholly or partially to federal awards or used in formulating indirect cost rates used for recovering indirect costs under federal awards.</p> <ol style="list-style-type: none"> <li>2. Test a sample of transactions for conformance with:               <ol style="list-style-type: none"> <li>a. The criteria contained in the “Basic Considerations” section of 2 CFR sections 200.402 through 200.411. (This test can be performed by completing Step 11 at the end of this section of this program.)</li> <li>b. The principles to establish allowability or unallowability of certain items of cost (2 CFR sections 200.420 through 200.475). (This test as it relates to payroll and depreciation can be performed by completing Steps 12 and 13 at the end of this program.)</li> </ol> </li> <li>3. If unallowable costs are identified, determine whether unallowable directly associated costs have also 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.)</li> <li>4. Verify that the ICRP includes the required documentation in accordance with 2 CFR part 200, Appendix VII, paragraph D.</li> <li>5. <i>Testing of the ICRP.</i> There may be a timing consideration when the audit is completed before the ICRP is completed. In this instance, the auditor should consider performing interim testing of the costs charged to the cost pools and the allocation bases (e.g., determine from management the cost pools that management expects to include in the ICRP and test the costs for compliance with 2 CFR part 200). If there are 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.</li> <li>6. The following procedures are some acceptable options the auditor may use to obtain assurance that the costs collected in the cost pools and the allocation methods used are in compliance with 2 CFR part 200, subpart E:               <ol style="list-style-type: none"> <li>a. <i>Indirect Cost Pool.</i> Test the indirect cost pool to ascertain if it includes only allowable costs in accordance with 2 CFR part 200.                   <ol style="list-style-type: none"> <li>(1) Test to ensure that unallowable costs are identified and eliminated from the indirect cost pool (e.g., capital expenditures, general costs of government).</li> </ol> </li> </ol> </li> </ol>		

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<p>(2) 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.</p> <p>(3) Trace the central service costs that are included in the indirect cost pool to the approved state/local government or central service CAP or to plans on file when submission is not required.</p> <p>b. <i>Direct Cost Base.</i> Test the methods of allocating the costs to ascertain if they are in accordance with the applicable provisions of 2 CFR part 200 and produce an equitable distribution of costs.</p> <p>(1) Determine that the proposed base(s) includes all activities that benefit from the indirect costs being allocated.</p> <p>(2) 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.</p> <p>(3) Determine the appropriateness of the allocation base (e.g., salaries and wages, modified total direct costs).</p> <p>c. <i>Other Procedures.</i> Examine the records for employee compensation to ascertain if they are accurate, and the costs are allowable and properly allocated to the various functional and programmatic activities to which salary and wage costs are charged. (Refer to 2 CFR section 200.430 for additional information on support of salaries and wages.)</p> <p>d. For an ICRP using the multiple allocation base method, test statistical data (e.g., square footage, audit hours, salaries and wages) to ascertain if the proposed allocation or rate bases are reasonable, updated as necessary, and do not contain any material omissions.</p> <p><i>Testing of Charges Based Upon the ICRA</i></p> <p>Perform the following procedures to test the application of charges to federal awards based upon an ICRA:</p> <p>7. Obtain and read the current ICRA and determine the terms in effect.</p> <p>8. 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).</p>		

### Audit Program—Compliance Requirements for Child Nutrition Cluster Grants

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<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p><i>Other Procedures—No Negotiated ICRA</i></p> <p>If an indirect cost rate has not been negotiated by a cognizant agency for indirect costs, the auditor should determine whether documentation exists to support the costs.</p> <p>9. Where the auditee has documentation, the suggested general audit procedures under Step 8 should be performed to determine the appropriateness of the indirect cost charges to awards.</p> <p>10. When documentation to support the indirect costs does not exist, the auditor should question the costs based on a lack of supporting documentation.</p> <p style="text-align: center;"><b>Test of Transactions</b></p> <p>11. Test a sample of transactions for conformance with the following criteria contained in the “Basic Considerations” section of 2 CFR sections 200.402 through 200.411. Determine that the charges were: (See <i>Sample Size</i> in the Introduction section of this program.)</p> <p style="padding-left: 20px;">a. Supported by adequate documentation, such as approved purchase orders, receiving reports, vendor invoices, and canceled checks, and were correctly charged as to account, amount, and period.</p> <p style="padding-left: 20px;">b. Necessary and reasonable for the performance of the federal award and allocable to it under the cost principles.</p> <p style="padding-left: 20px;">Practical Considerations:</p> <ul style="list-style-type: none"> <li>• Considerations for determining reasonableness of a given cost are provided in 2 CFR sections 200.404 and 200.407.</li> <li>• Considerations for determining allocability of costs are provided in 2 CFR sections 200.405 and 200.407.</li> </ul> <p style="padding-left: 20px;">c. In conformity with any limitations or exclusions set forth in subpart E or in the federal award as to types or amount of cost items.</p> <p style="padding-left: 20px;">d. Consistent with policies and procedures that apply uniformly to both federally financed and other activities of the nonfederal entity.</p> <p style="padding-left: 20px;">e. Given 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.)</p> <p style="padding-left: 20px;">f. Determined in accordance with generally accepted accounting principles (unless otherwise provided for in subpart E for state and local governments and Indian tribes only).</p> <p style="padding-left: 20px;">g. Not 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.</p> <p style="padding-left: 20px;">h. Net of all applicable credits, e.g., purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges.</p>		

### Audit Program—Compliance Requirements for Child Nutrition Cluster Grants

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<p>i. Not in excess of any limits on allowability of costs established by statutory requirements.</p> <p>12. Test a sample of payroll transactions for conformance with the following:</p> <p style="margin-left: 20px;">a. The individual’s total wage or salary was reasonable for the service rendered; i.e., it was consistent with wages or salaries paid for similar work in other activities of the entity (or, in cases where the kinds of employees required for federal awards are not found in the other activities of the nonfederal entity, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the nonfederal entity competes for the kind of employees involved).</p> <p style="margin-left: 20px;">b. The individual’s employment conformed to local employment laws and regulations meeting federal merit system or other requirements, where applicable. (Generally applies only to governments.)</p> <p style="margin-left: 20px;">c. The payroll charge was supported by documentation prescribed in 2 CFR section 200.430(i).</p> <p style="margin-left: 20px;">d. The payroll charge was supported by personnel activity reports; e.g., time and attendance records and salary distribution reports for the entity.</p> <p style="margin-left: 20px;">e. Charges for leave, employee insurance, pension plans, etc., were reasonable and required by law, employee agreements, or provided under an established written policy of the entity and were distributed equitably to federal programs and other activities.</p> <p style="margin-left: 20px;">f. Charges for authorized absences such as annual leave, sick leave, holidays, court leave, military leave and other similar benefits were allowable, provided under established written leave policies, and were allocated equitably to all federal programs and other activities.</p> <p>13. Test a sample of depreciation charges for conformance with the following: (2 CFR section 200.436)</p> <p style="margin-left: 20px;">a. The allocation for depreciation was made in accordance with 2 CFR part 200, Appendices III–IX, as applicable.</p> <p style="margin-left: 40px;">Practical Consideration:</p> <ul style="list-style-type: none"> <li>• Depreciation is the method for allocating the cost of capital assets to periods benefitting from asset use. The nonfederal entity may be compensated (by computing depreciation) for the use of its buildings, capital improvements, equipment, and software projects capitalized in accordance with GAAP, provided that they are used, needed in the entity’s activities, and properly allocated to federal awards.</li> </ul> <p style="margin-left: 20px;">b. The depreciation computation was based on acquisition cost or the fair market value of assets donated by a third party at the time of donation and did not include the cost of land; any portion of the cost of buildings and equipment borne by or donated by the federal government; any portion of the cost of buildings and equipment contributed by or for the nonfederal entity where law or agreement prohibits recovery; and any asset acquired solely for the performance of a nonfederal award.</p>		

**Audit Program—Compliance Requirements for Child Nutrition Cluster Grants**

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<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p>c. The asset being depreciated was not also claimed as matching.</p> <p>d. The period of useful service or useful life takes into consideration such factors as type of construction, nature of the equipment, technological developments in the particular area, historical data, and the renewal and replacement policies followed for the individual items or classes of assets involved.</p> <p>e. 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.</p> <p>Practical Considerations:</p> <ul style="list-style-type: none"> <li>• In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight-line method is presumed to be the appropriate method.</li> <li>• Depreciation methods once used may not be changed unless approved in advance by the cognizant agency.</li> <li>• The depreciation methods used to calculate the depreciation amounts for indirect (F&amp;A) rate purposes must be the same methods the entity used for its financial statements.</li> <li>• The entire building, including the shell and all components, may be treated as a single asset and depreciated over a single useful life. A building may also be divided into multiple components, each of which may be depreciated over its estimated useful life. The building components must be grouped into three general components of a building: building shell (including construction and design costs), building services systems (e.g., elevators, HVAC, plumbing system, and heating and air-conditioning system) and fixed equipment (e.g., sterilizers, casework, fume hoods, cold rooms, and glassware/washers). In exceptional cases, a cognizant agency may authorize a nonfederal entity to use more than these three groupings. When an entity elects to depreciate its buildings by its components, the same depreciation methods must be used for indirect (F&amp;A) purposes and financial statements purposes.</li> </ul> <p>f. No depreciation was taken on assets that have outlived their depreciable lives.</p> <p>g. If the depreciation method replaced the use allowance method, depreciation was computed as if the asset had been depreciated over its entire life.</p> <p>h. Charges for depreciation are supported by adequate property records and physical inventories have been taken at least once every two years.</p> <p>i. Adequate depreciation records showing the amount of depreciation taken each period have been maintained.</p>		

**C. CASH MANAGEMENT** This Section is N/A—

**Compliance Requirements**

Grants and Cooperative Agreements

Nonfederal entities must establish written procedures to implement the requirements of 2 CFR section 200.305 [2 CFR section 200.302(b)(6)].

## **Audit Program—Compliance Requirements for Child Nutrition Cluster Grants**

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

What constitutes minimized elapsed time for funds transfer will depend on what payment system/method a nonfederal entity uses. For example:

- The U.S. Department of Health and Human Service (HHS) processes its financial transactions with nonfederal entities through HHS's Program Support Center (PCS), which uses the Payment Management System (PMS). Usually, payments from PMS process overnight and the funds would be available in a nonfederal entity's account the next business day. HHS also processes payments through same day wires (mostly state governments).
- Federal agencies, such as the U.S. Department of Commerce and the U.S. Department of the Interior, use the U.S. Treasury's Automated Standard Application for Payments (ASAP) system for grant and cooperative agreement payments. Nonfederal entities can use the ASAP online process to request and receive same-day payment.

Under the advance payment method, federal awarding agency or pass-through entity payment is made to the nonfederal entity before the nonfederal entity disburses the funds for program purposes (2 CFR section 200.3). A nonfederal entity must be paid in advance, provided that it maintains, or demonstrates the willingness to maintain, both written procedures that minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the nonfederal entity, as well as a financial management system that meets the specified standards for fund control and accountability [2 CFR section 200.305(b)(1)].

The reimbursement payment method is the preferred payment method if (1) the nonfederal entity cannot meet the requirements in 2 CFR section 200.305(b)(1) for advance payment, (2) the federal awarding agency sets a specific condition for use of the reimbursement, or (3) requested by the nonfederal entity [2 CFR sections 200.305(b)(3) and 200.207]. The reimbursement payment method also may be used on a federal award for construction or for other construction activity as specified in 2 CFR section 200.305(b)(3). Program costs must be paid by nonfederal entity funds before submitting a payment request [(2 CFR section 200.305(b)(3)); i.e., the nonfederal entity must disburse funds for program purposes before requesting payment from the federal awarding agency or pass-through entity.

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

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

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

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

### Pass-through Entities

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

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**Source of Governing Requirements**

The requirements for cash management are contained in 2 CFR sections 200.302(b)(6) and 200.305, 31 CFR part 205, 48 CFR sections 52.216-7(b) and 52.232-12, program legislation, federal awarding agency regulations, and the terms and conditions of the federal award.

**Availability of Other Information**

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

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. For grants and cooperative agreements, determine whether payment methods minimized the time elapsing between transfer of federal funds from the U.S. Treasury or the pass-through entity and the disbursement by the nonfederal entity and any interest earned on advances was properly remitted.
3. For grants and cooperative agreements paid on a reimbursement basis, determine whether supporting documentation shows that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request.
4. Determine whether nonfederal entities complied with applicable program requirements for loans, loan guarantees, interest subsidies, and insurance.
5. Determine whether pass-through entities implemented procedures to ensure that payments to subrecipients minimized the time elapsing between transfer of federal funds from the pass-through entity to the subrecipient and the disbursement of such funds for program purposes by the subrecipient, as required by applicable cash management requirements in the federal award to the recipient.

Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<p style="text-align: center;"><b>Internal Control</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol>		

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<p><b>Compliance—Grants and Cooperative Agreements to Nonfederal Entities</b></p> <p>The following procedures are intended to be applied to each program determined to be major. However, due to the nature of cash management and the system of cash management in place in a particular entity, it may be appropriate and more efficient to perform these procedures for all programs collectively rather than separately for each program.</p> <ol style="list-style-type: none"> <li>4. Review trial balances related to federal funds for unearned revenue. If unearned revenue balances are identified, consider if such balances are consistent with the requirement to minimize the time between drawing and disbursing federal funds.</li> <li>5. Select a sample of advance payments and verify that the nonfederal entity minimized the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity and disbursement by the nonfederal entity.</li> <li>6. When nonfederal entities are funded under the reimbursement method, select a sample of transfers of funds from the U.S. Treasury or pass-through entity and trace to supporting documentation and ascertain if the entity paid for the costs for which reimbursement was requested prior to the date of the reimbursement request [2 CFR section 200.305(b)(3)].</li> <li>7. When a program receives program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, or interest earned on such funds, perform tests to ascertain if these funds were disbursed before requesting additional federal cash draws [2 CFR section 200.305(b)(5)].</li> <li>8. Review records to determine if interest in excess of \$500 per year was earned on federal cash draws. If so, determine if it was remitted annually to the Department of Health and Human Services, Payment Management System [2 CFR section 200.305(9)].</li> </ol> <p><i>Loans, Loan Guarantees, Interest Subsidies, and Insurance</i></p> <ol style="list-style-type: none"> <li>9. Perform tests to ascertain if the nonfederal entity complied with applicable program requirements.</li> </ol> <p><i>All Pass-Through Entities</i></p> <ol style="list-style-type: none"> <li>10. For those programs where a pass-through entity passes federal funds through to subrecipients, select a representative sample of subrecipient payments and ascertain if the pass-through entity implemented procedures to ensure that the time elapsing between the transfer of federal funds to the subrecipient and the disbursement of such funds for program purposes by the subrecipient was minimized [2 CFR section 200.305(b)(1)].</li> </ol>		

**E. ELIGIBILITY** This Section is N/A—

**Compliance Requirements**

Eligibility applies to most federal programs which provide benefits to individuals, groups of individuals, or make subawards. This compliance requirement specifies the criteria for determining the individuals (including area of

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service delivery), groups, or subrecipients that can participate in the program and the amounts for which they qualify. The specific requirements for eligibility are unique to each federal program and are found in the statutes, regulations, and the terms and conditions of the federal award pertaining to the program.

### Source of Governing Requirements

The requirements for eligibility are contained in program legislation, federal awarding agency regulations, and the terms and conditions of the award.

### Specific Information for This USDA Program

#### Eligibility for Individuals

Any child enrolled in a participating school or summer camp, or attending a SFSP meal service site, who meets the applicable program's definition of *child* may receive meals under the applicable program. In the case of the NSLP and SBP, children belonging to households meeting nationwide income eligibility requirements may receive meals at no charge or at reduced price. Children who have been determined ineligible for free or reduced-price school meals pay the full price, set by the SFA, for their meals. Children attending SFSP meal service sites receive their meals at no charge [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].

#### 1. *General Eligibility*

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

- a. *School Nutrition Programs (NSLP and SBP)*—A *child* is defined as: (1) 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; (2) a person who has not reached his/her twenty-first birthday and is enrolled in a public or nonprofit private residential child-care institution; or (3) for snacks served in afterschool care programs operated by an eligible school, a person who is 18 years of age or under, except those 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].
- b. *SFSP*—A *child* is defined as: (1) any person 18 years of age and under and (2) 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 nonprofit private school program established for the mentally or physically handicapped (Definition of *children* at 7 CFR section 225.2).
- c. *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 snacks 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).

#### 2. *Eligibility for Free or Reduced-price Meals or Free Milk*

- a. *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. Local educational agencies (LEAs), institutions, and sponsors determine eligibility by comparing the data reported by the child's household to

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published income eligibility guidelines. In addition to publishing income eligibility information in the *Federal Register*, FNS makes it available on the FNS website at [www.fns.usda.gov](http://www.fns.usda.gov).

- (1) *School Nutrition Programs*—Children from households with incomes at or below 130% 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% but at or below 185% of the federal poverty level are eligible to receive reduced-price meals. Persons from households with incomes exceeding 185% 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)]}.
  - (2) *SFSP*—While all SFSP meals are served at no charge, the sponsors of certain types of meal service sites must make individual determinations of eligibility for free or reduced-price meals in accordance with 7 CFR section 225.15(f). See E., “Eligibility—Eligibility for Subrecipients” for more information.
  - (3) *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].
- b. *Direct Certification*—Annual eligibility determinations may also be based on the child’s household receiving benefits under the Supplemental Nutrition Assistance Program (SNAP), 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 foster, runaway, homeless, and migrant children are categorically eligible for free school lunches and breakfasts [42 USC 1758(b)(5); 7 CFR section 245.6(b)].
- c. *Direct Certification for Children Receiving Medicaid Benefits*—Section 103 of the HHFKA provided for a series of demonstration projects on conducting direct certification for students in households receiving Medicaid benefits. This method is used only to certify children eligible for free school lunches and breakfasts. Seven states are currently conduct demonstration projects. The states of California, Florida, Illinois, Kentucky, Massachusetts, New York, and Pennsylvania are authorized to conduct statewide direct certification with Medicaid data throughout all LEAs. In California, participation is limited to selected school districts.

To be eligible for direct certification for free meals under the demonstration projects, a child must meet both of the following criteria:

- (1) The child receives, or lives in the household (as defined in 7 CFR section 245.2) with a child who receives, medical assistance under the Medicaid program, and
- (2) The child is a member of a family with an income, as measured by the Medicaid program, before the application of any expense, block, or other income disregard imposed by state Medicaid policies, that does not exceed 133% of the federal poverty guidelines for the family size used in the Medicaid eligibility determination. Department of Health and Human Services Poverty Guidelines are available at <http://aspe.hhs.gov/poverty/index.cfm>.

Households with eligible children directly certified for free meals under the demonstration projects are not required to submit applications for school meal benefits and are not subject to the verification requirements at 7 CFR section 245.6a [42 USC 1758(b)(15)].

- d. *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:

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- (1) *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).
- (2) *Special Assistance Certification and Reimbursement Alternatives*—Special Assistance Certification and Reimbursement Alternatives, Provisions 1, 2, 3, and the Community Eligibility Provision (CEP) are authorized by Section 11(a)(1) of the NSLA [42 USC 1759a(a)(1)] and Section 104 of HHFKA. Provision 1 may be used in schools where at least 80% 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) and (F); 7 CFR section 245.9(a)].

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

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

### 3. *Reduced-price Charges for Program Meals*

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

### 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 SFSP organizations are described at 7 CFR section 225.2 under the definition of *sponsor*. Additional organizational eligibility requirements apply to the SFSP, NSLP After-school Snacks, and the SBP at the school or site level (see detail below).

#### 1. *SFSP*—Federal regulations at 7 CFR section 225.2 define sites in four ways:

- a. *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% 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: (1) free and reduced-price eligibility data maintained by schools that serve the same area, (2) census data, or (3) other statistical data, such as information provided by departments of welfare and zoning commissions.
- b. *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.
- c. *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% of enrolled children must be eligible for free or reduced-price school meals. The sponsor must determine their eligibility through the application process described at 7 CFR section 225.15(f).

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- d. *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 SFSP 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)].
- 2. *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: (a) the school is participating in or desiring to initiate a breakfast program and (b) 40% 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)].
- 3. *NSLP—Afterschool Snacks*—Reimbursement for afterschool snacks is made available to those school districts which (a) operate the NSLP in one or more of their schools and (b) 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% 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 snacks as free, reduced-price, or paid, depending on the eligibility status of the children served, and they must maintain documentation of eligibility for children receiving free or reduced-price snacks [42 USC 1766(a)].

**Audit Objectives**

- 1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
- 2. Determine whether required eligibility determinations were made (including obtaining any required documentation/verification), that individual program participants were determined to be eligible, and that only eligible individuals participated in the program.
- 3. Determine whether subawards were made only to eligible subrecipients.
- 4. Determine whether amounts provided to or on behalf of eligible participants were calculated in accordance with program requirements.

Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<b>Internal Control</b>		
1. 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.		

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Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<p>2. Plan the testing of internal control over compliance 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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</p> <p>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</p> <p style="text-align: center;"><b>Compliance</b></p> <p>4. Eligibility for Individuals.</p> <p style="padding-left: 20px;">a. School districts may use a computer system for processing student eligibility determinations and delivery of benefits. 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 of computer system controls, the auditor may choose to perform these tests of the computer system as part of testing the internal controls for eligibility.</p> <p style="padding-left: 40px;">Practical Considerations:</p> <ul style="list-style-type: none"> <li>• Often these computer systems are complex and will be separate from the nonfederal entity's regular financial accounting system. Typical functions of a computer system used for determining eligibility may include maintaining eligibility records (e.g., annual application, student information, or household income) and performing calculations to assist in determining who is eligible.</li> <li>• Because of the diversity of computer systems, it is not practical for the Compliance 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 affect the financial statements being audited. Similarly, when eligibility is material to a major program, and a computer system is integral to eligibility compliance, the auditor should follow this guidance and consider the nonfederal entity's computer processing.</li> </ul> <p style="padding-left: 20px;">b. <i>Split Eligibility Determination Functions</i>. Ensure that eligibility testing in the following procedures includes all benefit payments regardless of whether another entity, by arrangement, performs part of the eligibility determination functions.</p> <p style="padding-left: 20px;">c. Perform procedures to ascertain if the nonfederal entity's records/database includes all individuals receiving benefits during the audit period (e.g., that the population of students receiving benefits is complete).</p>		

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Suggested Audit Procedures	N/A Performed by and Date	Workpaper Index
<p>d. Select a sample of students receiving benefits and perform tests to ascertain if—</p> <ul style="list-style-type: none"> <li>(1) The entity performed the required eligibility determinations and redeterminations (including obtaining any required documentation/verifications) and the student was determined to be 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.)</li> <li>(2) Benefits paid to or on behalf of the students were calculated correctly and in compliance with the requirements of the program.</li> <li>(3) Benefits were discontinued when the period of eligibility expired.</li> </ul> <p>e. In some programs, the nonfederal entity is required to use a quality control process to obtain assurances about eligibility. When applicable, review the quality control process and perform tests to ascertain if it is operating effectively to meet the objectives of the process and in compliance with applicable program requirements.</p> <p>5. Eligibility for Subrecipients.</p> <ul style="list-style-type: none"> <li>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.</li> <li>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. (The auditor may wish to coordinate the subrecipient procedures with the procedures in Sections A, C, and M.)</li> </ul>		

**I. PROCUREMENT, SUSPENSION, AND DEBARMENT** This Section is N/A—

**Compliance Requirements**

Procurement and Suspension and Debarment applies, in the case of procurement, anytime the entity procures goods or services. Suspension and debarment applies to certain procurements and to all subawards.

**Procurement—Grants and Cooperative Agreements**

Nonfederal entities other than states, including those operating federal programs as subrecipients of states, must follow the procurement standards set out at 2 CFR sections 200.318 through 200.326. They must use their own documented procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal statutes and the procurement requirements identified in 2 CFR part 200. A nonfederal entity must—

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

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2. Conduct all procurement transactions in a manner providing full and open competition, in accordance with 2 CFR section 200.319.
3. Use the micro-purchase and small purchase methods only for procurements that meet the applicable criteria under 2 CFR sections 200.320(a) and (b). Under the micro-purchase method, the aggregate dollar amount does not exceed \$3,500 [\$2,000 in the case of acquisition for construction subject to the Wage Rate Requirements (Davis-Bacon Act)]. Small purchase procedures are used for purchases that exceed the micro-purchase amount but do not exceed the simplified acquisition threshold. Micro-purchases may be awarded without soliciting competitive quotations if the nonfederal entity considers the price to be reasonable [2 CFR section 200.320(a)]. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources [2 CFR section 200.320(b)]. See discussion regarding higher thresholds for micro-purchase and small purchase methods in NDAA 2017 and 2018 sections below.
4. For acquisitions exceeding the simplified acquisition threshold, the nonfederal entity must use one of the following procurement methods: (a) the sealed bid method if the acquisition meets the criteria in 2 CFR section 200.320(c); (b) the competitive proposals method under the conditions specified in 2 CFR section 200.320(d); or (c) the noncompetitive proposals method (i.e., solicit a proposal from only one source) but only when one or more of four circumstances are met, in accordance with 2 CFR section 200.320(f).
5. Perform a cost or price analysis in connection with every procurement action in excess of the simplified acquisition threshold, including contract modifications [2 CFR section 200.323(a)]. The cost plus a percentage of cost and percentage of construction cost methods of contracting must not be used [2 CFR section 200.323(d)].
6. Ensure that every purchase order or other contract includes applicable provisions required by 2 CFR section 200.326. These provisions are described in Appendix II to 2 CFR part 200, "Contract Provisions for Non-Federal Entity Contracts Under Federal Awards."

### Source of Governing Requirements—Procurement

The requirements that apply to procurement under grants and cooperative agreements are contained in 2 CFR sections 200.317 through 200.326, program legislation, federal awarding agency regulations, and the terms and conditions of the award. The requirements that apply to procurement under cost-reimbursement contracts under the FAR are contained in 48 CFR parts 03, 15, 44; the clauses at 48 CFR sections 52.244-2, 52.244-5, 52.203-13, 52.203-16, and 52.215-12; agency FAR Supplements; and the terms and conditions of the contract.

### Compliance Requirements—Suspension and Debarment

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

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

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Nonfederal entities receiving contracts from the federal government are required to comply with the contract clause at FAR 52.209-6 before entering into a subcontract that will exceed \$30,000, other than a subcontract for a commercially available off-the-shelf item.

### Source of Governing Requirements—Suspension and Debarment

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

Most of the federal agencies have adopted or implemented 2 CFR part 180, generally by relocating their associated agency rules in Title 2 of the CFR. Appendix II to the Compliance Supplement includes the current CFR citations for all agencies' adoption or implementation of the nonprocurement suspension and debarment guidance.

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

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

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

#### *NDAA of 2017*

The NDAA of 2017, Section 217 [Pub. L. No. 114-328, 130 Stat. 6 (2015)] and 41 USC 1902(a)(2) contained the following provisions.

- Raise the micro-purchase threshold to \$10,000 for procurements under grants and cooperative agreements to institutions of higher education, or related or affiliated nonprofit entities, independent research institutes or nonprofit research organizations.
- Allow a threshold higher than \$10,000 as determined appropriate by the head of the relevant executive agency.

The provisions of this Act are specific to institutions of higher education or related or affiliated nonprofit entities, independent research institutes, and nonprofit research organizations. Official OMB M-18-18 ([www.whitehouse.gov/wp-content/uploads/2018/06/M-18-18.pdf](http://www.whitehouse.gov/wp-content/uploads/2018/06/M-18-18.pdf)) was issued on June 20, 2018, and indicated that the effective date of this Act was when the NDAA 2017 was signed into law on December 23, 2016. It also states that the nonfederal entity must document this decision in its internal procurement policies.

Note that the exception for the higher micro-purchase threshold is not available to *all* auditees and that when implemented by eligible auditees, it would apply to procurements purchased under *all* federal grants and cooperative agreements.

Institutions of higher education, or related or affiliated nonprofit entities, independent research institutes, and nonprofit research organizations also can request micro-purchase threshold higher than \$10,000, but in accordance with OMB M-18-18, it would need a formal approval from the entity's cognizant federal agency for indirect cost rates. Once approved, the nonfederal entity must document this decision to use the higher threshold in its internal procurement policies.

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### *NDA of 2018*

The NDA of 2018, Sections 805 (41 USC 134) and 806 [41 USC. 1902(a)(1)], increased the simplified acquisition threshold to \$250,000 and the micro-purchase threshold to \$10,000, respectively. These changes effectively redefine the level for the simplified acquisition threshold (section 200.88 of the Uniform Guidance) and the micro-purchase threshold (section 200.67 of the Uniform Guidance). These changes will become effective when they are formally codified in the Federal Acquisition Regulations (FAR).

Once codified, the higher thresholds will be available to all auditees. The nonfederal entity must document this decision to use the higher thresholds in its internal procurement policies.

OMB M-18-18 allows the federal agencies to permit the use of the higher thresholds by the grant recipients and states that “agencies should apply this exception to all recipients.” This action allows the maximum flexibility to grant recipients for early implementation, effectively June 20, 2018, with the approval of the federal cognizant agency for indirect costs rates. Grant recipients should document any change based on this exception in its internal procurement policies. Also see Appendix VII of the Compliance Supplement related to audit findings.

### **Availability of Other Information**

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

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

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

### **Specific Information for This USDA Program**

#### Procurement

##### 1. *Procurement*

- a. A prospective contractor that develops or drafts specifications, requirements, statements of work, invitations for bids, requests for proposals, contract term and conditions, or other documents for use by a state under this program shall be excluded from competing for such procurements. Such prospective contractors are ineligible for contract awards resulting from such procurements regardless of the procurement method used. However, prospective contractors may provide states with specification information related to a state procurement and still compete for the procurement if the state, and not the prospective contractor, develops or drafts the specifications, requirements, statements of work, invitations for bid, and/or requests for proposals used to conduct the procurement [2 CFR section 416.1(a)].
- b. Procurements by states under this program shall be conducted in a manner that prohibits the use of statutorily or administratively imposed in-state or local geographic preferences, except as provided for in 2 CFR section 200.319(b) [2 CFR section 416.1(b)].

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- c. Notwithstanding the requirements noted in paragraph 1.b. above, an SFA, institution, or sponsor operating one or more Child Nutrition Cluster programs may use a geographical preference for the procurement of unprocessed agricultural products, both locally grown and locally raised [7 CFR sections 210.21(g), 215.14a(e), 220.16(f), and 225.17(e)].
2. *Before Award*—Before awarding a contract to a food service management company, or amending such a contract, a SFA operating the NSLP and SBP and sponsors operating the SFSP must (a) obtain its administering agency's review and approval of the contract terms, (b) incorporate all changes required by the administering agency, (c) obtain written administering agency approval of any changes made by the SFA or sponsor or its food service management company to a pre-approved prototype contract, and (d) when requested, submit procurement documents for administering agency inspection [7 CFR sections 210.16(a)(10), 210.19(a)(5), 220.7(d)(1)(ix), and 225.15(m)(4)].
3. *Cost-reimbursable Contracts*
  - a. 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:
    - (1) Allowable costs will be paid from the nonprofit school food service account to the contractor net of all discounts, rebates, and other applicable credits accruing to or received by the contractor or any assignee under the contract, to the extent those credits are allocable to the allowable portion of the costs billed to the SFA.
    - (2) 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.
    - (3) The contractor's determination of its allowable costs must be made in compliance with applicable departmental and program regulations and the OMB cost principles.
    - (4) The contractor must identify the amount of each discount, rebate, and other applicable credits 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 SFA may permit the contractor to report this information on a less frequent basis than monthly, but no less frequently than annually.
    - (5) The contractor must identify the method by which it will report discounts, rebates, and other applicable credits allocable to the contract that are not reported prior to conclusion of the contract.
    - (6) The contractor must maintain documentation of costs and discounts, rebates, and other applicable credits, and must furnish such documentation upon request to the SFA, the state agency, or the USDA [7 CFR section 210.21(f)].
  - b. No cost resulting from a cost-reimbursable contract may be paid from the SFA's nonprofit school food service account if (1) the underlying contract does not include the provision in paragraph (1)(a), or (2) 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)(2), 215.14a(d)(2), and 220.16(e)(2)].

### Suspension and Debarment

Mandatory awards by pass-through entities to subrecipients are excluded from the suspension and debarment rules [2 CFR section 417.215(a)(1)].

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**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether procurements under federal awards were made in compliance with applicable federal regulations and other procurement requirements specific to an award or subaward.
3. For covered transactions, determine whether the nonfederal entity verified that entities are not suspended, debarred, or otherwise excluded.

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p align="center"><b>Internal Control</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>2. Plan the testing of internal control to support a low assessed level of control risk for procurement and suspension and debarment requirements 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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol> <p align="center"><b>Compliance</b></p> <ol style="list-style-type: none"> <li>4. Obtain the entity’s procurement policies and verify that the policies comply with the compliance requirements highlighted above.</li> <li>5. Verify that the entity has written standards of conduct that cover conflicts of interest and govern the performance of its employees engaged in the selection, award, and administration of contracts [2 CFR section 200.318(c) and 48 CFR sections 52.203-13 and 52.303-16].</li> <li>6. Ascertain if the entity has a policy to use statutorily or administratively imposed in-state or local geographical preferences in the evaluation of bids or proposals. If yes, verify that these limitations were not applied to federally funded procurements except where applicable federal statutes expressly mandate or encourage geographic preference [2 CFR section 200.319(b)].</li> <li>7. Select a sample of procurements and perform the following procedures:               <ol style="list-style-type: none"> <li>a. Examine contract files and verify that they document the history of the procurement, including the rationale for the method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract price [2 CFR section 200.318(i) and 48 CFR part 44 and section 52.244-2].</li> </ol> </li> </ol>		

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<p>b. For grants and cooperative agreements, verify that the procurement method used was appropriate based on the dollar amount and conditions specified in 2 CFR section 200.320.</p> <p>c. Verify that procurements provide full and open competition (2 CFR section 200.319 and 48 CFR section 52.244-5).</p> <p>d. Examine documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified [2 CFR sections 200.319 and 200.320(f) and 48 CFR section 52.244-5].</p> <p>e. Ascertain if cost or price analysis was performed in connection with all procurement actions exceeding the simplified acquisition threshold, including contract modifications and that this analysis supported the procurement action (2 CFR section 200.323 and 48 CFR section 15.404-3).</p> <p>Practical Consideration:</p> <ul style="list-style-type: none"> <li>• A cost or price analysis is required for each procurement action, including each contract modification, when the total amount of the contract and related modifications is greater than the simplified acquisition threshold.</li> </ul> <p>f. Verify consent to subcontract was obtained when required by the terms and conditions of a cost reimbursement contract under the FAR (48 CFR section 52.244-2).</p> <p>Practical Consideration:</p> <ul style="list-style-type: none"> <li>• If the school district has an approved purchasing system, consent to subcontract may not be required unless specifically identified by contract terms or conditions. The auditor should verify the approval of the purchasing system is effective for the audit period being reviewed.</li> </ul> <p>8. Refer to Appendix VII-A for guidance on reporting audit test results for the National Defense Authorization Acts of 2017 and 2018.</p> <p>9. Review the school district’s procedures for verifying that an entity with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded [2 CFR sections 200.212 and 200.318(h); 2 CFR section 180.300; and 48 CFR section 52.209-6].</p> <p>10. Select a sample of procurements and subawards and test whether the nonfederal entity followed its procedures before entering into a covered transaction.</p>		

**J. PROGRAM INCOME** This Section is N/A—

Program income applies to any program that generates program income and is primarily related to the disposition of the income. The program regulations or the contract or grant agreements applicable to the program may specify additional criteria.

**Compliance Requirements**

Program income is gross income earned by a nonfederal entity that is directly generated by a supported activity or earned as a result of the federal award during the period of performance [unless there is a requirement for disposition of program income after the end of the period of performance as provided in 2 CFR section 200.307(f)].

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Program income (2 CFR section 200.80) includes, but is not limited to, income from—

- Fees for services performed,
- The use or rental of real or personal property acquired under federal awards,
- The sale of commodities or items fabricated under federal awards,
- License fees and royalties on patents and copyrights, except as provided below, and
- Principal and interest on loans made with federal award funds.

Program income does not include—

- Interest earned on advances of federal funds.
- Except as otherwise provided in federal statutes, regulations or the terms and conditions of the federal award, rebates, credits, discounts and interest earned on any of them.
- Taxes, special assessments, levies, fines, and other such revenues raised by a nonfederal entity, unless the federal award or federal awarding agency regulations specifically identify the revenues as program income [2 CFR section 200.307(c)].
- The proceeds from the sale of equipment or real property acquired in whole or in part under the federal award [2 CFR section 200.307(d)].
- Royalties or income earned by an institution of higher education or a nonprofit organization on inventions conceived or first actually reduced to practice in the performance of work under a funding agreement with a federal agency that is shared with the inventor [2 CFR section 200.307(g); 37 CFR sections 401.2 and 401.14(k); 35 USC 201(i); and 35 USC 202(c)(7)(B)].

If authorized by federal regulations or the federal award, costs incidental to the generation of program income may be deducted from gross income to determine program income, provided those costs have not been charged to the federal award [2 CFR section 200.307(b)].

Program income may be used in any of the following three methods, consistent with 2 CFR section 200.307(e):

1. *Deduction.* Program income is deducted from total allowable costs in order to determine the net allowable costs, rather than to increase the funds committed to the project. This method must be used if the federal awarding agency has given no prior approval for how program income is to be used and its regulations and the terms and conditions of the federal award are silent on this matter. Where this method is used, program income must be applied to current costs unless the federal awarding agency authorizes otherwise [2 CFR section 200.307(e)(1)].
2. *Addition.* With prior approval of the federal awarding agency, program income may be added to the federal award by the federal agency and the nonfederal entity. This method must be used for federal awards to institutions of higher education and nonprofit research institutions if the federal awarding agency does not specify in its regulations or the terms and conditions of the federal award how program income is to be used [2 CFR section 200.307(e)(2)].
3. *Cost Sharing or Matching.* With prior approval of the federal awarding agency, program income may be used to meet the cost-sharing or matching requirement of the federal award. The amount of the federal award remains the same [2 CFR section 200.307(e)(3)].

Unless federal awarding agency regulations or the terms and conditions of the federal award specify otherwise, nonfederal entities have no obligation to the federal government regarding program income earned after the end of the period of performance [2 CFR section 200.307(f)].

### Source of Governing Requirements

The requirements that apply to program income are contained in 2 CFR section 200.80 (definition of *program income*), 2 CFR section 200.307 (program income), program legislation, federal awarding agency regulations, and the terms and conditions of the federal award.

### Audit Program—Compliance Requirements for Child Nutrition Cluster Grants

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**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether program income is correctly determined, recorded, and used in accordance with applicable governing requirements.

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p style="text-align: center;"><b>Internal Control</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> <li>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</li> </ol> <p style="text-align: center;"><b>Compliance</b></p> <ol style="list-style-type: none"> <li>4. Identify Program Income.                             <ol style="list-style-type: none"> <li>a. Review the statutes, regulations, and terms and conditions of the federal award 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.</li> <li>b. Inquire of management and review accounting records to ascertain if program income was received.</li> </ol> </li> <li>5. Determining or Assessing Program Income—Perform tests to verify that program income was properly determined or calculated in accordance with stated criteria, and that amounts collected were classified as program income only if collected from allowable sources.</li> <li>6. Recording of Program Income—Perform tests to verify that all program income was properly recorded in the accounting records.</li> <li>7. Use of Program Income—Perform tests to ascertain if program income was used in accordance with 2 CFR section 200.307(e) and the program requirements set by the federal awarding agency in its regulations and the terms and conditions of the award.</li> </ol>		

## Audit Program—Compliance Requirements for Child Nutrition Cluster Grants

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### N. SPECIAL TESTS AND PROVISIONS This Section is N/A—

#### Compliance Requirements

The specific requirements for Special Tests and Provisions are unique to each federal program and are found in the statutes, regulations, and the provisions of contracts or grant agreements pertaining to the program.

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

#### Verification of Free and Reduced-price Applications (NSLP)

By November 15th of each school year, the 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:

1. Standard Sample Size. The lesser of 3% or 3,000 of the approved applications on file as of October 1st, 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.
2. Alternative Sample Sizes
  - a. The lesser of 3% or 3,000 applications selected at random from approved applications on file as of October 1st of the school year, or
  - b. The sum of: (1) the lesser of 1% of all applications identified as error-prone or 1,000 error-prone applications, and (2) the lesser of ½ of 1% of, or 500, approved applications in which the household provided, in lieu of income information, a case number showing participation in the SNAP, TANF, or FDPIR.
  - c. The use of alternative sample sizes is available only as follows:
    - (1) Any LEA may qualify if its nonresponse rate for the preceding school year's verification was less than 20%; or
    - (2) An LEA with more than 20,000 children approved by application for free and reduced-price meals may qualify if its nonresponse rate for the preceding year had improved over the rate for the second preceding year by at least 10%.

*Nonresponse rate* is defined as the percentage of approved household applications selected for verification for which the LEA has not obtained verification information [7 CFR section 245.6a(a)].

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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) and (H)].

Some LEAs are required to conduct a second review of initial eligibility determinations for free and reduced-price school meals, and to submit the results of the reviews, including the number of reviewed applications for which the eligibility determinations changed and the type of change made. State agencies are required to submit a report to FNS using the FNS-742A, the LEA Second Review of Applications Report (OMB No. 0584-0594). Affected LEAs are those that demonstrated high levels of, or a high risk for, administrative error associated with certification, verification, and other administrative processes (7 CFR section 245.11).

### Accountability for USDA-donated Foods

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

#### 1. *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 USDA-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 the USDA the value of the food or replace it in kind [7 CFR sections 250.16(a)(6) and 250.15(c)].

#### 2. *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)].

### School Food Accounts

An SFA is required to account for all revenues and expenditures of its nonprofit school food service in accordance with state requirements. An SFA must operate its food services on a nonprofit 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, and 220.7(e)(1)(i)].

### Paid Lunch Equity

In section 776 of the Consolidated Appropriations Act, 2018 (Public Law 115-141) (the Act), Congress provides that only school food authorities (SFAs) that had a negative balance in the nonprofit school food service account as of January 31, 2018, shall be required to establish prices for paid lunches according to the Paid Lunch Equity (PLE) provisions in Section 12(p) of the Richard B. Russell National School Lunch Act, 42 USC 1760(p) and implemented in National School Lunch Program regulations at 7 CFR 210.14(e). Any SFA with a positive or zero balance in its nonprofit school food service account as of January 31, 2018, is exempt from PLE requirements found at 7 CFR 210.14(e) for school year (SY) 2018-19.

SFAs that had a negative balance are required to ensure that sufficient funds are provided to its nonprofit school food service accounts from lunches served to students not eligible for free or reduced-price meals. An SFA currently charging less for a paid lunch than the difference between the federal reimbursement rate for such a lunch and that for a free lunch is required to comply. This difference is known as *equity*. There are two ways to meet this

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requirement: (1) by raising the prices charged for paid lunches or (2) through contributions from other nonfederal sources.

The calculations performed by the SFA to determine whether its paid lunch price requires adjustment are as follows:

1. Determine the weighted average price of paid lunches. This is determined based on the total number of paid lunches claimed for federal reimbursement for the month of October in the previous school year, at each different price charged by the SFA [7 CFR section 210.14(e)(1)(i)].
2. Calculate the paid lunch equity requirement, which is the difference between the per-meal federal reimbursement for paid and free lunches received by the SFA in the previous school year [7 CFR section 210.14(e)(1)(ii)].
3. If the paid lunch equity calculated in step 2. is higher than the weighted average price the SFA had been charging (calculated in step 1) the SFA must increase the average weighted price charged in the previous school year by the sum of 2% and the percentage change in the Consumer Price Index for All Urban Consumers. This is the minimum price the SFA should be currently charging for paid lunches [7 CFR section 210.14(e)(3)].

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. 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 and, if applicable, properly conducted the second review of applications.
3. Determine whether an appropriate accounting was maintained for USDA-donated foods, that an annual physical inventory was taken, and that the physical inventory was reconciled with inventory records.
4. 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.
5. Determine whether a SFA has correctly calculated its average paid lunch pricing requirement, correctly applied the calculations to the average paid lunch price, implemented the newly calculated paid lunch price, and received the equity contributions from nonfederal sources.

<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p style="text-align: center;"><b>Internal Control</b></p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>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 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</li> </ol>		

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<p>3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</p> <p style="text-align: center;"><b>Compliance</b></p> <p>4. Determine that the LEA complied with requirements related to verification of free and reduced price applications.</p> <p style="padding-left: 20px;">a. Obtain the current family-size and income guidelines published by FNS.</p> <p style="padding-left: 20px;">b. Through examination of documentation, ascertain that—</p> <p style="padding-left: 40px;">(1) The sampling and verification of free and reduced-price applications were performed, as required, including, if applicable, the second reviews of applications.</p> <p style="padding-left: 40px;">(2) Changes were made to eligibility status based on documentation and other information obtained through the verification process.</p> <p>5. Determine that the LEA complied with accountability for USDA-donated foods requirements.</p> <p style="padding-left: 20px;">a. Determine storage facility, processing, and end-use locations of all donated foods, including end products processed from donated foods. Determine the donated food 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.</p> <p style="padding-left: 20px;">b. Perform analytical procedures and obtain explanation and documentation for unusual or unexpected results. Consider the following:</p> <p style="padding-left: 40px;">(1) Compare receipts, distribution, losses, and ending inventory of donated foods for the audit period to the previous period.</p> <p style="padding-left: 40px;">(2) Compare distribution by entity for the audit period to the previous period.</p> <p style="padding-left: 20px;">c. Ascertain the validity of the required annual physical inventory. Consider performing the following steps, as appropriate:</p> <p style="padding-left: 40px;">(1) Observe the annual inventory process at selected locations and recount a sample of donated food items.</p> <p style="padding-left: 40px;">(2) If the annual inventory process is not observed, select a sample of significant donated foods on hand as of the physical inventory date and, using the donated food records, “roll forward” the balance on hand to the current balance observed.</p> <p style="padding-left: 40px;">(3) On a test basis, recompute physical inventory sheets and related summarizations.</p>		

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<b>Suggested Audit Procedures</b>	<b>N/A Performed by and Date</b>	<b>Workpaper Index</b>
<p>(4) Ascertain that the annual physical inventory was reconciled to the donated food records. Investigate any large adjustments between the physical inventory and the donated food records.</p> <p>d. On a sample basis, test the mathematical accuracy of the donated food records and related summarizations. From the donated food 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.</p> <p>6. Determine that the LEA has complied with requirements for school food accounts.</p> <p>a. Review the school food service accounting records and ascertain if a separate accounting is made for the school food service.</p> <p>b. Test federal reimbursement payments received monthly from the administering agency to ascertain if they were promptly credited to the food service account.</p> <p>c. Test transfers out of the school food service account and ascertain if the transfers were for the benefit of the school food service.</p> <p>Practical Consideration:</p> <ul style="list-style-type: none"> <li>• The auditor may want to coordinate this testing with procedures performed for compliance requirement B. Allowable Costs/Cost Principles.</li> </ul> <p>7. Determine whether the SFA (e.g., LEA, school district) has complied with requirements for paid lunch equity.</p> <p>a. Verify the calculations performed by the SFA to determine whether its paid lunch price requires adjustment.</p> <p>b. Verify that the SFA adjusted its average weighted paid lunch price in accordance with the results of the foregoing calculations, and is actually charging students the adjusted price.</p> <p>c. Ascertain if the SFA met the equity requirement by furnishing additional funds from nonfederal sources.</p> <p>d. If so, verify that the amount provided was sufficient to cover the difference between the amount calculated by the SFA and the amount actually charged for paid lunches.</p>		

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<p>8. Based on inquiries of entity management and reviews of contracts and grant agreements pertaining to major programs, identify any additional compliance requirements not based in statute or regulation (e.g., were agreed to as part of audit resolution of prior audit findings) that could be material to a major program. (Applies to both programs included and not included in the Compliance Supplement.) (See <i>“Safe Harbor” Status of the Compliance Supplement</i> in the Introduction section of this program.)</p> <p style="margin-left: 20px;">a. Develop and complete audit procedures designed to test compliance with the requirements. (The authors suggest the requirements be documented and the audit procedures be attached and signed as an audit program.)</p> <p>Practical Consideration:</p> <ul style="list-style-type: none"> <li>• Reasonable procedures to identify such compliance requirements would be inquiry of nonfederal entity management and review of the contract and grant agreements pertaining to the program. Any such requirements that may have a direct and material effect on a major program should be included in the audit.</li> </ul>		

**O. CONCLUSION**

We have performed procedures and obtained audit evidence sufficient to achieve the audit objectives for federal award program compliance requirements. The procedures performed, evidence obtained, and our conclusions are adequately documented. (If you are unable to conclude on any objective, prepare a memo documenting your reason and the implications for the engagement, including the audit reports.)

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