

State of Washington

General

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Name: State of Washington
Group: Single Audit
Type: S1-Agency, Commission, or Board
Location: State
Scope: Not Applicable

Team

Lead: Andrew Schmitz
Manager: Michael Hutchinson

Procedures

C.1.PRG - 10.551/561 SNAP Cluster

Procedure Step: A-B. Activities Allowed/Cost Principles - Controls
Prepared By: ALC, 1/15/2021
Reviewed By: LSD, 1/15/2021

Purpose/Conclusion.

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Purpose:

To gain an understanding of the internal controls the agency has in place to provide reasonable assurance that Federal awards are expended only for allowable activities and that expenditures charged to the Federal award are allowable and in accordance with the applicable cost principles.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Summer Garcia, Economic Services Administration (ESA) Audit Liaison

Ezra Paskus, Food Programs & Policy Administrator, Office of Programs and Policy (Activities Allowed)

Spring Benson, Basic Food Employment and Training (BFET) Administrator (Activities Allowed)

Deb Trickler, Accounting and Internal Control Administrator (Activities Allowed, Matching)

Tameka Maxwell, Federal Accounting and Reporting Manager (Activities Allowed, Matching)

Conclusion:

Based on our understanding of internal controls over Activities Allowed/Cost Principles, we assessed preliminary control risk as **LOW**.

Testing Strategy:

A-B. Activities Allowed/Cost Principles - **Post Uniform Guidance Awards**

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the ***Inherent and Internal Control Risk Guidance*** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review scope of work

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Allowable Activities - Determine which activities and types of costs are specifically allowed or unallowed, by reviewing the following:

1. Award agreement or approved application for scope of work, terms and conditions, and approved budget.
2. Part 4 of the Compliance Supplement that applies to your audit period.
3. Available program guidelines or handbooks. (Ex. WSDOT's LAG Manual)
4. If above information is not available, look to the federal regulations (contact the single audit specialist if you need assistance with this).

Requirements for Cost Principles are found as follows:

Pre-UG: OMB Circular A-87

UG: 2 CFR 200, Subpart E.

Please be familiar with these requirements as not all are listed below; only parts emphasized in the Compliance Supplement are listed below.

Quantitatively Material

Identify the expenditure activities that are directly charged to the program and are quantitatively material (more than 5%).

Direct Costs

Payroll Expenditures: When payroll costs are selected for our single audit, our focus is on whether the portion of payroll charged to the program (allocation) is supported by appropriate time and effort and meets the cost principles. Note that awarding agencies may require specific forms of documentation to support payroll charged to its award.

Compensated Absences (leave cash-outs or accrual): The entity may include employees' use of leave (which is included in their regular salary payments). If the entity charges any **leave cash-outs** or the **accrual of leave** to the grant, there are special rules, see extra guidance in the policy tab. There is a high risk the costs are unallowable.

Non-Payroll Expenditures: Generally, auditors should test internal controls and compliance for non-payroll expenditures when those costs are quantitatively material (5%) to the program.

Automated Controls: If you identify key internal controls that are automated, consult with the SWSA Supervisor or SWSA AIC to determine whether to request automated control work from Team IT audit.

Indirect Costs

Determine whether the agency has recovered indirect costs via an indirect cost rate or cost allocation plan and, if so, how much was expended. If indirect costs are material to the program the auditor must test the internal controls (and compliance) over them when those costs are quantitatively material (5%) to the program.

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement. These are discussed in the **policy tab** in further detail, for when indirect costs are material to the program.

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1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

Special – Review In-process Proposals: If the entity is preparing an Indirect Cost Rate Proposal during the audit period in order to submit it to the federal cognizant agency, we are required to review the accuracy of the base data and calculations.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

(a) Activities Allowed: grant funds are used only for allowable activities (this may include review of expenditures, program monitoring, preparing the reimbursement requests, establishment of programs);

(b) Cost Principles: direct and indirect costs charged to the grant comply with the cost principles set forth in 2 CFR 200 Subpart E (this may or may not be the same control activity for (a))

(c) Activities Allowed-Indirect Costs: if material (5%), the entity uses the proper indirect cost rate (per approved plan or rate, de minimis only when it is applicable, or another rate established by contract). Controls should also focus on how the entity properly calculates the direct cost base that the indirect rate is applied to. For instance, the controls should ensure that they are using only allowable types of costs in the MTDC or other direct base as applicable, that those costs are not used twice or that they occurred during the contract's period of performance. Note: These controls are likely **different** than those in (a) and possibly (b).

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.

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2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Basic Cost Principles (2 CFR 200.402 – 409)

DEFINITIONS

Cost means an amount as determined on a cash, accrual, or other basis of accounting acceptable to the Federal awarding or cognizant agency.

Cost objective means a function, organizational subdivision, contract, grant, or other work unit for which cost data are needed and for which provision is made to accumulate and measure the cost of processes, projects, jobs and capitalized projects.

Direct costs are those that can be identified specifically with a particular final cost objective (i.e., a particular award, project, service, or other direct activity of an organization). Examples of Direct Costs: payroll costs of employees who perform work that is directly related to the grant program; the cost of supplies and materials used for the purpose of the grant; equipment and other approved capital expenditures made for the grant; or professional services contracted to accomplish specific grant/contract objectives.

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Indirect costs are those costs incurred for a common or institution-wide objective that benefits more than one grant program or project. Such costs are not readily assignable to the cost objective specifically benefited. Examples of Indirect Costs: depreciation and use allowances of non-federal equipment and buildings; facility operation and maintenance (lights, heat, phone, janitorial, grounds, etc);and general administrative expenses such as accounting, payroll, legal and data processing expenses.

GENERAL COST PRINCIPLES AFFECTING ALLOWABILITY OF COSTS (2 CFR 200.403)

- (a) Be **necessary** and **reasonable** for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any **limitations** or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be **consistent** with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) 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.
- (e) 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 this part.
- (f) **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. See also §200.306 Cost sharing or matching paragraph (b).
- (g) Be **adequately documented**. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

What is a Reasonable Cost (§200.404)? (cost principles)

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Other factors that must be considered in determining whether a cost is reasonable are:

whether the cost is generally considered as ordinary and necessary to the operation of the grantee or the performance of the federal award/program;

the restraints or requirements imposed by such factors as sound business practices, arms-length bargaining, federal, state and other laws and regulations, and terms and conditions of other federal awards, or sponsored agreements;

market prices for comparable goods and services;

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whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the grantee, its employees, where applicable its students or membership, the public at large, and the federal government;

whether the grantee significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal awards costs.

EXAMPLES:

1. A grantee is planning to purchase computers and printers with federal funds. The purchasing agent obtained phone quotes from three contractors. One contractor has a direct family relationship with the grantee's purchasing agent. It so happens that this contractor's quote was 20% higher than the other two. The grantee should not contract with this contractor because the price is unreasonable and has a conflict of interest (regardless of the price).

2. A grantee has been permitted in its grant contract to lease a vehicle so that it can travel within its region to deliver grant-related services to clients. The grantee has obtained quotes for a standard 4-door sedan and a luxury 4-wheel drive SUV that is twice the cost of the sedan. Which vehicle should the grantee choose? This is not to say a 4-wheel drive is not necessary or reasonable, but the price may dictate the type or model of vehicle.

What is an Allocable Cost (§200.405)? (cost principles)

A cost is considered allocable if the goods or services involved are chargeable or assignable to the federal award or cost objective (i.e., a specific function, project, sponsored agreement, service, or grant) in accordance with the relative benefits received.

Any cost allocable to a particular federal award may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by federal statutes, regulations, or terms and conditions of federal awards, or for other reasons.

If a grantee intends to recover the portion of its indirect costs (overhead, central administration, etc.) that relates to its grant programs, Uniform Guidance requires the grantee to develop a central service cost allocation plan and/or indirect cost rate proposal. Requirements pertaining to central service cost allocation plans and indirect cost proposals are found in Appendix III-VII to Part 200 (Uniform Guidance).

EXAMPLES:

1. An employee works on two different federal grant projects. The time spent on each project varies from day to day. This employee must keep monthly time and effort records that account for actual time spent on each project. By tracking actual effort, each grant will be charged its fair share of the costs.

2. A grantee held a training workshop for its employees. Included in the cost of the workshop was room rental, food, and travel. The workshop

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included a session that was specific to a federal program and a session that covered general personnel and human effectiveness training. The grantee should allocate the cost of the training among all programs/divisions that benefited from the training. Next, it should charge the allocated amount only to those awards that specifically allow for this type of cost.

Applicable Credits (§200.406) (cost principles)

A "credit" means a receipt or reduction in expenditures that offset or reduce direct or indirect cost items. Examples include:

- purchase discounts;
- rebates or allowances;
- recoveries or indemnities on losses;
- insurance refunds or rebates; and
- adjustments of overpayments or erroneous charges.

When such credits are applicable to allowable costs, they must be credited to the federal award either as a cost reduction or a cash refund. In some instances, the amounts received from the federal government to finance a grantee's activities or service operations should be treated as applicable credits.

EXAMPLE:

A grantee paid a contractor for materials it needed for a project. It was determined later that the vendor had over-billed the grantee and was issuing a refund check. This refund should be netted against the total amount charged to the grant as a cost reduction. If the grant project had already been closed out, the refund should be remitted to the grantor agency that sponsored the project. Consult with the grantor agency in such a case.

Prior written approval (§200.407) (cost principles)

Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following sections of this part:

- (a) §200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);
- (b) §200.306 Cost sharing or matching;
- (c) §200.307 Program income;
- (d) §200.308 Revision of budget and program plans;
- (e) §200.311 Real property;
- (f) §200.313 Equipment;

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- (g) §200.332 Fixed amount subawards;
- (h) §200.413 Direct costs, paragraph (c);
- (i) §200.430 Compensation—personal services, paragraph (h);
- (j) §200.431 Compensation—fringe benefits;
- (k) §200.438 Entertainment costs;
- (l) §200.439 Equipment and other capital expenditures;
- (m) §200.440 Exchange rates;
- (n) §200.441 Fines, penalties, damages and other settlements;
- (o) §200.442 Fund raising and investment management costs;
- (p) §200.445 Goods or services for personal use;
- (q) §200.447 Insurance and indemnification;
- (r) §200.454 Memberships, subscriptions, and professional activity costs, paragraph (c);
- (s) §200.455 Organization costs;
- (t) §200.456 Participant support costs;
- (u) §200.458 Pre-award costs;
- (v) §200.462 Rearrangement and reconversion costs;
- (w) §200.467 Selling and marketing costs;
- (x) §200.470 Taxes (including Value Added Tax); and
- (y) §200.474 Travel costs.

Consistency (2 CFR §200.403(d) (cost principles)

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.

EXAMPLE:

A grantee has five departments. It allocates the cost of its basic telephone service to each department based on the number of telephones in each department. Each department should treat the telephone cost consistently for all grants it administers. That is, if a department has 3 grant programs, that department should treat this telephone cost as either a direct cost or indirect cost for all 3 grants, but not a mix of each. Next, if treated as a direct cost, a department should only request reimbursement for this type of cost if permitted under the terms of its grant agreement(s).

Grant Agreement Limitations (§200.408) (cost principles)

To be allowable, the cost being charged must conform to any limitations or exclusions set forth in the terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

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EXAMPLE:

A grantee paid for a television advertisement to promote its new grant-funded health program. However, the approved grant contract limited the cost of advertising to brochures and radio ads. Therefore, the grantee should not include the cost of the television advertisement in its request for reimbursement even though "advertising" is an otherwise allowable cost according to Circular A-87.

Adequate Supporting Documentation (2 CFR §200.403(g) (cost principles)

Amounts charged to federal awards must be supported by source documentation, including:

- payroll reports
- time and attendance records
- invoice vouchers from subrecipients
- receiving reports
- original vendor invoices
- cost allocation plans

(Documentation may be in an electronic form, but make sure the integrity of the electronic documentation can be maintained for the duration of the applicable record retention period).

EXAMPLE:

A grantee made a year-end adjustment to a federal award using a journal voucher entry. The accounting entry must be supported by adequate documentation that demonstrates both allowability and allocability.

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11

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260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

ADDITIONAL TESTING SELECTION INFO & EXAMPLES

<i>Selection Options</i>		
Method	Process	Next Steps
Sampling	This is the preferred method for large populations (over 365). Use sampling tool from teammate.	Get the sample tool from Teammate. Take the sampling training if needed.
Haphazard Selection	May use for populations less than 365. Auditor haphazardly picks transactions. It feels random but only true "random" samples can be done by the computer in the sampling method.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab)
Judgmental Selection	May use for populations less than 365. The auditor has a specific reason, associated with a risk, to pick certain or certain transactions. Explain risks in the ROWD and how transactions not selected are lower risk.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab). See examples there.
Judgmental Population	First, the auditor has a specific reason, associated with a risk, to pick certain types of transactions (judgmental population). Explain risks in the ROWD and how populations not selected are lower risk (you can refer to the testing strategy if we have done this for you already). Next, the auditor selects transaction from the judgmental population using the sampling method above.	Get sample tool from Teammate. Take training for the form if needed.
All quantitatively material transactions	Use only when a few very large transactions make up the majority of grant activity. You will test all of these material transactions.	Keep in mind: If 10% or more of the population is made up of <i>other</i> types of costs, those transactions should be tested in some way, as well.

DUAL PURPOSE TESTING EXAMPLE

For allowable costs the key control is, "The Business Manager reviews the reimbursement request, reconciling the items requested to invoices to

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determine they are supported and allowable.” You will test it by reperforming the Business Manager’s review to determine if it is effective in preventing and detecting noncompliance. You may check the requests to see if they have the Business Manager’s signature of approval but that will only tell you if they consistently do it, which is important. However, you should reperform the control.

To complete compliance testing you are tracing expenditures from the requests to support to determine if they are supported and allowable per the program.

In this case, for testing both controls and compliance you are completing the same process. However, you need to document that you tested both and clearly show the conclusion of each even though they are related. Control testing should conclude whether the control was effective in preventing or detecting noncompliance and compliance testing whether the entity was in compliance.

INDIRECT COST UNDERSTANDING OF RATES/ALLOCATIONS

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee’s agreement.

1. Rate provided by the grantor
2. Required to use the pass-through entity’s (PTE’s) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

1. Rate Provided by Grantor: The federal grantor or PTE can give the entity an indirect cost rate in the award, usually outlined in the budget section and based on the availability of funding. There is no separate or formal rate agreement and it is not considered negotiated.

2. Use PTE Negotiated Rate: The federal grantor, PTE or federal guidance can require the entity to use PTE’s negotiated indirect cost rate. This requirement can be found in the Compliance Supplement and federal pass-through guidance. The PTE will place the rate in their award with the entity. This is common for school districts.

3. De Minimis Indirect Cost Rate: If the entity elects to use the de minimis rate, a flat 10% (of Modified Total Direct Costs), in their grant application, no direct or pass-through grantor can deny its use so long as the entity qualifies.

Restrictions: The entity can use the method so long as they have **never** had a negotiated indirect cost rate or allocation plan approved by the federal cognizant agency **or** the PTE.

UPDATED GUIDANCE: Federal guidance now clarifies that negotiated rates and allocation plans negotiated by **PTEs** can prevent the use of the de minimis rate.

Consistency: If used, the entity must use the de minimis method for all of their Uniform Guidance federal programs that allow indirect costs.

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Rate: Indirect costs are calculated as base costs multiplied by a flat 10% rate that does not require a true-up to actual indirect expenses.

Base Used: The 10% is multiplied by the modified total direct costs (MTDC) base.

<i>MTDC Base</i>	
Includes	Excludes
Direct Salaries & Wages	Equipment & Capital Expenditures
Direct Fringe Benefits	Charges for Patient Care
Materials & Supplies	Participant Support Costs
Services	Rental Costs
Travel	Tuition remission, Scholarships & Fellowships
Up to \$25,000 of <i>each</i> subaward (regardless of the period of performance)	The portion of each subaward in excess of \$25,000

4. Negotiated Rates & Allocation Plans – Cognizant Agency: Only major governments are required to obtain a cognizant agency approved negotiated rate or allocation plan. Smaller governments can opt to do so. The “cognizant agency for indirect costs” is designated as:

For central service cost allocation plans: the federal agency with the largest dollar value of ***total*** federal awards

For indirect cost rates and cost allocation plans: the federal agency with the largest dollar value of ***direct*** federal awards

Once designated, the federal entity remains the cognizant agency for five years. Under this method, the entity will be awarded a formal contract for the rate/allocation. All awarding agencies must accept the rate/allocation plan when the entity elects to use it in their program application.

Various allocation plans can be approved, but there are four types of rates:

1. **Provisional:** The provisional rate is temporary and expires upon the completion of the federal award. It requires a true-up to actual expenditures by the end of the project or whenever the entity obtains a final rate. The rate is adjusted by using the final rate.
2. **Final:** The rate is permanent and is calculated after the actual costs are known (i.e. at the conclusion of the federal project). It is used to adjust the indirect costs from the provisional rate.
3. **Predetermined:** This is a permanent rate and is calculated using actual costs from previous periods. It does not require a true-up to correspond with actual current year costs. The rate is effective between two to five years.

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4. **Fixed:** This is a permanent rate and is calculated using actual costs from previous periods. It requires a true-up to correspond with actual current year costs. The variance between the costs used to create the rate and the actual costs incurred during the year the rate was used is carried-forward as an adjustment to the current rate. The entity will either recover or “pay back” the variance going forward. The rate is effective for two years and then can be annually renewed.

5. Negotiated Rates & Allocation Plans – PTE: Indirect Cost Rate Proposals and Cost Allocation Plans are not required by UG to be submitted to/approved by PTE's, but the PTEs may require it. Usually a formal contract for the rate/allocation is not issued and they just review and/or approve the plan instead. Other pass-through entities are not required accept the rate/allocation plan but they can choose to accept it.

METHODS OF INDIRECT COST RATE CALCULATION

(1) The specific methods for allocating indirect costs and computing indirect cost rates are as follows:

(a) *Simplified Method* – This method is applicable where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect cost to approximately the same degree. The allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures described in 2 CFR part 200, Appendix VII, paragraph C.2.

Multiple Allocation Base Method – This method is applicable where a governmental unit's department or agency has several major functions that benefit from its indirect costs in varying degrees. The allocation of indirect costs may require the accumulation of such costs into separate groupings which are then allocated individually to benefiting functions by means of a base which best measures the relative degree of benefit. (For detailed information, refer to 2 CFR part 200, Appendix VII, paragraph C.3.)

(c) *Special Indirect Cost Rates* – In some instances, a single indirect cost rate for all activities of a department or agency may not be appropriate. Different factors may substantially affect the indirect costs applicable to a particular program or group of programs, e.g., the physical location of the work, the nature of the facilities, or level of administrative support required. (For the requirements for a separate indirect cost rate, refer to 2 CFR part 200, Appendix VII, paragraph C.4.)

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

Record of Work Done.:

Inherent Risk of Noncompliance

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Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

Review scope of work

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement, and any available program guidelines to determine which activities and costs are allowed or unallowed. We identified the following from the Compliance Supplement:

II. Program Procedures, Administration:

"State human services agencies (or county human services agencies under the oversight of the State government) certify eligibility and provide benefits to households. They also provide nutrition education. FNS provides funding for State administration and benefits, and oversees the operation of State agencies to ensure compliance with Federal laws and regulations. In addition, FNS is solely responsible for authorizing and monitoring retail stores that accept SNAP benefits in exchange for food."

III. Compliance Requirements

A. Activities Allowed or Unallowed

Funds made available for administrative costs must be used to screen and certify applicants for programs benefits, issue benefits to eligible households, conduct fraud investigations and prosecutions, provide fair hearings to

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households for which benefits have been denied or terminated, conduct nutrition education activities, prepare financial and special reports, operate automated data processing (**ADP**) systems, monitor subrecipients (where applicable), and otherwise administer the program. Portions of the award made available for specific purposes, such as ADP systems development or Employment and Training (**E&T**) activities, must be used for such purposes (7CFR part 277).

SNAP-Ed funds must be used for the administrative costs of planning, implementing, and operating a SNAP-Ed program in accordance with the State's approved SNAP-Ed Plan. However, the State agency is prohibited from obligating additional Federal funds for SNAP-Ed activities (7CFR section 272.2(d)(2)).

Indirect Costs

The SNAP program is part of the public assistance cost allocation plan prepared in conformance within 2 CFR Part 200-Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards. DSHS has developed a federally approved public assistance cost allocation plan covering multiple programs. All administrative costs, both direct and indirect, are normally charged to the federal award by program index and allocation codes, defined as part of the DSHS public assistance cost allocation plan, see copy of plan at [TANF SFY20 Cost Allocation Plan](#). The DSHS Centralized Cost Allocation System is reviewed centrally for the SWSA audit at [DSHS Centralized Cost Allocation](#).

Material Expenditures

We identified the following expenditure activities that are directly charged to the program and are quantitatively material (more than 5%):

- Direct Payments to Clients, Subobject NA (through the EBT process)

Based upon our review of SNAP expenditures during *preliminary* planning, 92% of expenditures are Subobject NA direct benefits to clients (Note: NA expenditures through enterprise expenditure report show as \$29.94, however the amount of direct benefits to clients also includes the EBT card expenditures which are recorded through the

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EBT process and processed in AFRS as federal non-financial revenues which total \$1,035,562,329 (SNAP Expenditures FY20, including EBT)), see expenditure report at SNAP Expenditures FY20, including EBT.

For SNAP, client benefits are established during the eligibility process in accordance with federal standards. Per the Compliance Supplement, for SNAP, Part IV, we are not required to test eligibility. However, the automated system supporting eligibility determinations and processing and tracking food (EBT) issuances is tested under Special Test and Provisions #1, ADP System for SNAP. We will detail the benefit testing within *Special Test #1-ADP System for SNAP, see this automated testing at SNAP*. For activities allowed control testing, we will rely on the automated control testing performed by IT audit. For activities allowed compliance testing, as a result of IT audit control testing which included benefit recalculations, we can already place reliance on the system to calculate the correct amount, so we will only need to trace the amount authorized to the amount issued, which will be performed during compliance testing.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

Direct Payments to Clients, SubObject NA (through EBT process)

The only material expenditure activity we identified for the SNAP Cluster was Direct Payments to Clients, Subobject NA-EBT payments, which accounted for 92% of total program expenditures.

We met with Cres Perez, DSHS IT business analyst, Sara Tang, DSHS IT business manager, Fran Dawson, IBM contractor ACES app architect, and Mark Penick, IBM contractor ACES app architect, on August 27, 2020, to gain

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an understanding of the internal controls in place over the ADP System for SNAP. John Howarc, IT systems assistant manager, and Won Cho, IT auditor, from SAO Team IT audit were also in attendance as the controls over the system are automated and IT audit would be performing testing under "N1. Special Test and Provisions-ADP System for SNAP. We discussed the following three areas:

- (1) accurately and completely process and store all case file information for eligibility determination and benefit calculation.
- (2) automatically cut off households at the end of their certification period unless recertified.
- (3) provide data necessary to meet Federal issuance reconciliation (FNS-46) reporting requirements.

The understanding and control testing for activities allowed is performed in conjunction with Special Test #1. This testing is performed by Team IT audit. Team IT audit performed work at SNAP. In addition, for Area #3, we performed reconciliation testing at N2. Special Tests and Provisions - Controls - EBT reconciliation.

Summary of Key Controls:

For automated eligibility determination:

Automated Key Control #1: ACES is programmed based on policy to determine SNAP eligibility.

Test 1-Excess Income

Test 2-Residency

Test 3-Citizenship

Test 4-SSN

Test 5-Excess Resources

Test 6-SNAP Eligibility for Elderly/Disabled

For automated SNAP benefit calculation:

Automated Key Control #1: ACES uses a programmed formula to automatically calculate SNAP benefits based on

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the client/AU information entered into the system.

For automated benefit cutoff:

Automated Key Control #1: ACES is programmed to send a letter to clients reminding them they must recertify in order to continue receiving benefits.

Automated Key Control #2: ACES is programmed to automatically terminate benefits at the end of the month that a review is due if recertification does not occur.

Evaluation of Results:

No control deficiencies were identified.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing to determine if we can place reliance on the controls at A-B. Activities Allowed/Cost Principles - Tests of Controls.

C.1.PRG - 10.551/561 SNAP Cluster

Procedure Step: G. Matching - Controls

Prepared By: ALC, 4/12/2021

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Reviewed By:

LSD, 4/13/2021

Purpose/Conclusion:

Purpose:

- To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Matching requirements are met using only allowable funds or costs which are properly calculated and valued.
- To provide a preliminary control risk assessment based upon our understanding of the internal controls.
- To identify the key internal controls.

Source:

Tameka Maxwell, Federal Accounting and Reporting Manager
Meenu Thapar, Grant and Internal Control Manager

Conclusion:

Based on our understanding of internal controls over Matching, we assessed preliminary control risk as **LOW**.

Testing Strategy:

Matching - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

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Step 2: Gather Information

Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and any available program guidelines to determine the specific requirements over matching.

Matching or cost sharing includes requirements to provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. The match may be cash or non-cash such as:

1. Most Common Method: For each allowable program expenditure incurred, the entity only requests the federal portion to be reimbursed (for example 80%), and the remaining portion of the expenditure not reimbursed (for example 20%) is considered the entity's match.
2. In-Kind Contributions: When provided by the entity, these are usually non-cash contributions whose value is agreed upon with the grantor, such as infrastructure and other capital assets.
3. Third-Party In-Kind Contributions: Contributions from the public or other governments may be cash or non-cash and can include the value of volunteer services or employees of other agencies, donated supplies, and loaned equipment.
4. Program Income: Program income can be used as matching funds only with prior written approval from the grantor.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

(a) Matching: the minimum amount of local contributions/matching funds were provided from an allowable source.

Evaluation of Results: Did you identify any control deficiencies? If yes, you must:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

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Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “**LOW**” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

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.

Record of Work Done.:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

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Step 2

Review the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Matching.

1. Matching

The state is required to pay 50 percent of the costs of administering the program. Exceptions to this 50 percent reimbursement rate include 100 percent grants to:

- a. Administer the Employment and Training (**E&T**) component of the program (7 CFR section 277.4(b)) (**Note:** States receive a 100 percent grant for the E&T component and must pay 50 percent for E&T costs that exceed that grant); and
- b. Provide SNAP-Ed services. A state's SNAP-Ed costs are 100 percent federally funded, up to the level of its formula-generated federal SNAP-Ed grant. That amount is the maximum level of federal financial participation in a state's SNAP-Ed costs; any SNAP-Ed costs incurred beyond that level must be borne by the state (7 USC 2036a, Section 241 of Pub. L. No. 111-296, 124 Stat. 3183, December 13, 2010).

The federal reimbursement will decrease, and the state share of administrative costs will increase by an amount equal to certain common certification costs grandfathered into the states' TANF grant levels but attributable to SNAP (7 USC 2025(k)). The amount of each state's downward adjustment was determined by the Department of Health and Human Services, and the states were notified by

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letter.

Costs of payment error rate reduction activities conducted under reinvestment agreements with FNS are not eligible for any level of federal reimbursement. Private in-kind contributions are not allowable to count toward the state's share of the program's administrative cost (7 CFR sections 277.4(c) and 275.23(e)(10)).

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We received the internal control letter request back from the Department, see response at [Internal Control letter-SNAP-Matching](#).

We met with Tameka Maxwell, Federal Accounting and Reporting Manager, Meenu Thapar, Grant and Internal Control Manager, and Debra Trickler, Accounting and Internal Control Administrator, on July 14, 2020, to discuss how the Department meets their matching requirements for the SNAP Cluster. Debra and Tameka stated they would be able to meet with us again after the fiscal year close in September for further discussion and testing. After fiscal close, on September 9, 2020, we again met with Tameka and Meenu to confirm their process and document their response to our internal control document, see their response at [Internal Control letter-SNAP-Matching](#).

Tameka explained the Department administers the Basic Food Employment and Training (**BFET**) component, which is covered by 100% federal funds. However, the contracted administrative sources (i.e. contractors in the

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form of vendors or subrecipients) require a match percentage of 50%. The matching percentage is met by the vendor's or subrecipient's own sources, which is comprised of a small amount of state funds and is mainly matched with local fund sources. The ORIA BFET contractors have their match met directly by DSHS state funds, where all other contractors are required to meet the match with local fund sources.

Account coding E61**

At the beginning of each federal fiscal year, the line of account coding used for all SNAP transactions i.e. payments, receipts and journal entries is created. The primary account code component that ensures reasonable assurance that the federal funds are managed in compliance with federal statutes, regulations, and terms and conditions of the federal award is the **Cost Objective**. The cost objective is the final destination for any expenditure transaction. A cost objective identifies a portion of a federal grant or a state program. A cost objective has a federal and/or state percentage. The federal percentage corresponds to the federal grant award for that particular cost objective. There are several controls in the establishment and maintenance of the cost objective. Staff request cost objectives through an edit, the edit is reviewed and approved by the Cost Allocation manager who in turn submits to the Office of Accounting Services (**OAS**). A Senior Financial Coordinator reviews and approves and then submits to the edit section for input into the Agency Financial Reporting System (**AFRS**).

There are reviews after processing by OAS and the Accounting section within ESA to ensure accuracy of the cost objective. Cost objectives are created to identify SNAP transactions and reviewed and approved by a supervisor prior to entry into the accounting system (AFRS).

Source Data

AFRS is used for entering/uploading the financial data and the Enterprise Reporting (**ER**) System is used for creating financial reports for all processed expenditures and revenue. A subsystem to AFRS is the Automated Cost Allocation Plan (**ACAP**) and Grants Management System (**GMS**). These systems report grant expenditures and safeguard the integrity of federal funds.

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Contracts

When contracts are executed with the Department's vendors/subrecipients, **the match percentages required to meet the federal sources paid to contractors for these contracted administration expenditures are built in as a matching expenditure requirement within each contract and the allowable matching source is verified in the budget spreadsheet. (Key Control #1-Control Activities)** These contracts, and anticipated match amounts are reviewed and approved by Program Managers to ensure they are in compliance with the matching requirements. Per the contract, the contractor is also required to submit a Match Certification Form with each invoice and detail the source to allow DSHS to better track the match funds.

As monthly invoices are received and expenditures are paid, fiscal analysts and supervising program managers review that these target percentages are met with monthly expenditures by the contractors with non-federal funds. Additionally, the contractors will submit a "Match Certification Form" to certify the type, source, period covered and amount of funds used to meet the matching requirement which is reviewed by the program managers.

Program Managers review monthly invoices and the contractor's match certification form to ensure expenditures are allowable and the contractor is in compliance with the 50% match requirement. (Key Control #2 - Control Activities/Monitoring) Both Fiscal Staff, and the Program Managers, review that the expenditures requested for reimbursement by the contractors have the required match expenditures met and identified within each invoice submitted. The Program Managers track the contract amounts and federally funded reimbursements on a master tracking spreadsheet to ensure the Department is in compliance with the SNAP program matching requirements. (Monitoring) The spreadsheet includes a tab for each contractor which identifies the contract amount, contract balance, invoice amount by month, federal share of expenditures, and amount from local sources.

To ensure the contractors are meeting the 50% match requirement with their own non-federal sources, the Department performs annual onsite monitoring. They complete an E&T Program Monitoring Tools Scoring Matrix and section 2 has a Fiscal Review component. During the monitoring visit they are reviewing for any written

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policies or procedures for the program, organization chart, time and effort records, travel records, audit reports and cost allocation plans if applicable. Staff will review invoices charged to the BFET program for reasonableness and accuracy. During monitoring, staff will review the source of the matching funds to ensure they are allowable, can be tracked through their general ledger and are in compliance with program requirements. (Monitoring)

NOTE: Monitoring post-COVID, March 1, 2020: Staff are still completing monitoring in the form of self assessments done by the contractors. Packets are sent to contractors that are returned to the Department. Staff will ask for additional documents if needed to complete the monitoring questions.

Summary of Key Controls:

Key Control #1 - The match percentages required to meet the federal sources paid to contractors for these contracted administration expenditures are built in as a matching expenditure requirement within each contract and the allowable matching source is verified in the budget spreadsheet. (Key Control #1-Control Activities)

Key control #2 - Program Managers review monthly invoices and the contractor's match certification form to ensure expenditures are allowable and the contractor is in compliance with the 50% match requirement. (Key Control #2 - Control Activities/Monitoring)

Evaluation of Results:

No control deficiencies were identified.

Preliminary Control Risk Assessment

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Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing to determine if we can place reliance on the controls at G. Matching - Tests of Controls.

C.1.PRG - 10.551/561 SNAP Cluster

Procedure Step: N1. Special Tests and Provisions - Controls - ADP System for SNAP

Prepared By: ALC, 12/1/2020

Reviewed By: LSD, 1/15/2021

Purpose/Conclusion:

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance of compliance with **the following** Special Tests and Provision:

- **ADP System for SNAP**

To provide a preliminary control risk assessment based upon our understanding of the internal controls **for ADP System for SNAP**.

To identify the key internal controls for the Special Tests and Provision for ADP System for SNAP.

Source:

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Cres Perez, IT Business Analyst

Sara Tang, IT Business Analyst Manager

Lorilee Emery, IT Deputy Director (ST#1-ADP System for SNAP)

Autumn Sharpe, Business Services Chief (ST #1-ADP System for SNAP)

Summer Garcia, ESA Audit Liaison

Work performed by SAO IT audit at SNAP.

IT audit (SAO)-Won Cho, IT Auditor

IT audit (SAO)-Jonathan Howard, IT Systems Assistant Audit Manager

Conclusion:

- **ADP System for SNAP**

Based on our understanding of internal controls over Special Tests and Provision for ADP System for SNAP, we assessed preliminary control risk as low.

Testing Strategy:

Special Tests and Provisions - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the *Inherent and Internal Control Risk Guidance* that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review Part 4 of the Compliance Supplement (or Part 5 for Program Clusters) that applies to your audit period to determine if there are any special tests and provisions for the program. Also, review the grant agreement/contract, any available program guidelines or handbooks, and inquire with the entity (including the grant program manager, audit liaison, or entity management) to identify any material special provisions.

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Once all applicable special requirements for the program have been identified, determine which are material and should be audited. These types of activities are material:

- (1) Mentioned in the Compliance Supplement, Part 4 or 5
- (2) Can result in material non-compliance (quantitatively or qualitatively)
- (4) Affect a large part of the program (significant dollar amounts)
- (5) Non-compliance could cause the awarding agency to seek repayment for part of the award or reduce future awards (as stipulated in the contract)

Exclude special requirements that do not meet these criteria from your review.

Note: If a program is not in part 4 of the compliance supplement, consult with the SWSA supervisor or AIC after making a preliminary identification of Special Tests and Provisions to test.

There may be special elements that apply to other compliance requirements, such as additional reporting, procurement, or subrecipient monitoring requirements. For efficiency, these special provisions can be addressed in those other compliance sections. The audit documentation should clearly identify where the special provisions are being addressed.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

- (a) compliance with the Special Provisions contained in Part 4 (or Part 5) of the Compliance Supplement and/or the grant agreement.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be

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assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Record of Work Done.:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement, and any available

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program guidelines to determine specific requirements for Special Tests and Provisions. We identified the following from the Compliance Supplement:

1. ADP System for SNAP

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

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

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

We received the following internal controls back from the Department, see internal control request response at Internal Control letter-SNAP-ST1-ADP System for SNAP:

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(1) Accurately and completely process and store all case file information for eligibility determination and benefit calculation

Key Internal Control #1

In Washington State, the Automated Client Eligibility System (ACES) is the ADP system used for SNAP eligibility determination and benefit calculation.

Application submission can occur through various channels: paper, verbal, or online. Once an application is submitted it is screened in to ACES and data from various sources including federal, state, and supporting information provided by the client are recorded in to the system. When application data collection is complete, the eligibility determination process begins. ACES performs automated eligibility determinations based on SNAP policies and system tables and parameters to automatically calculate SNAP benefit amounts. ACES also supports actions related to communication to the applicant and other partner agencies on eligibility decisions, certification period and notification to deliver benefits.

Key Internal Control #2

Automated Case Maintenance (ACM) – This is a batch process that includes the processing of the actions that happen throughout the day, generating issuance of client benefits and letters to clients. ACES communicates the results of those actions to multiple agencies depending upon the type of assistance and the result of the action. As part of ACM, ACES uses interfaces to support SNAP related eligibility and state and federal cross match information. It supports ongoing case management of eligibility for those items that are time event related.

(2) Automatically cut off households at the end of their certification period unless recertified;

Key Internal Control #1

Certification periods are defined by policy and the system automatically defaults them based on the household's circumstances and other programs they may be receiving.

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<i>Program</i>	<i>Default Certification Period</i>
<i>Basic Food</i>	<i>12 months</i>
<i>Food Assistance Program (FAP)</i>	<i>12 months</i>
<i>Washington Combined Application Project (WASHCAP)</i>	<i>36 months</i>
<i>Transitional Food Assistance (TFA)</i>	<i>5 months</i>

Two months prior to a certification period end date, ACES begins the Eligibility Review tracking process. Eligibility Review appointment notices are automatically generated around the 12th of each month, for certification periods expiring the following month.

Key Internal Control #2

If an Eligibility Review has not been completed by deadline (monthly issuance) in the benefit month it is due, ACES automatically terminates the SNAP Assistance Unit (AU) effective the end of the certification period. This process occurs during monthly issuance.

- Example: a SNAP AU due for recertification August 2020, will be terminated on August 22, with a benefit paid through date of 8/31/2020 if the Eligibility Review process has not been completed.*

In the event a SNAP AU is not terminated as expected, ACES performs a secondary check to prevent the issuance of SNAP benefits beyond the expired certification period.

(3) Provide data necessary to meet Federal issuance and reconciliation reporting requirements.

Key Internal Control #1

On a daily and/or monthly basis, ACES transmits the following SNAP information to Washington State's EBT

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vendor, Fidelity Information Services (FIS):

- Client and AU demographic data and benefit issuance records*
- Daily (emergency and nightly) benefit files*
- Monthly benefit files*
- Benefit reversal (as needed)*

Key Internal Control #2

FIS transmits multiple files back to ACES to support Key Internal Control #1. These files contain data such as debits, credits, balance and benefit draw down order. This data is used in producing various reports (e.g. EBT journal voucher summary and variance), providing agency staff the necessary information needed to perform reconciliation activities.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We met with Cres Perez, DSHS IT business analyst, Sara Tang, DSHS IT business manager, Fran Dawson, IBM contractor ACES app architect, and Mark Penick, IBM contractor ACES app architect, on August 27, 2020 to gain an understanding of the internal controls in place over the ADP System for SNAP. John Howard, IT systems assistant manager, and Won Cho, IT auditor, from SAO Team IT Audit were also in attendance as the controls over the system are automated.

We discussed the following three areas:

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- (1) accurately and completely process and store all case file information for eligibility determination and benefit calculation.
- (2) automatically cut off households at the end of their certification period unless recertified.
- (3) provide data necessary to meet Federal issuance and reconciliation reporting requirements.

The understanding and control testing over this will be performed by SAO IT Audit. Team IT Audit workpapers are documented in the procedure at SNAP.

Summary of Key Controls:

For automated eligibility determination:

Automated Key Control #1: ACES is programmed based on policy to determine SNAP eligibility.

Test 1-Excess Income

Test 2-Residency

Test 3-Citizenship

Test 4-SSN

Test 5-Excess Resources

Test 6-SNAP Eligibility for Elderly/Disabled

For automated SNAP benefit calculation:

Automated Key Control #1: ACES uses a programmed formula to automatically calculate SNAP benefits based on the client/AU information entered into the system.

For automated benefit cutoff:

Automated Key Control #1: ACES is programmed to send a letter to clients reminding them they must recertify in order to continue receiving benefits.

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Automated Key Control #2: ACES is programmed to automatically terminate benefits at the end of the month that a review is due if recertification does not occur.

Evaluation of Results:

No control deficiencies were identified.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing to determine if we can place reliance on the controls at N1. Special Tests and Provisions - Tests of Controls - ADP System for SNAP.

C.1.PRG - 10.551/561 SNAP Cluster

Procedure Step: N2. Special Tests and Provisions - Controls - EBT reconciliation

Prepared By: ALC, 11/5/2020

Reviewed By: LSD, 4/14/2021

Purpose/Conclusion.*

Purpose:

- To gain an understanding of the internal controls the agency has established that provide reasonable assurance of compliance with the Special Tests and Provision for **EBT Reconciliation.**

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- To provide a preliminary control risk assessment based upon our understanding of the internal controls for the Special Tests and Provision for **EBT Reconciliation**.
- To identify the key internal controls for the Special Tests and Provision for **EBT Reconciliation**.

Source:

Melissa Walker, Fiscal Analyst (FFAA) (ST#2-EBT Reconciliation)

Neha Rohila, FA4 (Melissa's backup)

Christie Johnson, Administrative Services Manager (FFAA) (ST#2-EBT Reconciliation)

Summer Garcia, ESA Audit Liaison

Conclusion:

Based on our understanding of internal controls over Special Tests and Provision for **EBT Reconciliation**, we assessed preliminary control risk as **LOW**.

Testing Strategy.:

Guidance/Criteria.:

Record of Work Done.:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

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Gather Information

Step 2

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement, and any available program guidelines to determine specific requirements for the Special Test #2 - EBT reconciliation. We identified the following per the Compliance Supplement:

2. EBT Reconciliation

Compliance Requirements States must have systems in place to reconcile all of the funds entering into, exiting from, and remaining in the system each day with the state's benefit account with Treasury and EBT contractor records. This includes a reconciliation of the state's issuance files of postings to recipient accounts with the EBT contractor.

States (generally through the EBT contractor that operates the EBT system) must also have systems in place to reconcile retailer credit activity as reported into the banking system to client transactions maintained by the processor and to the funds drawn down from the EBT benefit account with Treasury. States' EBT system processors should maintain audit trails that document the cycle of client transactions from posting to point-of-sale transactions at retailers through settlement of retailer credits. The financial and management data that comes from the EBT processor is reconciled by the state to the SNAP issuance files and settlement data to ensure that benefits are authorized by the state and funds have been properly drawn down. States may only draw federal funds for authorized transactions, i.e., electronic point-of-sale purchases supported by entry of a valid personal identification number (PIN) or purchases using manual vouchers with telephone verification supported by a client signature and an EBT contractor authorization number (7 CFR sections 274.3(a)(1) and 274.4(a)).

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Audit Objectives Determine whether the state reconciles retailer credit activity to client transactions, to its issuance files of postings to recipient accounts with the EBT contractor, and to postings to and drawdown activity from the state's benefit account with treasury.

Suggested Audit Procedures

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

We received the following internal controls back from the Department, see response from our internal control letter request at [Internal Control letter-SNAP-ST2-EBT card reconciliation](#):

OAS EBT Specialist (FA3), or back-up, processes a daily issuance manually by using EWxcel and Access. Four reports are received daily for this process in the DSHS FSA OAS Electronic Benefit Transfer email box from DSHSISSDDEPCON@dshs.wa.gov – these reports are also available on CYPRESS

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(<http://cypress.esa.dshs.wa.gov/>). Then, Revenue Unit (FA4) or Grants Specialist/Lead (FA4) processes monthly reporting. Daily there is not an approval process, it is more of just a daily reconciliation internal with Fidelity National Information Services, Inc (**FIS**) (EBT Vendor) reports and DSHS ACES reports versus Automated Standard Application for Payments (**ASAP**) (LOC). Monthly there is a reconciliation before reporting to the USDA FNS 388 and 46 reports. This reconciliation is OAS EBT Issuance Database and FIS (EBT Vendor) Reports. This in turn has a certifying process that the Manager will do in the USDA FNS reporting system.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We met with Melissa Walker, Fiscal Analyst, Rebecca Doane, Chief FFA, Neha Rohila, FA4 (Melissa's backup) and Christie Johnson, Administrative Services Manager, on October 22, 2020, to gain an understanding of the internal controls in place over the EBT reconciliation process and the EBT draw process (same process used for TANF and SNAP/draw process tested here because we are not testing DSHS cash management centrally this audit). We requested the Department's written policies and procedures related to EBT reconciliations. We received (1) Daily EBT Electronic Process (**FIS**) ([EBT-1-Daily Process \(FIS\) updated ACES Electronic](#)) and (2) EBT Issuance Process ([EBT-1-EBT Issuance Process](#)), from Melissa. In addition, we received an example of a daily reconciliation workbook and a listing of the benefit types, see [Example of daily EBT reconciliation and benefit types](#).

EBT Reconciliation

Melissa explained that the EBT reconciliations are processed on a daily basis for SNAP, for the previous day's EBT transactions. If the reconciliation falls on a weekend or holiday, the reconciliations are performed on the next working day. Fidelity National Information Services, Inc (**FIS**), is currently the EBT vendor for Washington. FIS

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transfers EBT benefit payment information to DSHS's Automated Client Eligibility System (ACES) on a daily basis.

On a daily basis, the Department receives four source document reports from DSHS Financial Services Administration (FSA) Office of Accounting Services (OAS) Electronic Benefit Transfer email box from DSHSISSDDEPCON@dshs.wa.gov. **The OAS EBT Specialist (FA3) uses the following four source reports automatically generated from ACES data to perform daily reconciliations. (Key Control #1-control activities):**

- **Daily EBT Void Report - Food Assistance**
- **Daily EBT Authorization Report - Food Assistance**
- **Daily EBT Void Report - Cash**
- **Daily EBT Authorization Report - Cash**

During the daily reconciliation process, Melissa explained her EBT reconciliation includes SNAP, TANF, and Refugee programs including all federal and state funds processed by their EBT vendor, FIS. Each daily reconciliation workbook has formulas embedded to include only federal benefit types. Melissa can ensure she only uses SNAP federal benefit types (FSC, FSFF, FSGF, FSJF, FSS, FST, OFF) for her reconciliation for SNAP using her benefit type table, see copy at [Example of daily EBT reconciliation and benefit types](#). **Using the SNAP federal benefit types, Melissa ensures there are no non-federal liabilities in the daily EBT reconciliation. (Key Control #2-control activities)**

These automated reconciliation reports are tested by IT audit, see [N1. Special Tests and Provisions - Controls - ADP System for SNAP](#).

OAS EBT Specialist (FA3) (or backup) performs the daily reconciliation of EBT payments between FIS statements and ACES system generated reports. FA3 takes all four of the reports and puts into a workbook called "EBT Daily Issuance". They then copy and paste the information from this workbook into an Access Database called EBT Reconciliation. Since this process is performed on a daily basis, if the FA3 is absent, the Fiscal Analyst 4 can also

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perform the reconciliation. During this process, they are also checking the balance of the grant to ensure it is not over or under stated based on settlement and issuance processes. The spreadsheet utilized on a daily basis is a working file to reduce the input errors when it feeds to the Access database. The Access database is used to reconcile the data that has come directly from ACES to the FIS report they are receiving from the EBT vendor. When performing the review, they look for any discrepancies between the reports and to ensure the Access database is populating the reports correctly. This entire review, along with the supporting documentation for each reconciliation, is captured within one workbook for each working day.

Monthly there is a reconciliation before reporting to the USDA Food and Nutrition Services (FNS) 388 and 46 reports. This reconciliation is OAS EBT Issuance Database and FIS (EBT Vendor) Reports. This in turn has a certifying process that the Accounting and Grant Manager will perform in the USDA FNS reporting system. This monthly workbook is balanced to the daily reconciliations. **The Accounting and Grant manager reviews monthly reconciliation and certifies the data in FNS (Key control #3-Monitoring).**

FIS and ACES Reconciliation

Melissa stated that the EBT draws are processed on a daily basis. Since Fidelity National Information Services, Inc (FIS), the EBT vendor in Washington State, transfers EBT benefit payment information to DSHS's Automated Client Eligibility System (ACES) on a daily basis, Melissa performs a reconciliation of EBT payments between FIS and ACES before processing the EBT draw.

Every morning, the fiscal analyst (FA) begins the reconciliation process by first opening the EBT Wire JV Number Log to obtain the next available JV number and then proceeds to open up the appropriate EBT Recon Electronic Workbook template and saves a copy of it with the name of the settlement date (ie. the settlement date is the day prior to the reconciliation being performed). Once that has been completed, the FA proceeds to log in to EBT Edge which houses the reports from FIS needed to perform the reconciliation. Within that system, the FA obtains the following reports and takes screenshots to paste back into the EBT workbook:

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- WADSHS-Clearing Statement-EBTDS104-1 FIS report
- WADSHS-Agency Reconciliation Report-EBTDS106-1 FIS report
- WADSHS-Repayment Summary - EBTDS112-2 FIS report

Once those reports have been obtained and screenshots have been added to the EBT workbook, the FA then opens the email inbox for DSHS FSA OAS EBT and selects the email from ESA that is titled "EBT Actions XX/XX/XXXX" for the settlement date that the FA is reconciling. A screenshot of the email and the totals from that email are added to the EBT workbook under the EBT Actions tab. The fiscal analyst will then continue onto the Repayments tab where they will paste the screenshot of the Repayment Summary report and fill in the highlighted cells with the data from the highlighted amounts on the Settlement column. These amounts should all be zero but if there should be an amount, Melissa stated that the fiscal analyst will research it and if they have questions or cannot identify the amount, they will then go to Melissa who will help them research it. Once these amounts balance to zero, the workbook is then saved.

The next tab to be worked on is the EBT Variance Report tab. The variance working file is also opened and the EBT Variance Report is received via email for DSHS FSA OAS EBT. A screenshot is taken and pasted to the variance working file. The data from the report is then formatted to make the reconciliation easier to perform within the Variance Report tab. The fiscal analyst will then move on to the JV tab and complete that tab by opening up the attachment "ACES/AFRS EBT ACT File or Journal Voucher" in the email that contains the reports. The attachments are copied over and formatted to fit the JV tab then the workbook is saved.

The FIS Daily ASAP Balancing Report tab is then selected before proceeding back to EBT Edge to pull the "WADSHS - Daily ASAP Balancing - EBTDS408-1" for the correct date. A screenshot is saved in the FIS Daily ASAP Balancing Report tab and the "ASAP Ending Balance" amount is entered in the correct cell within the tab. After verifying that the workbook is balanced under the Approval tab, the WIRE JV tab is then reviewed to

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ensure that the totals populated correctly from the other tabs. Once that has been completed, this tab is printed and the Approval tab is selected again prior to saving the workbook.

The fiscal analyst reconciles retailer credits against information entered into the Automated Clearinghouse network and to the amount of funds drawn down by the state. (Key Control 4 - Control Activities).

The workbooks and JV documents are reviewed and approved by a supervisor/lead. **The supervisor/lead reviews the supporting reconciliation workbooks to ensure the retailer credits match the Automated Clearinghouse and funds drawn down. (Key Control 5 - Monitoring).** Once the JV document has been reviewed and approved, the JV is sent with the required information to the state Treasurer. The state Treasurer then transfers the approved payment to FIS for state food and cash programs.

Next is the process for Automated Standard Application for Payments (**ASAP**) (federal food transfer of grant funds) which is completed by accessing the federal Automated Standard Application for Payments (**ASAP**). ASAP is a program of the US Treasury and allows the Department to draw from accounts pre-authorized by federal agencies. The Fiscal Analyst then goes into ASAP and manually enters the total figure to reimburse to FIS, which will be the federal SNAP food settlement from the previous day. They then obtain a report from ASAP that shows all issuance and payments that were paid out. (For SNAP, the EBT payments are directly reimbursed to FIS by the federal grantor once DSHS approves the SNAP EBT reimbursed amounts in the federal draw system.) (For TANF and Refugee medical reimbursement: the fiscal analyst will go into the Payment Management System (**PMS**) and process the draw request. This will reimburse the state for TANF and Refugee Medical. The A8 is entered into the Treasury Management System (**TMS**).)

Summary of Key Controls:

- Reconciliations

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Key Control 1: The Office of Accounting Services (OAS) EBT Specialist (FA3) uses the following four source reports automatically generated from ACES data to perform daily reconciliations. (Control Activities)

- Daily EBT Void Report - Food Assistance
- Daily EBT Authorization Report - Food Assistance
- Daily EBT Void Report - Cash
- Daily EBT Authorization Report - Cash

Key Control 2: Using the SNAP federal benefit types, Melissa ensures there are no non-federal liabilities in the daily EBT reconciliation. (Control Activities)

Key Control 3: The Accounting and Grants Manager reviews monthly reconciliation and certifies the data in FNS. (Monitoring)

Key Control 4: The fiscal analyst reconciles retailer credits against information entered into the Automated Clearinghouse network and to the amount of funds drawn down by the state. (Control Activities)

Key Control 5: The supervisor/lead reviews the supporting reconciliation workbooks to ensure the retailer credits match the Automated Clearinghouse and funds drawn down. (Monitoring)

Evaluation of Results:

No control deficiencies were identified.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing to determine if we can place reliance on the controls at N2. Special Tests and

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Provisions - Tests of Controls-EBT reconciliation.

C.1.PRG - 10.551/561 SNAP Cluster

Procedure Step: N3. Special Tests and Provisions - Controls - EBT Card Security

Prepared By: ALC, 3/17/2021

Reviewed By: LSD, 3/17/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance of compliance with **the following** Special Tests and Provision:

- **EBT Card Security**

To provide a preliminary control risk assessment based upon our understanding of the internal controls **for EBT Card Security**.

To identify the key internal controls for the Special Tests and Provision for **EBT Card Security**.

Source:

Des Boucher, EBT/EFT Contracts/Policy Administrator (CSD/ESA/DSHS)

Summer Garcia, ESA audit liaison

Kim Chea, Executive Assistant ESA

Conclusion:

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- **EBT Card Security**

Based on our understanding of internal controls over **EBT Card Security**, we assessed preliminary control risk as **LOW**.

Testing Strategy:

Guidance/Criteria:

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement.

We believe the following inherent risks increase the risk of material noncompliance with the compliance requirement. We will determine whether the agency has implemented internal controls to address these risks and we will also consider these risk when designing our tests of compliance.

- Electronic Benefits Transfer (**EBT**) cards are maintained at many locations across the state.
- EBT cards are the instrument for delivering benefits to clients. More than \$1.3 billion in federal dollars (source: FY20 expenditure report see SNAP Expenditures FY20 FINAL) was deposited to client EBT cards during SFY20.

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In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at HIGH.

Gather Information

Step 2

Review the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Special Tests and Provisions.

3. EBT Card Security

Compliance Requirements The State is required to maintain adequate security over, and documentation/records for, EBT cards, to prevent their theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or use (7 CFR section 274.8(b)(3)).

Audit Objectives Determine whether the State maintains security over EBT cards.

Suggested Audit Procedures

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

Understanding of Internal Controls

Step 3

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In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We received the internal control letter request back from the Department, see response at [Internal Control letter-SNAP-ST3-EBT card security](#)

We requested and reviewed all of the Department's written policies and procedures related to EBT card security provided by Des Boucher, EBT/EFT Contracts Policy Administrator (Community Services Division/Economic Services Administration (**CSD/ESA**)), including policy # 8.9-Monthly Physical Audit of EBT Cards at [8.9 Monthly Physical Audit Of EBT Cards 04/18](#). We noted a revision date at the bottom of the policy of 04/18. We confirmed with Des this is the most recent policy. Additional related policies:

- 8.1-Policy Regarding Card Stock-Use and Acquisition
- 8.2-Policies Regarding Security of EBT Card Stock
- 8.5-Policies Regarding Safeguarding EBT Cards in Storage
- 8.7-Policies Regarding Daily Card Stock
- 8.9-Policies Regarding the Monthly Physical Audit of EBT Cards

In addition, Des provided temporary/emergency policy changes related to COVID-19.

EBT Headquarters-Olympia

We spoke with Des Boucher, EBT/EFT Contracts/Policy Administrator (CSD/ESA), on March 3, 2021, to gain an understanding of controls in place for EBT Card Security. Des explained the processes and controls in place at Community Services Offices (**CSO**), including Headquarters, are relatively the same over the functions of:

- ordering and receiving EBT cards,
- authorizing and issuing EBT cards (at both CSOs and Headquarters)

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- daily inventory management/reconciliation of EBT cards,
- destruction of EBT cards
- monthly reconciliation of card stock

Des stated CSO and the Headquarters office internal control processes are controlled by the same policies in the EBT manual. Monthly Physical Audit of EBT cards is guided by policy *8.9-Monthly Physical Audit of EBT Cards* from the EBT manual , see copy at [8.9 Monthly Physical Audit Of EBT Cards 04/18](#).

Headquarters EBT Cards:

EBT Headquarters office in Olympia is responsible for ordering EBT cards for the CSOs, tracking the completion of CSO inventory reconciliations, tracking cards issued to businesses and individuals for testing point of sale (POS) machines, and keeping an emergency supply of cards available in the event of local/state emergency, and in the event of CSOs unexpectedly running out of cards. Under rare circumstances, authorized EBT issuing staff may also issue cards to clients.

Orders for EBT cards for each CSO are placed by EBT Headquarters office which identifies and reviews the EBT card stock levels at individual CSOs around the state and monitors the EBT card levels both electronically within Barcode and during the monthly reconciliations for the on-site inventory declared by the local CSO's EBT Administrators, and Supervisors, through the monthly reconciliation reports.

When card stock levels run low at EBT headquarters office, it places an order for EBT cards from its current vendor, Fidelity Information Services (**FIS**). On a quarterly basis, EBT headquarters office receives a bulk delivery of cards that the vendor has already entered into Barcode. In addition, Des states FIS receives all returned EBT card mail so EBT headquarters office does not need a process for returned mail. (NOTE: The office does have a process if a card is returned to a CSO in its policy, but this is a rare occurrence.).

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CSO Receiving of EBT cards:

Each CSO EBT administrator receives an email notifying the CSO of an expected shipment for EBT cards. Once EBT cards are delivered, the delivery is restricted to the receiving EBT Administrator or EBT Supervisor, and the live shipment is verified and counted by boxes against the packing slip. The two receiving managers/supervisors sign and date the packing tape for the EBT bulk boxes, and sign and date on the live packing slip. These boxes and respective card numbers would then be entered into Barcode bulk inventory. EBT Supervisors/managers would email EBT headquarters office if there were any discrepancies from the delivery of cards to the packing slip sent, or if any boxes and/or sealed boxes were damaged. After documenting the receipt of the cards and adding them to the Barcode inventory of cards, they would then be locked in their designated EBT card storage locker/cabinet, which only EBT Supervisors/Managers maintain the key or locking code to the storage locker/cabinet. (Monitoring and Control Environment)

Daily Inventory management/Reconciliation and authorization and issuance of EBT cards:

Des explained the inventory management for EBT cards is maintained within the Barcode database, with administrator rights granted to EBT administrators and EBT supervisors. Every morning, EBT Administrators, or Supervisors, open the locked cabinets/rooms (accessible only to allowed supervisors with the codes or actual key locks required for entry) where the EBT cards are physically stored. Approximately 25-50 cards are pulled out of the open stock of EBT cards from the cabinet/locker (depending on the expected volume of each respective CSO), and then the cabinet/locker is relocked once the Administrator/Supervisor is finished. The Administrator/Supervisor then verifies these cards within Barcode, and “checks them out” under their name as ready to authorize for the respective authorizing staff member. The cards in process of being checked out are matched for number sequence integrity and matched to barcode so that the supervisor is confident that Barcode card inventories are accurate.

These morning reconciliation/verification activities are then reversed for evening reconciliations, and lock-up procedures. Cards are collected from EBT issuing staff, verified in Barcode and checked back into inventory, and

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all cards are accounted for as either entirely issued, or received back in inventory. The cards are then taken by the Supervisor/Administrator and locked again in their secure locking location.

Destruction of EBT cards

Des states the need/occurrence to deactivate EBT cards is quite rare because many clients discard their own cards which releases CSO staff from having to record and destroy the card themselves.

In the event that any staff member locates a card that may be inactive, or need to be destroyed per the request of a client or need to be destroyed because the card is damaged, or any other unusual circumstance involving an EBT without a known or locatable client owner, staff would first try to locate where the card came from, if possible. It could have come from a card shipment, turned in by client, or other. If the card is unknown in the EBT system, the card may be added into the office's bulk card inventory. If the card should be included in the local office card stock, the card would be added to the bulk card inventory and a note would be added to the monthly reconciliation report. If the card is known to the EBT system, CSO's would destroy the card according to procedures in 8.14- Policy Regarding Destroying an EBT Card in the Possession of the CSO. The reason for destruction would be included in the Barcode notes. The EBT card inventory must be reconciled whenever an extra card is found or a missing card is either found in the EBT system or determined to be lost.

Monthly reconciliation of EBT cards

At the end of the month, all CSOs, and Support Headquarters, perform an end of month reconciliation for all EBT cards. This reconciliation is performed by the EBT Administrator and one of the EBT Supervisors. The reconciliation includes an actual physical card count and a number sequence count for the open stock of cards. The physical count of cards and the number sequence count of cards is matched to the month-end reconciliation report ("Monthly Reconciliation Report printed from the barcode bulk inventory screen) and the results are recorded on the bottom of the printout. **Both staff conducting the monthly card reconciliation must sign and date the printout. (Key Control #1-control activities)** A copy of this report is emailed to EBTsecurity@dshs.wa.gov. All

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of the reports are received by EBT headquarters office. Each monthly report is assigned to EBT HQ staff. **EBT HQ staff review monthly card reconciliation reports to ensure the reconciliations are performed, received between the 25th and 5th of the following month, check for the correct report (correct month), check for two signatures, review any issues that are exceptions, and track the review on an Excel spreadsheet. (Key Control #2 -control activities, monitoring)**

COVID process (3/1/20-6/30/20)

Des stated when the public health emergency (PHE) began in March 2020, many staff began to telework. As a result, some offices closed (wouldn't do inventory) and some offices were open but only had limited staff (only one signature would appear on inventory).

Key Control #1 - Two staff conduct the monthly card reconciliation and sign and date the printout documenting their reconciliation. (Key Control #1 - control activities)

Key Control #2 - EBT HQ staff review monthly card reconciliation reports to ensure the reconciliations are performed, received between the 25th and 5th of the following month, check for the correct report (correct month), check for two signatures, review any issues that are exceptions, and track the review on an Excel spreadsheet. (Key Control #2-Monitoring)

Evaluation of Results:

We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant

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requirements. We will perform testing to determine if we can place reliance on the controls at N3. Special Tests and Provisions - Tests of Controls - EBT Card Security.

C.4.PRG - 16.575 Crime Victim Assistance

Procedure Step: A-B. Activities Allowed/Cost Principles - Controls

Prepared By: BLM, 4/5/2021

Reviewed By: LSD, 4/20/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has in place to provide reasonable assurance that Federal awards are expended only for allowable activities and that expenditures charged to the Federal award are allowable and in accordance with the applicable cost principles.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Nicky Gleason, Section Supervisor

Jean Denslow, Managing Director of Accounting

Conclusion:

Based on our understanding of internal controls over Activities Allowed and Cost Principles, we assessed preliminary control risk as **LOW**.

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Testing Strategy:

A-B. Activities Allowed/Cost Principles - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the *Inherent and Internal Control Risk Guidance* that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review scope of work

Allowable Activities - Determine which activities and types of costs are specifically allowed or unallowed, by reviewing the following:

1. Award agreement or approved application for scope of work, terms and conditions, and approved budget.
2. Part 4 of the Compliance Supplement that applies to your audit period.
3. Available program guidelines or handbooks. (Ex. WSDOT's LAG Manual)
4. If above information is not available, look to the federal regulations (contact the single audit specialist if you need assistance with this).

Requirements for Cost Principles are found as follows:

Pre-UG: OMB Circular A-87

UG: 2 CFR 200, Subpart E.

Please be familiar with these requirements as not all are listed below; only parts emphasized in the Compliance Supplement are listed below.

Quantitatively Material

Identify the expenditure activities that are directly charged to the program and are quantitatively material (more than 5%).

Direct Costs

Payroll Expenditures: When payroll costs are selected for our single audit, our focus is on whether the portion of payroll charged to the program (allocation) is supported by appropriate time and effort and meets the cost principles. Note that awarding agencies may require specific forms of documentation to support payroll charged to its award.

Compensated Absences (leave cash-outs or accrual): The entity may include employees' use of leave (which is included in their regular salary payments). If the entity charges any **leave cash-outs** or the **accrual of leave** to the grant, there are special rules, see extra guidance in the policy tab. There is a high risk the costs

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are unallowable.

Non-Payroll Expenditures: Generally, auditors should test internal controls and compliance for non-payroll expenditures when those costs are quantitatively material (5%) to the program.

Automated Controls: If you identify key internal controls that are automated, consult with the SWSA Supervisor or SWSA AIC to determine whether to request automated control work from Team IT audit.

Indirect Costs

Determine whether the agency has recovered indirect costs via an indirect cost rate or cost allocation plan and, if so, how much was expended. If indirect costs are material to the program the auditor must test the internal controls (and compliance) over them when those costs are quantitatively material (5%) to the program.

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement. These are discussed in the **policy tab** in further detail, for when indirect costs are material to the program.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

Special – Review In-process Proposals: If the entity is preparing an Indirect Cost Rate Proposal during the audit period in order to submit it to the federal cognizant agency, we are required to review the accuracy of the base data and calculations.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

(a) Activities Allowed: grant funds are used only for allowable activities (this may include review of expenditures, program monitoring, preparing the reimbursement requests, establishment of programs);

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(b) Cost Principles: direct and indirect costs charged to the grant comply with the cost principles set forth in 2 CFR 200 Subpart E (this may or may not be the same control activity for (a))

(c) Activities Allowed-Indirect Costs: if material (5%), the entity uses the proper indirect cost rate (per approved plan or rate, de minimis only when it is applicable, or another rate established by contract). Controls should also focus on how the entity properly calculates the direct cost base that the indirect rate is applied to. For instance, the controls should ensure that they are using only allowable types of costs in the MTDC or other direct base as applicable, that those costs are not used twice or that they occurred during the contract's period of performance. Note: These controls are likely **different** than those in (a) and possibly (b).

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must**:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as "LOW" when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

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Basic Cost Principles (2 CFR 200.402 – 409)

DEFINITIONS

Cost means an amount as determined on a cash, accrual, or other basis of accounting acceptable to the Federal awarding or cognizant agency.

Cost objective means a function, organizational subdivision, contract, grant, or other work unit for which cost data are needed and for which provision is made to accumulate and measure the cost of processes, projects, jobs and capitalized projects.

Direct costs are those that can be identified specifically with a particular final cost objective (i.e., a particular award, project, service, or other direct activity of an organization). Examples of Direct Costs: payroll costs of employees who perform work that is directly related to the grant program; the cost of supplies and materials used for the purpose of the grant; equipment and other approved capital expenditures made for the grant; or professional services contracted to accomplish specific grant/contract objectives.

Indirect costs are those costs incurred for a common or institution-wide objective that benefits more than one grant program or project. Such costs are not readily assignable to the cost objective specifically benefited. Examples of Indirect Costs: depreciation and use allowances of non-federal equipment and buildings; facility operation and maintenance (lights, heat, phone, janitorial, grounds, etc); and general administrative expenses such as accounting, payroll, legal and data processing expenses.

GENERAL COST PRINCIPLES AFFECTING ALLOWABILITY OF COSTS (2 CFR 200.403)

- (a) Be **necessary** and **reasonable** for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any **limitations** or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be **consistent** with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) 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.
- (e) 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 this part.
- (f) **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. See also §200.306 Cost sharing or matching paragraph (b).
- (g) Be **adequately documented**. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

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What is a Reasonable Cost (§200.404)? (cost principles)

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Other factors that must be considered in determining whether a cost is reasonable are:

whether the cost is generally considered as ordinary and necessary to the operation of the grantee or the performance of the federal award/program;

the restraints or requirements imposed by such factors as sound business practices, arms-length bargaining, federal, state and other laws and regulations, and terms and conditions of other federal awards, or sponsored agreements;

market prices for comparable goods and services;

whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the grantee, its employees, where applicable its students or membership, the public at large, and the federal government;

whether the grantee significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal awards costs.

EXAMPLES:

1. A grantee is planning to purchase computers and printers with federal funds. The purchasing agent obtained phone quotes from three contractors. One contractor has a direct family relationship with the grantee's purchasing agent. It so happens that this contractor's quote was 20% higher than the other two. The grantee should not contract with this contractor because the price is unreasonable and has a conflict of interest (regardless of the price).

2. A grantee has been permitted in its grant contract to lease a vehicle so that it can travel within its region to deliver grant-related services to clients. The grantee has obtained quotes for a standard 4-door sedan and a luxury 4-wheel drive SUV that is twice the cost of the sedan. Which vehicle should the grantee choose? This is not to say a 4-wheel drive is not necessary or reasonable, but the price may dictate the type or model of vehicle.

What is an Allocable Cost (§200.405)? (cost principles)

A cost is considered allocable if the goods or services involved are chargeable or assignable to the federal award or cost objective (i.e., a specific function, project, sponsored agreement, service, or grant) in accordance with the relative benefits received.

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Any cost allocable to a particular federal award may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by federal statutes, regulations, or terms and conditions of federal awards, or for other reasons.

If a grantee intends to recover the portion of its indirect costs (overhead, central administration, etc.) that relates to its grant programs, Uniform Guidance requires the grantee to develop a central service cost allocation plan and/or indirect cost rate proposal. Requirements pertaining to central service cost allocation plans and indirect cost proposals are found in Appendix III-VII to Part 200 (Uniform Guidance).

EXAMPLES:

1. An employee works on two different federal grant projects. The time spent on each project varies from day to day. This employee must keep monthly time and effort records that account for actual time spent on each project. By tracking actual effort, each grant will be charged its fair share of the costs.
2. A grantee held a training workshop for its employees. Included in the cost of the workshop was room rental, food, and travel. The workshop included a session that was specific to a federal program and a session that covered general personnel and human effectiveness training. The grantee should allocate the cost of the training among all programs/divisions that benefited from the training. Next, it should charge the allocated amount only to those awards that specifically allow for this type of cost.

Applicable Credits (§200.406) (cost principles)

A "credit" means a receipt or reduction in expenditures that offset or reduce direct or indirect cost items. Examples include:

- purchase discounts;
- rebates or allowances;
- recoveries or indemnities on losses;
- insurance refunds or rebates; and
- adjustments of overpayments or erroneous charges.

When such credits are applicable to allowable costs, they must be credited to the federal award either as a cost reduction or a cash refund. In some instances, the amounts received from the federal government to finance a grantee's activities or service operations should be treated as applicable credits.

EXAMPLE:

A grantee paid a contractor for materials it needed for a project. It was determined later that the vendor had over-billed the grantee and was issuing a refund check. This refund should be netted against the total amount charged to the grant as a cost reduction. If the grant project had already been closed out, the refund should be remitted to the grantor agency that sponsored the project. Consult with the grantor agency in such a case.

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Prior written approval (§200.407) (cost principles)

Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following sections of this part:

- (a) §200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);
- (b) §200.306 Cost sharing or matching;
- (c) §200.307 Program income;
- (d) §200.308 Revision of budget and program plans;
- (e) §200.311 Real property;
- (f) §200.313 Equipment;
- (g) §200.332 Fixed amount subawards;
- (h) §200.413 Direct costs, paragraph (c);
- (i) §200.430 Compensation—personal services, paragraph (h);
- (j) §200.431 Compensation—fringe benefits;
- (k) §200.438 Entertainment costs;
- (l) §200.439 Equipment and other capital expenditures;
- (m) §200.440 Exchange rates;
- (n) §200.441 Fines, penalties, damages and other settlements;
- (o) §200.442 Fund raising and investment management costs;
- (p) §200.445 Goods or services for personal use;
- (q) §200.447 Insurance and indemnification;
- (r) §200.454 Memberships, subscriptions, and professional activity costs, paragraph (c);
- (s) §200.455 Organization costs;
- (t) §200.456 Participant support costs;
- (u) §200.458 Pre-award costs;
- (v) §200.462 Rearrangement and reconversion costs;
- (w) §200.467 Selling and marketing costs;
- (x) §200.470 Taxes (including Value Added Tax); and
- (y) §200.474 Travel costs.

Consistency (2 CFR §200.403(d) (cost principles)

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

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allocated to the Federal award as an indirect cost.

EXAMPLE:

A grantee has five departments. It allocates the cost of its basic telephone service to each department based on the number of telephones in each department. Each department should treat the telephone cost consistently for all grants it administers. That is, if a department has 3 grant programs, that department should treat this telephone cost as either a direct cost or indirect cost for all 3 grants, but not a mix of each. Next, if treated as a direct cost, a department should only request reimbursement for this type of cost if permitted under the terms of its grant agreement(s).

Grant Agreement Limitations (§200.408) (cost principles)

To be allowable, the cost being charged must conform to any limitations or exclusions set forth in the terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

EXAMPLE:

A grantee paid for a television advertisement to promote its new grant-funded health program. However, the approved grant contract limited the cost of advertising to brochures and radio ads. Therefore, the grantee should not include the cost of the television advertisement in its request for reimbursement even though "advertising" is an otherwise allowable cost according to Circular A-87.

Adequate Supporting Documentation (2 CFR §200.403(g) (cost principles)

Amounts charged to federal awards must be supported by source documentation, including:

- payroll reports
- time and attendance records
- invoice vouchers from subrecipients
- receiving reports
- original vendor invoices
- cost allocation plans

(Documentation may be in an electronic form, but make sure the integrity of the electronic documentation can be maintained for the duration of the applicable record retention period).

EXAMPLE:

A grantee made a year-end adjustment to a federal award using a journal voucher entry. The accounting entry must be supported by adequate documentation that demonstrates both allowability and allocability.

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SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

ADDITIONAL TESTING SELECTION INFO & EXAMPLES

<i>Selection Options</i>		
Method	Process	Next Steps
Sampling	This is the preferred method for large populations (over 365). Use sampling tool from teammate.	Get the sample tool from Teammate. Take the sampling training if needed.
Haphazard Selection	May use for populations less than 365. Auditor haphazardly picks transactions. It feels random but only true "random" samples can be done by the computer in the sampling method.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab)
Judgmental Selection	May use for populations less than 365. The auditor has a specific reason, associated with a risk, to pick certain or certain transactions. Explain risks in the ROWD and how transactions not selected are lower risk.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab). See examples there.

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Judgmental Population	First, the auditor has a specific reason, associated with a risk, to pick certain types of transactions (judgmental population). Explain risks in the ROWD and how populations not selected are lower risk (you can refer to the testing strategy if we have done this for you already). Next, the auditor selects transaction from the judgmental population using the sampling method above.	Get sample tool from Teammate. Take training for the form if needed.
All quantitatively material transactions	Use only when a few very large transactions make up the majority of grant activity. You will test all of these material transactions.	Keep in mind: If 10% or more of the population is made up of <i>other</i> types of costs, those transactions should be tested in some way, as well.

DUAL PURPOSE TESTING EXAMPLE

For allowable costs the key control is, "The Business Manager reviews the reimbursement request, reconciling the items requested to invoices to determine they are supported and allowable." You will test it by reperforming the Business Manager's review to determine if it is effective in preventing and detecting noncompliance. You may check the requests to see if they have the Business Manager's signature of approval but that will only tell you if they consistently do it, which is important. However, you should reperform the control.

To complete compliance testing you are tracing expenditures from the requests to support to determine if they are supported and allowable per the program.

In this case, for testing both controls and compliance you are completing the same process. However, you need to document that you tested both and clearly show the conclusion of each even though they are related. Control testing should conclude whether the control was effective in preventing or detecting noncompliance and compliance testing whether the entity was in compliance.

INDIRECT COST UNDERSTANDING OF RATES/ALLOCATIONS

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

1. Rate Provided by Grantor: The federal grantor or PTE can give the entity an indirect cost rate in the award, usually outlined in the budget

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section and based on the availability of funding. There is no separate or formal rate agreement and it is not considered negotiated.

2. Use PTE Negotiated Rate: The federal grantor, PTE or federal guidance can require the entity to use PTE's negotiated indirect cost rate. This requirement can be found in the Compliance Supplement and federal pass-through guidance. The PTE will place the rate in their award with the entity. This is common for school districts.

3. De Minimis Indirect Cost Rate: If the entity elects to use the de minimis rate, a flat 10% (of Modified Total Direct Costs), in their grant application, no direct or pass-through grantor can deny its use so long as the entity qualifies.

Restrictions: The entity can use the method so long as they have **never** had a negotiated indirect cost rate or allocation plan approved by the federal cognizant agency **or** the PTE.

UPDATED GUIDANCE: Federal guidance now clarifies that negotiated rates and allocation plans negotiated by **PTEs** can prevent the use of the de minimis rate.

Consistency: If used, the entity must use the de minimis method for all of their Uniform Guidance federal programs that allow indirect costs.

Rate: Indirect costs are calculated as base costs multiplied by a flat 10% rate that does not require a true-up to actual indirect expenses.

Base Used: The 10% is multiplied by the modified total direct costs (MTDC) base.

<i>MTDC Base</i>	
Includes	Excludes
Direct Salaries & Wages	Equipment & Capital Expenditures
Direct Fringe Benefits	Charges for Patient Care
Materials & Supplies	Participant Support Costs
Services	Rental Costs
Travel	Tuition remission, Scholarships & Fellowships
Up to \$25,000 of <i>each</i> subaward (regardless of the period of performance)	The portion of each subaward in excess of \$25,000

4. Negotiated Rates & Allocation Plans – Cognizant Agency: Only major governments are required to obtain a cognizant agency approved negotiated rate or allocation plan. Smaller governments can opt to do so. The "cognizant agency for indirect costs" is designated as:

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For central service cost allocation plans: the federal agency with the largest dollar value of *total* federal awards

For indirect cost rates and cost allocation plans: the federal agency with the largest dollar value of *direct* federal awards

Once designated, the federal entity remains the cognizant agency for five years. Under this method, the entity will be awarded a formal contract for the rate/allocation. All awarding agencies must accept the rate/allocation plan when the entity elects to use it in their program application.

Various allocation plans can be approved, but there are four types of rates:

1. **Provisional:** The provisional rate is temporary and expires upon the completion of the federal award. It requires a true-up to actual expenditures by the end of the project or whenever the entity obtains a final rate. The rate is adjusted by using the final rate.
2. **Final:** The rate is permanent and is calculated after the actual costs are known (i.e. at the conclusion of the federal project). It is used to adjust the indirect costs from the provisional rate.
3. **Predetermined:** This is a permanent rate and is calculated using actual costs from previous periods. It does not require a true-up to correspond with actual current year costs. The rate is effective between two to five years.
4. **Fixed:** This is a permanent rate and is calculated using actual costs from previous periods. It requires a true-up to correspond with actual current year costs. The variance between the costs used to create the rate and the actual costs incurred during the year the rate was used is carried-forward as an adjustment to the current rate. The entity will either recover or “pay back” the variance going forward. The rate is effective for two years and then can be annually renewed.

5. Negotiated Rates & Allocation Plans – PTE: Indirect Cost Rate Proposals and Cost Allocation Plans are not required by UG to be submitted to/approved by PTE's, but the PTEs may require it. Usually a formal contract for the rate/allocation is not issued and they just review and/or approve the plan instead. Other pass-through entities are not required accept the rate/allocation plan but they can choose to accept it.

METHODS OF INDIRECT COST RATE CALCULATION

(1) The specific methods for allocating indirect costs and computing indirect cost rates are as follows:

(a) *Simplified Method* – This method is applicable where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect cost to approximately the same degree. The allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures described in 2 CFR part 200, Appendix VII, paragraph C.2.

Multiple Allocation Base Method – This method is applicable where a governmental unit's department or agency has several major functions that benefit from its indirect costs in varying degrees. The allocation of indirect costs may require the accumulation of such costs into separate groupings which are then allocated individually to benefiting functions by means of a base which best measures the

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relative degree of benefit. (For detailed information, refer to 2 CFR part 200, Appendix VII, paragraph C.3.)

(c) *Special Indirect Cost Rates* – In some instances, a single indirect cost rate for all activities of a department or agency may not be appropriate. Different factors may substantially affect the indirect costs applicable to a particular program or group of programs, e.g., the physical location of the work, the nature of the facilities, or level of administrative support required. (For the requirements for a separate indirect cost rate, refer to 2 CFR part 200, Appendix VII, paragraph C.4.)

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

Record of Work Done.

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at Low.

Gather Information

Step 2

Review scope of work

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine which activities and costs are allowed or unallowed. We identified the following:

Indirect Costs

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The agency has recovered indirect costs via an indirect cost rate, see provisional at: FY2018 Final and FY2019-21 Provisional Indirect Rates.

- Indirect costs total 3.06% (see: Final Expenditure Analysis) and are therefore immaterial, no further work is necessary.

Material Expenditures Final Expenditure Analysis

We identified the following expenditure activities that are directly charged to the program and are quantitatively material (more than 5%):

Subobjects:

- Commerce - subobject NZ Other Grants and Benefits \$32,033,548.56 (62.63%) see step 3 below.
- DSHS - subobject NB Payments to Providers for Direct Client Services - \$12,027,884.26 (23.52%)
see: DSHS- A-B. Activities Allowed/Cost Principles - Controls.
- OCLA - subobject CZ Other Professional Services - \$4,994,344 (9.77%) see: OCLA- A-B. Activities Allowed/Cost Principles - Controls.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the Department's written policies and procedures related to the Activities Allowed from Jean Denslow, Managing Director of Accounting and Nicky Gleason, Section Supervisor. We were provided with: VOCA Comprehensive Grant Administration Manual Signed, page 62 related to Activities Allowed.

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On August 12th, 2020, we met with Nicky Gleason, Section Supervisor to discuss the processes over the Activities Allowed compliance requirement.

Before awards are finalized the subrecipients submit a budget that details expected expenditures by expense category. These budgets are reviewed by the Section Supervisor to ensure subrecipients identify expense categories that are allowable per grant regulations, and that they appear to be reasonable for the expected work to be performed. Applications are also reviewed by Commerce Specialists and program staff, who work for the Section Supervisor, and the Fiscal Division, prior to being authorized. Once approved, the award will be signed and executed and the approved budget will be located at exhibit/attachment B typically. Subrecipients are then allowed and able to claim expenditures. The budget language states that any variances to the budget categories allocated within the budget must be pre-approved by the Office of Crime Victim Advocacy program staff in writing. Subrecipients are allowed variances within 10% percent of the total budget with approval by their grant manager. All line item adjustments are tracked for the life of the grant – ie, if a subrecipient requests a 2% change and six months later another 9% change, that crosses the 10% cumulative total and must be approved by the Section Lead. If a subrecipient accidentally submits a request over a line item budget, the Commerce Specialists will contact the subrecipient and request they submit a line item adjustment. **KC#1: The Section Supervisor, Nicky Gleason reviews and approves subrecipient budgets prior to award execution to ensure they only include allowable activities. (Control Activities)**

To request for reimbursement, subrecipients enter the amounts they have expended in each budget category on an Invoice Voucher (A19) including a schedule of Goods and Services expenditures and submit to OCVA Commerce Specialists via Commerce's Contract Management System (CMS). **KC#2- Grant Managers review the A-19, summary of goods and services, and expenditures against the approved budget for each category and the detailed scope of work to be performed, and correct Period of Performance. (Control Activities)**

Based on the allocation, Commerce Specialists code the expenditures to the appropriate AFRS project and subproject code and processes the A19. The subrecipient budget, requests-to-date, and budget balances are on the

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A-19. The original A19s are then sent to Fiscal.

Based on the allocation, Commerce Specialists code the expenditures to the appropriate AFRS master index (state/federal split), project and subproject code and process the A19. The subrecipient budget, requests-to-date, and budget balances are on the A-19. Matching requirements are also a line item on the budget. The original A19s are sent to Fiscal and payment batches are prepared by Fiscal Analysts who review the A19s for proper signature authority, mathematical accuracy, and charges are related to the appropriate time period. Batches are reviewed, approved, and released in AFRS by the Grants and Loans Manager (Currently Leah Snow) which is noted on the batch header. **Note:** In the absence of the Grants and Loans Manager, any fiscal analyst on her team, who has sufficient signature authority can review, approve, and release batches, so long as they have not done anything else with the batch. **KC#3: The Grants and Loans Manager (Currently Leah Snow) reviews each batch before approving to ensure coding, signatures and amounts are correct and charges are related to the appropriate time period. (Control Activities/Monitoring Activities).** Note this is also a control for Period of Performance.

Summary of key controls:

Control weakness: We were not provided with any policies or procedures related to Activities Allowed.

KC#1: The Section Supervisor, Nicky Gleason reviews and approves subrecipient budgets prior to award execution to ensure they only include allowable activities. (Control Activities)

KC#2- Grant Managers review the A-19, summary of goods and services, and expenditures against the approved budget for each category and the detailed scope of work to be performed, and correct Period of Performance. (Control Activities)

KC#3: The Grants and Loans Manager (Currently Leah Snow) reviews each batch before approving to ensure coding, signatures and amounts are correct and charges are related to the appropriate time period. (Control Activities/Monitoring Activities)

Evaluation of Results: We did not identify any control deficiencies.

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Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.4.PRG - 16.575 Crime Victim Assistance

Procedure Step: C. Cash Management - Controls

Prepared By: BLM, 2/1/2021

Reviewed By: LSD, 2/9/2021

Purpose/Conclusion:

Purpose:

To gain an understanding of the internal controls the agency has established over Cash Management.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Leah Snow, Grants and Loans Manager

Web Intelligence

Cindy Trambitas, Assistant Accounting Manager

Jean Denslow, Managing Director of Accounting

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Conclusion:

Based on our understanding of internal controls over Cash Management, we assessed preliminary control risk as **LOW**.

Testing Strategy:

Reminder: Cash management is always direct and material whether the entity operates on a reimbursement or cash advance basis. (The only exception is for a non-cash award, e.g. federal equipment, real property, supplies or commodities received.)

Note: Entities may receive awards funded on a reimbursement basis, as well as awards funded through advance payments. For such entities, the auditor should plan the audit to address the objectives of both payment methods, i.e., the auditor should include audit procedures to separately assess and test internal control and compliance for the reimbursement and advance payment methods.

Cash Management - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the ***Inherent and Internal Control Risk Guidance*** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

CMIA Agreement

- (a) Determine whether the program is subject to the CMIA (Cash Management Improvement Act) agreement made between the U.S. Treasury and OFM (see attached pdf file in planning at **B.1.4**). This will typically only apply to larger programs over \$20 million.
- (b) If the program is subject to the OFM/Treasury CMIA agreement, obtain an understanding of funding technique prescribed for the program. Review Part 4 of Compliance Supplement for any program-specific requirements.
- (c) If the program is not subject to the CMIA, review Part 4 of Compliance Supplement for any program-specific requirements.

Awards to Subrecipients

Determine whether the agency made any awards to subrecipients.

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Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and/or program regulations to determine the method of payment for the federal program (i.e., cash advance or cost reimbursement). If a grantee states that it is paid on a "cost reimbursement" basis, determine whether the grantee is permitted to request its funding from the grantor before it actually disburses its own cash to pay project/program costs.

Information for all other awards (generally):

A. CASH ADVANCE – Some programs allow the grantee to draw down funding before program expenses are incurred or paid. The requests the auditee submits to their grantor should identify it as an advance request. The entity must:

- (1) Create and maintain written policies that address how it will comply with the cash advance requirements (UG only). The auditor does not need to determine whether the written procedures are sufficient. Sufficiency is up to the interpretation of the grantee unless the awarding agency has provided guidance.
- (2) Disburses the grant funding as soon as possible after it is received;
- (3) Limits its cash advance requests to its immediate needs; and
- (4) Tracks interest earned from cash advances. They must remit interest earned over \$100 for Pre-UG and over \$500 for UG.

B. COST REIMBURSEMENT – This occurs when the grantee incurs costs before the federal funds are received. Either situation could occur (even for the same program, transaction by transaction):

1. Costs are incurred but not paid before federal funds are received (like a cash advance): This pertains to those contracts or program regulations that **do not specifically require** the grantee to disburse its own funds before it requests reimbursement. For example, if a grantee incurs an expense (e.g., ordering supplies and receiving a vendor invoice), but does not disburse any of its own funds (paying the invoice) until after it submits a request to the grantor and receives its federal funding, the grantee is essentially receiving a cash advance. Thus, the grantee could potentially be maintaining an excess cash balance and earning interest. The same could be applied if the entity collects an improper payment or later receives a rebate, discount, refund on returned items, etc. that they keep – as an advance – rather than returning the funds to the grantor if the cost had already been reimbursed.

NOTE: The awarding agency may have regulations and/or guidance in these cases as to the specific amount of time the entity has from receipt of the funds to disburse the funds. For example, OSPI requires 3 days from receipt of funds to disburse. If the awarding agency does not have guidance on this, use auditor judgement to determine if the amount of time between receipt of funds and disbursement is reasonable and consistent with the entities disbursement policies and procedures.

2. Costs are incurred and paid before federal funds are received: This is a true cost reimbursement. The focus of the auditor's review is that the entity has controls to ensure they maintain a cost reimbursement basis – only requesting transactions that have been paid – and are in compliance with the requirement. The audit objective from the Compliance Supplement is, "For grants and cooperative agreements to non-Federal entities that are paid on a reimbursement basis, supporting documentation shows that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request."

Step 3: Gain an Understanding of Internal Controls

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*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

(a) CMIA programs - Identify and document the key internal controls used by the agency to comply with the CMIA funding technique to (1) ensure cash advances are limited to its immediate cash needs, (2) minimize the time elapsing between receiving the funds and expending the funds, and (3) assure that subrecipients are minimizing the time elapsing between receipt of the funds and expenditure of the funds.

(b) non-CMIA programs - Identify and document the key internal controls used by the auditee to (1) ensure cash advances are limited to its immediate cash needs, (2) minimize the time elapsing between receiving the funds and expending the funds, and (3) assure that subrecipients are minimizing the time elapsing between receipt of the funds and expenditure of the funds.

Gain an understanding of the grantee's internal controls and identify the key controls over its requests for federal funding as follows.

Cash Advances - our focus is on the controls that ensure:

- (1) The grantee established written procedures to minimize the time between receipt and disbursement of funds and ensures those procedures are up-to-date with federal requirements in subsequent years.
- (2) the grantee is disbursing the funding as soon as possible after it is received,
- (3) the grantee is limiting its cash advance requests to its immediate needs
- (4) the grantee is tracking interest earned from cash advances and remitting any interest over \$500 back to the grantor.

Cost Reimbursement (incurred but not paid before reimbursed)

- (1) the grantee is disbursing the funding as soon as possible after it is received,
- (2) the grantee is limiting its cash advance requests to its immediate needs
- (3) the grantee is tracking interest earned from cash advances and remitting any interest over \$500 back to the grantor.

Cost Reimbursement (incurred and paid before reimbursed – true reimbursement)

- (1) the grantee ensures it only requests costs that have been paid.

For example, the person responsible for creating the reimbursement request includes only costs paid based upon their tracking spreadsheet, because they generate a report for only costs that have been paid, or generates detailed transaction reports and includes items based on the date paid.

***Note:** If the auditee usually maintains a true cost reimbursement but has some transactions (occasionally or as special situations) that are incurred but not paid before reimbursement, the controls of each should be addressed.

Evaluation of Results: Did you identify any control deficiencies? If yes, you must:

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1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

(Deficiencies Identified: Use the decision matrix in the “Major Federal Program” spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).)

Otherwise, assess control risk as "high." If preliminary control risk is "HIGH" a finding must be issued.

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up)</i>	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N)$

State of Washington

<i>where N = population size</i>	<i>* 0.68</i>		<i>/ 0.68</i>
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

Record of Work Done.:

Note: This is a centralized procedure covering Crime Victims Assistance (CVA) program and the Low-Income Home Energy Assistance Program (LIHEAP).

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at Low.

Gather Information

Step 2

Subject to the CMIA Agreement

The LIHEAP and CVA programs are subject to the OFM/Treasury CMIA agreement. The funding technique prescribed for the program in the CMIA agreement is below.

Technique: Modified Direct Program Costs - Admin, Payroll, Payments to Providers (ACH Drawdown on Payroll

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Cycle)

- The State shall request funds for all direct administrative costs and/or payroll costs, and/or payments made to providers and to support providers. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the funds requested shall be based on the amount of expenditures recorded for direct administrative costs and/or payroll costs and/or payments made to providers or to support providers since the last request for funds. The State payroll cycle is payday twice a month. Draws made day before payday are for deposit on payday. The draw request will be made in accordance with cut-off time in Exhibit 1. The amount of the funds requested shall be based on the amount of expenditures recorded for direct administrative costs and/or payroll costs and/or payments made to providers or to support providers since the last request for funds. This funding technique is interest neutral.

Awards to Subrecipients

CVA: Final Expenditure Analysis "Combined by Subobject"

Commerce Subobject NZ, Other Grants and Benefits: \$32,033,549.56 or 62.63% of total expenditures.

There are also two interlocal agreements in which other state agencies also issue subawards:

DSHS Subobject NB, Payments to Providers for Direct Client Services: \$12,027,884.26 or 23.52% of total expenditures.

OCLA Subobject CZ, Other Professional Services: \$4,994,344.46 or 9.77% of total expenditures.

LIHEAP: Revenue and Expenditure Analysis "By SubObject"

Subobject NB- Payments to Providers for Direct Client Services: \$44,947,575.83 or 71.44% of total expenditures.

Subobject NZ- Other Grants and Benefits: \$15,846,519.04 or 25.19% of total expenditures.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal

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control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the Department's written policies and procedures related to Cash Management. We were provided the following written policies: Federal Draw Procedure, Federal Draws-Request.

Federal reimbursement request:

Federal funds are drawn on a reimbursement basis and all payments and invoices are tracked in Commerce's Contracts Management System (CMS). Requests for reimbursements are received by Department staff at the program level and are reviewed and approved for payment by the Contract Managers. Contract Managers enter the approved expenditures into CMS prior to them being paid. The original A19's are sent to fiscal for payment. On Friday March 13, 2020, all staff were sent home for mandatory telework and contract managers are required to submit their approval for payment using a direct email to the Accounting Office.

On the day prior to payday, Melinda McNamara runs a Webi Report from OFM's Adhoc system to pull revenue and expenditure information to date and see what awards need money drawn. Melinda distributes this report to the Accounting staff and tracks the information in an accounting Federal Revenue and Expenditures tracking spreadsheet (Information and Communication). To prepare the cash draw batches, the report "Project Billing Flexible By Project" is pulled from AFRS which shows award expenditures and revenues to date. The difference between total expenditures to date and total revenue to date is the amount that needs to be drawn for reimbursements. Cash draws are submitted at a subproject level.

KC1- A Draw Form "Federal Expenditure/Revenue spreadsheet" (Excel template) and JV are prepared by Melinda McNamara, fiscal analyst, who inputs revenues and expenditures from the Enterprise report and makes sure the calculated draw amount matches the Enterprise report. (Control Activities/Information and Communication)

KC2- The Grants and Loans Manager (Currently Leah Snow) reviews each batch before approving to ensure coding, signatures and amounts are correct and charges are related to the appropriate time

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period. (Control Activities/Monitoring Activities). In the absence of a manager, all fiscal analysts are trained, able, and have delegated authority to approve draw forms so long as they did not prepare it.

Receipting the Federal funds:

When each batch is submitted a due from feds accrual batch (JV) is recorded. **KC3- The Due From Feds journal voucher (JV) accrual batch is reviewed approved by a Fiscal Supervisor, or Fiscal Analyst 4, who initials and dates the AFRS Accounting Transaction Batch Header. (Control activities)** The reviewer will then save the PDF Header to electronic Draws file location and copies PDF Federal Reimbursement Draw Request to Pending Receipts folder. Once the draw is approved, a notice by email indicating the electronic Draws file location is sent to Carlos Reyes, Fiscal Analyst 2 (Kari Newitt, Fiscal Analyst 3 is a backup only), to request federal funds through the federal draw system. Carlos submits the draw amount via the PMS Smartlink system. After completing the draw, Carlos prints to PDF a summary page from PMS showing the completed payment request which is attached to the draw packet PDF in the electronic Draws batch file location. Once the Office of the State Treasury (OST) receives funds from the federal agency, it notifies Amber Kane, Fiscal Analyst 2, of the receipt via email. Amber opens the email and prints to PDF and saves to the cash receipts batch folder along with the emailed ACH report, which shows the federal funds receipt. She reconciles the Treasury Management System (TMS) OST created Cash Receipts Journal Summary A-8 with the draw packet expected amount and saves it to the Pending Receipts folder Federal Reimbursement Draw Request PDF. Amber prints to PDF the A-8 and saves to the cash receipts batches folder. Amber notifies by email Kari Newitt, Fiscal Analyst 3, (Cindy Trambitas, Assistant Accounting Manager, is backup) the cash receipt electronic CJ batch file location for review and approval. Kari reviews and approves the cash receipt (CJ) batch; initials and dates the AFRS Accounting Transaction Batch Header (Control Activities).

Summary of Key Controls:

Key Control 1- A Draw Form “Federal Expenditure/Revenue spreadsheet” (Excel template) and JV are prepared by Melinda McNamara, fiscal analyst, who inputs revenues and expenditures from the Enterprise report and makes

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sure the calculated draw amount matches the Enterprise report. (Control Activities/Information and Communication)

Key Control 2- The Grants and Loans Manager (Currently Leah Snow) reviews each batch before approving to ensure coding, signatures and amounts are correct and charges are related to the appropriate time period. (Control Activities/Monitoring Activities).

Key Control 3- The Due From Feds journal voucher (JV) accrual batch is reviewed approved by a Fiscal Supervisor, or Fiscal Analyst 4, who initials and dates the AFRS Accounting Transaction Batch Header. (Control activities)

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.4.PRG - 16.575 Crime Victim Assistance

Procedure Step: E. Eligibility - Controls

Prepared By: BLM, 4/5/2021

Reviewed By: LSD, 4/20/2021

Purpose/Conclusion.

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that

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

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Nicky Gleason, Program Manager, Department of Commerce

Conclusion:

Based on our understanding of internal controls over Eligibility, we assessed preliminary control risk as **LOW**.

Testing Strategy:

Eligibility - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the ***Inherent and Internal Control Risk Guidance*** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Eligibility requirements apply when funds are provided to individuals/participants **and/or** when funds are awarded/passed-through to a subrecipient.

NOTE: Follow the steps below if the state agency determines the eligibility of the client. Similarly, follow these steps if a subrecipient determines eligibility, but the state maintains the computer system supporting eligibility determinations and actually pays the benefits to the participant. Otherwise, if a subrecipient determines the eligibility of the client, refer to the procedures under M-Subrecipient Monitoring.

Determine whether there are any specific eligibility requirements in order for individuals to receive financial assistance or services under the program. If the grantee makes awards to subrecipients, determine if there are eligibility requirements the subrecipient must meet to receive the funding. Review the following that apply to the audit period:

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- Part 4 of the Compliance Supplement
- the grant agreement or contract, and
- any available program guidelines or handbooks.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

(1) Participant Eligibility:

(a) **Status:** recipients receiving services/benefits are eligible for such assistance in accordance with the program/grant contract.

(b) **Service level:** amounts paid to the recipient have been properly calculated in accordance with program requirements.

(c) **Discontinued:** services/benefits are discontinued after recipients are deemed ineligible.

(2) **Quality Control:** Some programs require quality control processes (such as independent double-checks) to obtain assurances about eligibility. If applicable, gain an understanding of controls to ensure the process is completed in accordance with program requirements.

(3) **Subrecipient Eligibility:** subawards were made only to eligible subrecipients.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

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Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Record of Work Done.:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at **LOW**.

Gather Information

Step 2

Individual Eligibility Requirements

Individual eligibility is determined by the subrecipient.

Subrecipient Eligibility Requirements

The grantee does make awards to subrecipients. Subrecipient eligibility is outlined in the VOCA Rule at [ocva-voca-program-rule](#), § 94.111, (page 17).

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Eligible providers are those that:

1. Are operated by a public agency or a nonprofit organization (including tribes)
 2. Provide services to victims of crime
 3. Can demonstrate a documented history of providing effective services to victims of crime
 4. Have financial support from other sources
 5. Can demonstrate the organizational capacity to provide the proposed services
- (Note: All subrecipient eligibility is determined at the Department of Commerce)

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the Department's policies and procedures related to eligibility. The Department provided: VOCA Comprehensive Grant Administration Manual Signed, page 40 related to eligibility. On August 24th, 2020, we met with Nicky Gleason, Program Manager to discuss the processes covering Federal eligibility requirements: The Victims of Crime Act (**VOCA**) State Plan sets aside funding to address the unmet victim service needs in Washington state. The intent of this funding is to complement the existing network of services available throughout the state, focusing resources where there are gaps. Funding for services to victims when current services are unavailable or inadequate is the priority. Every year the Program Manager, Nicky Gleason sends out RFP's based on the VOCA plan, see ocva-voca-state-plan-2015-2019. (Information and communication). SFY20 subawards were procured during SFY19 using the 2015-2019 plan. The 2020-2024 state plan is currently in draft form and will be used for SFY21 subawards etc.

RFP's are sent out with the criteria that will be scored. Once they are received back, they are evaluated and scored

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by an expert peer review panel. Successful applications are then sent back to the application coordinators (Nicky Gleason, Program Manager and Trisha Smith, Sexual Assault Program Manager). When applicants submit their application, applicants must certify they are either a public agency or a nonprofit organization (including tribes).

KC#1- Once applications are received the application coordinators (Nicky or Trisha) will review all applications to ensure nonprofit, tribe, or local government. (Control Activities) Applicants must submit a proposal narrative describing the proposed type of service to be funded. **KC#2- The application coordinators (Nicky or Trisha) will review all applicant narratives to ensure the proposed service meets the criteria of the service to be performed. (Control Activities)** Applicants must also certify to which victim service need they are applying to serve as well. (Information and Communication / Control Activities) Based on funds available, funds will be subawarded to the highest ranked applicants. Those that are selected as highest scoring applications are then presented to the Assistant Director, Diane Klontz. The Program Manager (Nicky Gleason), the Budget Analyst (Spencer Good) and Diane have a meeting to speak about the process taken to evaluate the applications. Once Diane approves the process, the successful applications will be placed on an obligation summary memo detailing the subrecipients to be awarded and their respective amounts. Diane has signature authority for the subawards and the obligation summary memo. Subrecipients that have not been approved will not go through the contracting process. Note: Noncompetitive applications such as annual renewals for DSHS domestic violence shelters go through the same process however they are not scored or ranked.

Summary of Key Controls:

KC#1- Once applications are received the application coordinators (Nicky or Trisha) will review all applications to ensure nonprofit, tribe, or local government. (Control Activities)

KC#2- The application coordinators (Nicky or Trisha) will review all applicant narratives to ensure the proposed service meets the criteria of the service to be performed. (Control Activities)

Evaluation of Results: We did not identify any control deficiencies.

-

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Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.4.PR.G - 16.575 Crime Victim Assistance

Procedure Step: G. Matching - Controls

Prepared By: BLM, 4/5/2021

Reviewed By: LSD, 4/20/2021

Purpose/Conclusion.

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Matching requirements are met using only allowable funds or costs which are properly calculated and valued.
To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Nicky Gleason, Program Manager, Department of Commerce

Conclusion:

Based on our understanding of internal controls over Matching, we assessed preliminary control risk as **LOW**.

Testing Strategy.

Matching - Post Uniform Guidance Awards

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Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the *Inherent and Internal Control Risk Guidance* that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and any available program guidelines to determine the specific requirements over matching.

Matching or cost sharing includes requirements to provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. The match may be cash or non-cash such as:

1. Most Common Method: For each allowable program expenditure incurred, the entity only requests the federal portion to be reimbursed (for example 80%), and the remaining portion of the expenditure not reimbursed (for example 20%) is considered the entity's match.
2. In-Kind Contributions: When provided by the entity, these are usually non-cash contributions whose value is agreed upon with the grantor, such as infrastructure and other capital assets.
3. Third-Party In-Kind Contributions: Contributions from the public or other governments may be cash or non-cash and can include the value of volunteer services or employees of other agencies, donated supplies, and loaned equipment.
4. Program Income: Program income can be used as matching funds only with prior written approval from the grantor.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

- (a) Matching: the minimum amount of local contributions/matching funds were provided from an allowable source.

Evaluation of Results: Did you identify any control deficiencies? If yes, you must:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a

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whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.

2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

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.

Record of Work Done.:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance

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requirement and assess the inherent risk of noncompliance at low.

Gather Information

Step 2

We were provided a Federal audit report DOJ OIG Final Audit Report performed by Office of Inspector General (**OIG**) regarding the Crime Victims Program. The following internal control weaknesses were identified:

- Grant Financial Management – OIG could not determine whether the WA DOC and its two passthrough agencies complied with the 5 percent administrative expenditures limit. Due to the commingled environment at some subrecipients, OIG limited their testing to subawards funded with VOCA grants. OIG found WA DOC inadequately supported \$70,207 in subrecipient expenditures and \$3,312 in match contributions.

We reviewed the scope of work per the grant agreement, and 2 CFR § 94.118- Project match requirements and determined the following specific requirements for Matching.

(a) Project match amount.

Sub-recipients shall contribute (i.e., match) not less than twenty percent (cash or in-kind) of the total cost of each project, except as provided in paragraph (b) of this section.

(b) Exceptions to project match requirement.

The following are not subject to the requirement set forth in paragraph (a) of this section:

- (1) Sub-recipients that are federally-recognized American Indian or Alaska Native tribes, or projects that operate on tribal lands;
- (2) Sub-recipients that are territories or possessions of the United States (except for the Commonwealth of Puerto Rico), or projects that operate therein; and
- (3) Sub-recipients other than those described in paragraphs (b)(1) and (2) of this section, that have applied (through

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their SAAs) for, and been granted, a full or partial waiver from the Director. Waiver requests must be supported by the SAA and justified in writing. Waivers are entirely at the Director's discretion, but the Director typically considers factors such as local resources, annual budget changes, past ability to provide match, and whether the funding is for new or additional activities requiring additional match versus continuing activities where match is already provided.

(c) Sources of project match.

Contributions under paragraph (a) of this section shall be derived from non-federal sources, except as may be provided in the DOJ Grants Financial Guide, and may include, but are not limited to, the following:

- (1) Cash; i.e., the value of direct funding for the project;
- (2) Volunteered professional or personal services, the value placed on which shall be consistent with the rate of compensation (which may include fringe benefits) paid for similar work in the program, but if the similar work is not performed in the program, the rate of compensation shall be consistent with the rate found in the labor market in which the program competes;
- (3) Materials/Equipment, but the value placed on lent or donated equipment shall not exceed its fair market value;
- (4) Space and facilities, the value placed on which shall not exceed the fair rental value of comparable space and facilities as established by an independent appraisal of comparable space and facilities in a privately-owned building in the same locality; and
- (5) Non-VOCA funded victim assistance activities, including but not limited to, performing direct service, coordinating, or supervising those services, training victim assistance providers, or advocating for victims.

(d) Discounts.

Any reduction or discount provided to the sub-recipient shall be valued as the difference between what the sub-recipient paid and what the provider's nominal or fair market value is for the good or service.

(e) Use of project match.

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Contributions under paragraph (a) of this section are restricted to the same uses, and timing deadlines for obligation and expenditure, as the project's VOCA funding.

(f) Record keeping for project match.

Each sub-recipient shall maintain records that clearly show the source and amount of the contributions under paragraph (a) of this section, and period of time for which such contributions were allocated. The basis for determining the value of personal services, materials, equipment, and space and facilities shall be documented. Volunteer services shall be substantiated by the same methods used by the sub-recipient for its paid employees (generally, this should include timesheets substantiating time worked on the project).

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the Department's written policies and procedures related to Matching as part of gaining an understanding of internal controls. We were provided: VOCA Comprehensive Grant Administration Manual Signed, page 34 related to Matching.

On September 9, 2020, we met with Nicky Gleason, Program Manager to discuss the processes related to the matching federal compliance requirement.

Matching:

Subrecipients are informed of their match requirements during the subaward process. **Key Control 1- The assigned Program Manager will review and approve all subawards to ensure the federally required match is included in the terms and conditions. (Control Activities)** Match is only required on pass-through funds, not

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funds used for administration. Victim Witness and Sexual Assault Services subrecipients meet their match requirements through state funds provided by Commerce. Emergency domestic violence (DV) Shelters also meet their match requirements through state funds administered by DSHS. Subrecipients of competitive awards may use any local, non-federal funding, volunteer hours, or in-kind donations that are used to support the VOCA funded project to meet their match requirements. Tribes are exempt via blanket waiver as noted in 2 CFR § 94.118 (b)(2).

Subrecipients required to provide match do so during monthly or quarterly reimbursement request. These reimbursement requests are designed by the program and have approved budgets by category which provide the match required amount, and current period and match to date totals that are updated by the subrecipient during each reimbursement request. Subrecipients can provide match by cash from a non-federal source (must be spent on VOCA eligible activities), others who cannot give cash match can use in-kind or donation match. They may also use discounts on rent (for instance if they can show a reduction to FMV) **Key Control 2- Contract Managers will review and approve each subrecipient reimbursement request to ensure match is characterized accurately and supported with adequate documentation. (Control Activities)** Subrecipients that provide their own match must also submit a “match documentation form that details how the match was provided with each invoice. The match categories are characterized as unique projects and subprojects. Grant managers also conduct a more thorough review during on-site monitorings.

Summary of identified key internal controls:

Key Control 1- The assigned Program Manager will review and approve all subawards to ensure the federally required match is included in the terms and conditions. (Control Activities)

Key Control 2- Contract Managers will review and approve each subrecipient reimbursement request to ensure match is characterized accurately and supported with adequate documentation. (Control Activities)

Evaluation of Results: We did not identify any control weaknesses.

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Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.4.PRG - 16.575 Crime Victim Assistance

Procedure Step: G. Level of Effort - Controls

Prepared By: BLM, 4/5/2021

Reviewed By: LSD, 4/20/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Level of Effort requirements are met using only allowable funds or costs which are properly calculated and valued. To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Nicky Gleason, Program Manager

Conclusion:

Based on our understanding of internal controls over Level of Effort, we assessed preliminary control risk as **LOW**.

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Testing Strategy:

Level of Effort - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the ***Inherent and Internal Control Risk Guidance*** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and any available program guidelines to determine the specific requirements over level of effort /supplanting. Be aware that these requirements vary as to when they must be met. For example, level of effort requirements might be based on each fiscal year, the federal fiscal year, the end of the grant period, etc. If you have any question as to how or when the requirement must be met please consult with a SWSA supervisor. Refer to the Policy/Standards tab for examples of Supplanting.

Level of effort includes requirements for:

- a) Maintaining a specified level of service from period to period.
- b) Maintaining a specified level of expenditures from period to period, with emphasis on the funding source used and the activities they relate to.
- c) Using federal funds to supplement, not supplant, services provided through non-federal (state/local) funding. If the requirement relates to supplanting, refer to the policy tab for examples.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

- (a) the specified service level or expenditure levels were maintained (Level of Effort),
- (b) state/local funding (funded services) were not replaced by federal funds (Supplanting, under Level of Effort)

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Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “**LOW**” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.*

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Source of Governing Requirements

The requirements for level of effort are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

WHAT IS SUPPLANTING?

The federal government wants the grantee to use its federal funds to supplement (enhance) the existing resources for the program, instead of supplanting (replacing) its local funds with the federal grant. Basically, federal funds should supplement the existing local resources and build upon the current program. The federal funds should not supplant (replace) the existing local/state funds. Below are some examples:

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For example:

Title I Schools (CFDA 84.010)

It is presumed that supplanting has occurred if a school district used its Title I grant to provide services that it provided with non-Federal funds in the prior year. Example: A teacher's sole function at the district is to provide Title I services (a single cost objective). In years 1 and 2, the teacher's salary was paid from the following sources: 20% Basic Education; 80% Title I. In year 3, the teacher's salary was paid 100% with Title I funds. Supplanting has occurred in year 3 because Title I replaced (supplanted) the non-federal funding that had been used to provide Title I services. However, this is only one teacher and the auditor should evaluate all services of the program taken as a whole to determine the aggregate effect.

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at Low.

Gather Information

Step 2

Review the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Level of Effort.

We identified the following:

Level of Effort – Non-supplantation requirements are set out at 34 U.S.C. § 20103(a)(2)(C) and 28 C.F.R. § 94.104(b)(3); and 34 U.S.C. § 20110 and 28 C.F.R. § 94.108 (regarding supplantation of administrative funds); *see also* DOJ Financial Guide ([DOJ FinancialGuide](#)) definition of supplanting.

Understanding of Internal Controls

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Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the Department's written policies and procedures related to the level of effort. We were provided: VOCA Comprehensive Grant Administration Manual Signed, pages 17 and 18.

Process:

Level of effort is commonly referred to as eligibility and program monitoring. Program Managers anticipate subrecipient spending based on the proposed budget submitted by the subrecipient during the subaward process. Subrecipients must also attest to not supplanting funds during the subaward process. Prior to subaward execution, subrecipients are informed of what types of expenditures are allowable and unallowable. Subrecipients then submit an itemized budget, detailing the activities to be reimbursed and total budget amounts requested for each category. To ensure salaries and benefits categories are for VOCA activities, subrecipients must also submit job descriptions of employees that will be funded using VOCA funds and the FTE% of that. **Key Control 1 - To ensure budget categories are for allowable activities, and subrecipients attested to non-supplanting of funds, the assigned Program Manager will review each subrecipient application during the subaward process. (Control Activities)** The program managers also review whether the applicant has received federal funding for the same or similar project/work, and ensures that there's a clear distinction if a subrecipient applies for and receives more than one subrecipient contract.

Subrecipient expenditure categories are monitored during monthly or quarterly reimbursement requests. These reimbursement requests are designed by Commerce and have approved budgets by category which provide current

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period and to date totals of expenditure categories that are updated by the subrecipient during each monthly or quarterly reimbursement request. **Key Control 2 - Contract Managers will review and approve each subrecipient reimbursement request to ensure no budget category has exceed its authorized amount beyond 10% cumulative change without prior approval. (Control Activities)** If a subrecipient wishes to make a line item adjustment in excess of 10%, they may submit a request to their contract manager, who assesses their justification for such an adjustment, and if they support the adjustment, requests approval from the applicable Section Lead. If the Section Lead approves the line item adjustment, the adjustment between line items greater than 10% can be made to the contract budget.

Summary of identified key internal controls:

Key Control 1- To ensure budget categories are for allowable activities, and subrecipients attested to non-supplanting of funds, the assigned Program Manager will review each subrecipient application during the subaward process. (Control Activities)

Key Control 2- Contract Managers will review and approve each subrecipient reimbursement request to ensure no budget category has exceeded its authorized amount beyond 10% cumulative change without prior approval. (Control Activities)

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.4.PR.G - 16.575 Crime Victim Assistance

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Procedure Step: G. Earmarking - Controls
Prepared By: BLM, 3/12/2021
Reviewed By: LSD, 3/18/2021

Purpose/Conclusion:

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Earmarking requirements are met using only allowable funds or costs which are properly calculated and valued. To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Nicky Gleason, Program Manager
VOCA Rule

Conclusion:

Based on our understanding of internal controls over Earmarking, we assessed preliminary control risk as **LOW**.

Testing Strategy:

Earmarking - Post Uniform Guidance Awards Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the ***Inherent and Internal Control Risk Guidance*** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

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Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and any available program guidelines to determine the specific requirements over earmarking.

Earmarking, a.k.a. set-asides, 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.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure the minimum or maximum limits for specified purposes or types of participants were met (Earmarking).

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as "LOW" when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling

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methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Source of Governing Requirements

The requirements for earmarking are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award, as well as 2 CFR section 200.306 for awards under UG **OR** A-102 Common Rule (§__.204) for pre-UG awards.

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance. In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at Low.

Gather Information

Step 2

We reviewed the scope of work per the grant agreement, and the VOCA Rule ([ocva-voca-program-rule](#)) § 94.107, which limits administrative and training costs to five percent total for the combined costs of administration and training and § 94.104 Allocation of sub-awards details the earmarking requirements summarized below:

up to 5%	Administration and Training
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10% or more	Sexual Assault
10% or more	Domestic Violence (Not Spousal Abuse)
10% or more	Child Abuse
10% or more	Underserved Victims of Violent Crimes

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We were provided a Federal audit report performed by Office of Inspector General (**OIG**) regarding the Crime Victims Program. There were three significant audits risks related to Earmarking:

- Grant Program Planning and Execution – The WA DOC and one of its two state-level pass-through agencies awarded VOCA and non-VOCA funds indistinguishably to subrecipients. As such, the pass-through agencies, as well as subrecipients, did not separately account for VOCA funds. The WA DOC lacked a comprehensive grants administration manual and a standardized procedure for evaluating its competitive subaward opportunities. The WA DOC did not ensure accuracy and consistency of its subaward templates.
- Program Requirements and Performance Reporting – The WA DOC did not accurately capture its funding allocation for the four VOCA priority categories to ensure compliance with VOCA requirements. Additionally, Sub grant Award Reports submitted by the WA DOC contained errors.
- Grant Financial Management – OIG could not determine whether the WA DOC and its two pass-through agencies complied with the 5 percent administrative expenditures limit. Due to the commingled environment at some subrecipients, OIG limited their testing to subawards funded with VOCA grants. OIG found inadequately supported \$70,207 in subrecipient expenditures and \$3,312 in match contributions.

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We requested the Department's written policies and procedures related to Earmarking as part of gaining an understanding of internal controls. We were provided the following: VOCA Comprehensive Grant Administration Manual Signed pdf page 19, related to earmarking.

Process:

To ensure the earmarking requirements are met, **Key Control #1- The Department uses unique project/subproject and master index codes to track program expenditures (Control Activities/ Information and Communication).**

The Department of Commerce also funds the Department of Social and Health Services CVA program to provide Emergency Domestic Violence Shelter services for victims of domestic abuse crimes. These services are implemented through an Interagency Agreement with DSHS, so that expenditures can be directly tracked for this priority category. All other types of expenditures which do not qualify as either sexual assault, child abuse, or domestic violence, are categorized as underserved.

Key Control #2- The Program Manager, (Currently Nicky Gleason) ensures earmarks are met by monitoring and maintaining an earmarking Excel tracking spreadsheet. (Control Activities/Monitoring) The Managing Director, Rick Torrance also reviews the earmarking spreadsheet near the end of each federal award period. Nicky will regularly update the spreadsheet with current obligation levels compared to actual expenditures charged to the specific categories. The spreadsheet is formulated to allocate each earmark based on the total award amount appropriately. Nicky then sums obligations by earmarking category and formulates a variance. The lead staff for each of the sections that manage VOCA funds (DSHS manager Stephanie Condon, Sexual Assault lead Trisha Smith, and Nicky Gleason, Victims of Crime Program Manager, meet approximately every two weeks to discuss how to implement the state plan in a feasible, meaningful way. At this meeting, they analyze how subrecipients of the funds are performing, discuss any gaps in statewide services, identify areas that need increased attention, discuss the optimal way to get funds out to communities and develop

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communication strategies, etc. They strategically allocate the funds in order to support the intent of the VOCA plan. On the VOCA State Plan tracking spreadsheet, a programmatic plan on how to spend down any of the remaining unobligated funds is included. Depending on discussion and spending levels, this will be adjusted as needed. We asked Nicky what is done if the program is not on track to meet the earmarking requirements and she stated that this is very unlikely to happen. Since staff meet twice monthly to discuss current expenditures, if any of the priority categories are lower than expected, they hold a conversation on soliciting contracts for that particular need and will place an RFP. Nicky mentioned that, in particular, they most closely monitor child abuse expenditure levels, as these have historically been the lowest category and, if they feel it is needed, they will execute new contracts to help boost expenditure levels. Though they regularly sign new contracts to help meet this earmarking requirement, it is mainly done pro-actively so that they do not dip below the 10% threshold. For all four priority categories, the Department over obligates resources with the expectancy that most of the funding will be utilized. Commerce's direct service expenditures account for over 96%, providing a high level of assurance that at least 10% is spent on each category.

Key Control #3- Grant Managers with direct knowledge of the activities performed under awards with subrecipients are reviewing and approving payments, for accuracy and correct Period of Performance. (Control Activities/Monitoring). This includes reviewing the assigned project and master index coding to verify the invoice is correctly assigned to sexual assault, domestic violence, child abuse, or under-served services.

Evaluation of Results: We did not identify any control deficiencies.

Summary of key internal controls:

Key Control 1 - The Department uses unique project/subproject and master index codes to track program expenditures (Control Activities/ Information and Communication)

Key Control 2 - The Program Manager, (Currently Nicky Gleason) ensures earmarks are met by monitoring and maintaining an earmarking Excel tracking spreadsheet. (Control Activities/Monitoring)

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Key Control 3 - Grant Managers with direct knowledge of the activities performed under awards with subrecipients are reviewing and approving payments, for accuracy and correct Period of Performance. (Control Activities/Monitoring)

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.4.PRG - 16.575 Crime Victim Assistance

Procedure Step: H. Period of Performance - Controls

Prepared By: BLM, 4/5/2021

Reviewed By: LSD, 4/20/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Federal funds are used only during the authorized period of performance.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Nicky Gleason, Program Manager

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Conclusion:

Based on our understanding of internal controls over Period of Performance, we assessed preliminary control risk as **LOW**.

Testing Strategy:

*Review the award documents and regulations pertaining to the program and determine if there are any award-specific requirements related to the period of performance. Document the performance period in the ROWD. If you have come this far and you determine that **NONE OF THE GRANT PERIODS FOR YOUR PROGRAM BEGIN OR END DURING OUR SCOPE**, then the only applicable requirement is that the expenditure occurred during the grant period. This can be tested while performing A-B. Activities Allowed/Cost Principles testing. If you choose to test with A-B testing you must ensure you identify at least one key internal control that ensures expenditures are effectively monitored for having occurred during the proper period. You can add documentation to direct the reader to A-B controls and compliance sections as well as any testing spreadsheets.*

Period of Performance - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

**Note: All awards have beginning and ending dates, except perhaps for some non-cash equipment/real property awards. The requirement is direct and material if the award began or ended during the audit period.*

Review the grant award notice to determine the period that grant funds are available for expenditure (the official starting and ending dates) and whether there are any provisions for carryover that allow the entity to use unspent funds in the following year. All contracts have a period of performance. If the auditor does not see the period in the agreement, refer to CFDA.gov, the grantors' manuals, handbooks, or other documents referenced in the agreement to determine the length of the award. (For example, Federal Transit Authority agreements 20.507 regularly do not provide a timeline. The beginning date is the award date. The end date is set by FTA policy, so is not stated in the contract. On CFDA.gov, it says the "length and time phasing of assistance" is a period of five years following the close of the fiscal year for which funds are apportioned.)

Funds must be obligated during the period of performance (or can be pre-award costs before the period if there is prior written approval by the grantor) and generally liquidated/paid no later than 90 calendar days after the end date of performance.

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“Obligations” can vary by grant but in general it means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period (i.e funds have been committed to be spent).

Be aware that treatment of carry-over (unspent) funds by grantors will vary. Some grantors will give the grantee more time to spend the funds, thereby extending the period of performance. On the other hand, some grantors will combine the unspent amount with a new grant award and define a new period of performance.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

- (a) Federal funds are obligated within the period of performance (this may include review of expenditures to determine if they are within the period of the grant, or if the entity is applying for and receiving approval for carryover). *Avoid the use of “knowledge” or generic program oversight as the control. A control is likely performed during the preparation of the reimbursement request.
- (b) Obligations were liquidated within the required time period (generally, this is 90 days, but refer to the program rules).

Examples of control elements: review of expenses submitted for reimbursement to ensure they are within the period, keeping a calendar of period of performance dates; sending messages/reports to departments with performance dates and status updates; reminders to staff about submitting final claims, computer system edits that would reject claims outside of the period of performance, etc.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “**LOW**” when:

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1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

[§200.77 Period of performance. \(definition\)](#)

Period of performance means the time during which the non-Federal entity may incur new obligations to carry out the work authorized under the Federal award. The Federal awarding agency or pass-through entity must include start and end dates of the period of performance in the Federal award (see §§200.210 Information contained in a Federal award paragraph (a)(5) and 200.331 Requirements for pass-through entities, paragraph (a)(1)(iv)).

[§200.71 Obligations. \(definition\)](#)

When used in connection with a non-Federal 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 non-Federal entity during the same or a future period.

[§200.309 Period of performance. \(requirement\)](#)

A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in §200.461 Publication and printing costs) 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.

[§200.343 Closeout.](#)

The Federal awarding agency or pass-through entity will close-out the Federal award when it determines that all applicable administrative actions

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and all required work of the Federal award have been completed by the non-Federal entity. This section specifies the actions the non-Federal entity and Federal awarding agency or pass-through entity must take to complete this process at the end of the period of performance...

(b) Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal 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...

Definition of obligation: an obligation is not necessarily a liability in accordance with GAAP. When an obligation occurs (is made) depends on the type of property or services that the obligation is for (34 CFR section 76.707 – see for table demonstrating obligations).

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

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Record of Work Done:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance. In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

Review the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Period of Performance.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the Department's written policies and procedures related to period of performance. We were provided: VOCA Comprehensive Grant Administration Manual Signed, page 17 and 18 and 62 related to the Department's efforts in ensuring period of performance requirements are met.

The Department has four years to obligate and expend grant funds for the Crime Victim Assistance grant. Per

State of Washington

inquiry of Nicky, we determined the Department typically obligates and expends the grant funds during the third year or, at latest, before July of the last award year (control environment).

The majority of payments (97%) for the Victims of Crime Assistance grant are for direct payments to providers in subobject NZ. Invoices are received monthly or quarterly from the subrecipients. The program obtains the A-19s and a **Key Control 1 - Commerce Specialist will conduct a review of each request to ensure charges are allowable, amounts are within budget, and costs are related to the appropriate time period (Control Activities/Monitoring)**. Invoice payments are coded to a specific project. **Key Control 2 - The Department establishes new project codes each federal fiscal year to ensure expenditures are charged to the proper grants (Control Activities)**. Nicky will establish the applicable grant coding each year and send a request to fiscal staff to setup the new project codes with start and end dates corresponding to the period of performance outlined in the grant award letter. The new coding goes into effect on October 1st since new grant awards are received each year, though typically two grants are active at one time. The Department will fully expend the oldest grant prior to obligating funds to a new grant. If the grant has yet to be opened or if it has already been closed, the system automatically will reject the payment and provide an error message, due to the project coding not being currently active (Control Activities).

Summary of key internal controls:

Key Control 1 - Commerce Specialist will conduct a review of each request to ensure charges are allowable, amounts are within budget, and costs are related to the appropriate time period (Control Activities/Monitoring).

Key Control 2 - The Department establishes new project codes each federal fiscal year to ensure expenditures are charged to the proper grants (Control Activities)

Evaluation of Results: We did not identify any control deficiencies.

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Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.4.PRG - 16.575 Crime Victim Assistance

Procedure Step: I. Suspension and Debarment - Controls

Prepared By: BLM, 3/17/2021

Reviewed By: LSD, 3/18/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that covered transactions are not made with a debarred or suspended party.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Nicky Gleason, Program Manager

Conclusion:

Based on our understanding of internal controls over Suspension and Debarment, we assessed preliminary control risk as low. We did not identify any control deficiencies.

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Testing Strategy:

Procurement/Suspension and Debarment - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the ***Inherent and Internal Control Risk Guidance*** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Written Procurement Policies and Procedures

When procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds. The state will comply with § 200.322 Procurement of recovered materials and ensure that every purchase order or other contract includes any clauses required by section § 200.326 Contract provisions.

Aggregate vs. Per-unit Cost to Determine Threshold

Note that the cost thresholds are not limited to each individual item purchased. The cost threshold will also apply to many like-kind items. For instance, an entity may purchase 500 tablets over 70 transactions during the year. Each tablet or transaction may be less than the lowest competitive threshold, but the aggregate purchase of tablets should be the dollar value used to determine which threshold applies. For example, if the 500 tablets cost \$200,000, the grantee should complete the procurement procedures required by this aggregate amount.

Contracts Must Include All Required Provisions

In addition to other provisions required by the Federal agency or non-Federal entity, all contracts made by the non-Federal entity under the Federal award must contain provisions as applicable (see Policies/Standards tab for list of required provisions).

Interlocal Agreements: Transactions between governments are exempt

When one government uses federal grant funds to pay for professional services provided by another government, it is not expected to obtain quotes or seek competition. If the grantee purchases equipment or other goods directly from another local government, these transactions are exempt from competitive procurement (does not apply to piggy-backing purchases). This is because federal procurement standards (2 CFR section 200.318(e)) encourages governmental entities to enter into interlocal agreements to maximize economy and efficiency. It assumes the economic benefit and efficiency has or will be achieved. RCW 39.34.030 sets forth the standards for interlocal agreements – the form of the agreement or contract may vary so long as it contains the necessary information. This exemption does not include purchases made from a third party vendor, such as a purchasing co-op, or piggy-backing off another government's bid for equipment, materials or services.

Purchasing from a Master Contract - DES has performed the procurement process

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State agencies make purchases from contracts that are procured by the WA Dept. of Enterprise Services (DES). In this situation, the DES performs all the bidding requirements and the participating agency can rely on the bid process and make purchases from the contract. The DES retains all the bid documentation. If the master contract(s) is material to the grant, the procurement process may need to be tested at DES. For controls, the auditor should document how the auditee uses the DES contracts. They should ensure they are paying the same rates as in the DES contract. **Note: DES does not check for suspension or debarment.**

SUSPENSION AND DEBARMENT (S&D)

Applies To: The entity must complete the requirement for:

All *new* subrecipient contracts (no threshold)

All *new* contracts (purchases) of \$25,000 or more.

Requirement: The entity must complete at least one of the following to verify the other party is not prohibited (excluded) from receiving federal funds during the procurement process or at the time the contract is made:

1. Check their status on the online search engine SAM.gov (and print support)
2. Put a clause in the contract, whereby the signer attests they are not suspended or debarred.
3. Obtain a signed certificate, whereby the signer attests they are not suspended or debarred.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

- (1) The agency followed State law and procedures and that the policies and procedures were the same as for non-Federal funds.
- (2) Suspension & Debarment: vendors with contracts exceeding \$25,000 and all subrecipients are not suspended or debarred from participating in federal programs. *NOTE TO AUDITOR: When identifying internal controls for suspension and debarment, focus on the auditee's awareness of the requirement and the process it follows to ensure compliance. If a certificate or clause is in the contract or bid document, the control should focus on a person putting it in the documents or reviewing the documents to ensure it is included. **Avoid a control that relies on the fact that "the clause is included in the contract."***

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Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Procurement

States shall use the same State policies and procedures used for procurements from non-Federal funds (2 CFR section 200.317). The policies are established in RCW 39 and also the Department of Enterprise Services and located on their website at <https://des.wa.gov/about/projects-initiatives/procurement-reform/current-policies>

Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

AGGREGATE VS. PER-UNIT COST TO DETERMINE THRESHOLD

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Note that the cost thresholds are not limited to each individual item purchased. The cost threshold will also apply to many like-kind items. For instance, an entity may purchase 500 tablets over 70 transactions during the year. Each tablet or transaction may be less than the lowest competitive threshold, but the aggregate purchase of tablets should be the dollar value used to determine which threshold applies. For example, if the 500 tablets cost \$200,000, the grantee should complete the procurement procedures required by this aggregate amount.

Contracts Must Include All Required Provisions

In addition to other provisions required by the Federal agency or non-Federal entity, all contracts made by the non-Federal entity under the Federal award must contain provisions covering the following, as applicable.

- (A) Contracts for more than the simplified acquisition threshold currently set at \$150,000, which is the inflation adjusted amount determined by the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council (Councils) as authorized by 41 U.S.C. 1908, must address administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as appropriate.
- (B) All contracts in excess of \$10,000 must address termination for cause and for convenience by the non-Federal entity including the manner by which it will be effected and the basis for settlement.
- (C) Equal Employment Opportunity. Except as otherwise provided under 41 CFR Part 60, all contracts that meet the definition of “federally assisted construction contract” in 41 CFR Part 60-1.3 must include the equal opportunity clause provided under 41 CFR 60-1.4(b), in accordance with Executive Order 11246, “Equal Employment Opportunity” (30 FR 12319, 12935, 3 CFR Part, 1964-1965 Comp., p. 339), as amended by Executive Order 11375, “Amending Executive Order 11246 Relating to Equal Employment Opportunity,” and implementing regulations at 41 CFR part 60, “Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor.”
- (D) Davis-Bacon Act, as amended (40 U.S.C. 3141-3148). When required by Federal program legislation, all prime construction contracts in excess of \$2,000 awarded by non-Federal entities must include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 3141-3144, and 3146-3148) as supplemented by Department of Labor regulations (29 CFR Part 5, “Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction”). In accordance with the statute, contractors must be required to pay wages to laborers and mechanics at a rate not less than the prevailing wages specified in a wage determination made by the Secretary of Labor. In addition, contractors must be required to pay wages not less than once a week. The non-Federal entity must place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation. The decision to award a contract or subcontract must be conditioned upon the acceptance of the wage determination. The non-Federal entity must report all suspected or reported violations to the Federal awarding agency. The contracts must also include a provision for compliance with the Copeland “Anti-Kickback” Act (40 U.S.C. 3145), as supplemented by Department of Labor regulations (29 CFR Part 3, “Contractors and Subcontractors on Public Building or Public Work Financed in Whole or in Part by Loans or Grants from the United States”). The Act provides that each contractor or subrecipient must be prohibited from inducing, by any means, any person employed in the construction, completion, or repair of public work, to give up any part of the compensation to which he or she is otherwise entitled. The non-Federal entity must report all suspected or reported violations to the Federal awarding agency.
- (E) Contract Work Hours and Safety Standards Act (40 U.S.C. 3701-3708). Where applicable, all contracts awarded by the non-Federal entity in excess of \$100,000 that involve the employment of mechanics or laborers must include a provision for compliance with 40 U.S.C. 3702 and 3704, as supplemented by

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Department of Labor regulations (29 CFR Part 5). Under 40 U.S.C. 3702 of the Act, each contractor must be required to compute the wages of every mechanic and laborer on the basis of a standard work week of 40 hours. Work in excess of the standard work week is permissible provided that the worker is compensated at a rate of not less than one and a half times the basic rate of pay for all hours worked in excess of 40 hours in the work week. The requirements of 40 U.S.C. 3704 are applicable to construction work and provide that no laborer or mechanic must be required to work in surroundings or under working conditions which are unsanitary, hazardous or dangerous. These requirements do not apply to the purchases of supplies or materials or articles ordinarily available on the open market, or contracts for transportation or transmission of intelligence.

(F) Rights to Inventions Made Under a Contract or Agreement. If the Federal award meets the definition of “funding agreement” under 37 CFR §401.2 (a) and the recipient or subrecipient wishes to enter into a contract with a small business firm or nonprofit organization regarding the substitution of parties, assignment or performance of experimental, developmental, or research work under that “funding agreement,” the recipient or subrecipient must comply with the requirements of 37 CFR Part 401, “Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Grants, Contracts and Cooperative Agreements,” and any implementing regulations issued by the awarding agency.

(G) Clean Air Act (42 U.S.C. 7401-7671q.) and the Federal Water Pollution Control Act (33 U.S.C. 1251-1387), as amended—Contracts and subgrants of amounts in excess of \$150,000 must contain a provision that requires the non-Federal award to agree to comply with all applicable standards, orders or regulations issued pursuant to the Clean Air Act (42 U.S.C. 7401-7671q) and the Federal Water Pollution Control Act as amended (33 U.S.C. 1251-1387). Violations must be reported to the Federal awarding agency and the Regional Office of the Environmental Protection Agency (EPA).

(H) Debarment and Suspension (Executive Orders 12549 and 12689)—A contract award (see 2 CFR 180.220) must not be made to parties listed on the governmentwide exclusions in the System for Award Management (SAM), in accordance with the OMB guidelines at 2 CFR 180 that implement Executive Orders 12549 (3 CFR part 1986 Comp., p. 189) and 12689 (3 CFR part 1989 Comp., p. 235), “Debarment and Suspension.” SAM Exclusions contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority other than Executive Order 12549.

(I) Byrd Anti-Lobbying Amendment (31 U.S.C. 1352)—Contractors that apply or bid for an award exceeding \$100,000 must file the required certification. Each tier certifies to the tier above that it will not and has not used Federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any Federal contract, grant or any other award covered by 31 U.S.C. 1352. Each tier must also disclose any lobbying with non-Federal funds that takes place in connection with obtaining any Federal award. Such disclosures are forwarded from tier to tier up to the non-Federal award.

(J) See §200.322 Procurement of recovered materials.

Suspension and Debarment

Entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. “Covered transactions” include contracts for goods and services equal to or in excess of \$25,000 and all non-procurement transactions (e.g., awards to subrecipients), irrespective of award amount unless exempt as provided in 2 CFR section 180.215..

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Record of Work Done:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance. In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

Review the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Suspension and Debarment.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the the Department's written policies and procedures related to suspension and debarment. We were provided the following: VOCA Comprehensive Grant Administration Manual Signed, page 51.

During the subaward application process: **Key Control 1 - Program Staff ensure that all subrecipients sign a certification attesting to not being Suspended or Debarred. (Control Activities, Information and**

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Communication)

Also, during the subaward process: **Key Control 2 - Program Staff review and approve each subaward to ensure federal suspension and debarment language is included in the terms and conditions. (Control Activities)**

Summary of key internal controls:

Key Control 1 - Program Staff ensure that all subrecipients sign a certification attesting to not being Suspended or Debarred. (Control Activities, Information and Communication)

Key Control 2 - Program Staff review and approve each subaward to ensure federal suspension and debarment language is included in the terms and conditions. (Control Activities)

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.4.PRG - 16.575 Crime Victim Assistance

<i>Procedure Step:</i>	L. Reporting - Controls
<i>Prepared By:</i>	BLM, 4/5/2021
<i>Reviewed By:</i>	LSD, 4/19/2021

State of Washington

Purpose/Conclusion.*

Purpose:

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

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Nicky Gleason, Program Manager

Leah Snow, Grants and Loans Manager

Team IT Audit

Conclusion:

Based on our understanding of internal controls over Reporting, we assessed preliminary control risk as **LOW**.

Testing Strategy.*

***Note:** Financial report testing populations should include all reports covering expenditures occurring during the audit period. For quarterly reports this means we must include the report covering the period ending June 30 even though it is filed after the audit period. For performance or other special types of reports the testing population should include the reports covering the audit period unless the period covered in the report extends past the end of the audit period. For example, if a performance report covers the federal fiscal year it would generally be due Dec 31. In this case we would test the report due during our audit period. If you have any questions regarding determining the scope for a particular report please consult the SWSA supervisor or AIC. For reports submitted quarterly or more frequently, use the small sample testing spreadsheet.*

Reporting - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

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Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review the following to determine the specific types of reports (financial-related reports or programmatic reports) that must be submitted to the grantor agency:

(1) Part 4 of the Compliance Supplement that applies to your audit period - If a report is included in the Compliance Supplement for the program under audit, it should be audited unless not applicable for other reasons.

(2) Grant agreement/contract - If there are reports mentioned in the grant agreement, not all are required to be audited. Limit reports to those that are mentioned in the Compliance Supplement. If the program is not listed in Part 4 of the Compliance Supplement, review the grant agreement and test those that (1) can result in material noncompliance and/or known questioned costs exceeding \$25,000 (reimbursement requests or other financial reports that determine the amount of funding received), (2) affect a large part of the program (significant dollar amounts), and (3) could cause the granting agency to seek reimbursement for the part award or reduce future awards (as stipulated in the agreement).

NOTE: The Federal Funding Accountability and Transparency Act (FFATA) report is used to capture and report subaward and executive compensation data for first-tier subawards. Entities are expected to comply with FFATA reporting as applicable, but we are not expected to audit this requirement at this time.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Document all grant award numbers with expenditures during the audit period and the amount expended for each.

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

Financial Reporting - Financial reports include all activity of the reporting period, are supported by appropriate records, and fairly presented;

Performance & Special Reporting - Reports are completed, timely, and include all required elements and those elements are accurate and supported.

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Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up)</i>	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N)$

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<i>where N = population size</i>	<i>* 0.68</i>		<i>/ 0.68</i>
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

Record of Work Done.:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

We reviewed the scope of work per the grant agreement, and the VOCA Rule at: [ocva-voca-program-rule](#), § 94.105 Reporting Requirements to determine specific requirements for Reporting.

Requirements:

- Performance- Quarterly reports that are also submitted annually
- Financial- Quarterly and Final

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Performance reporting due dates were extended due to COVID-19. #7 in the attached is the clause related to performance reporting, extending the deadline on January – March 2020 data until June 30: Grantee Update #2 Guidance on Short Term Administrative Relief for Grantees Impacted by COVID-19. Nicky Gleason, Program Manager informed us the program submitted data for that quarter on June 8, 2020.

We were provided a Federal audit report (DOJ OIG Final Audit Report) performed by OIG regarding the Crime Victims Program. The following internal control weaknesses were identified:

Annual Performance Reports:

- *Each state administering agency must annually report to Office of Victims of Crimes (OVC) on activity funded by any VOCA awards active during the federal fiscal year. OVC requires states to upload reports annually to its Grants Management System. As of FY 2016, the OVC also began requiring states to submit performance data through the web-based PMT. With this system, states may provide subrecipients direct access to report quarterly data for state review, although OVC still requires that if the subrecipient completes the performance measure data entry directly, the state must approve the data.*
- *For the victim assistance grants, the states must report the number of agencies funded, VOCA subawards, victims served, and victim services funded by these grants. Additionally, according to a special condition of the victim assistance grants, the state must collect, maintain, and provide to the OVC data that measures the performance and effectiveness of activities funded by the award. Due to the commingling of VOCA and non-VOCA funding sources by the WA DOC, performance data reported by subrecipients from such combined sources could not be definitively attributed to a specific fund. Consequently, OIG was unable to evaluate the accuracy of metrics compiled by the WA DOC.*
- *OIG verified that the WA DOC submitted annual performance reports to OVC from FYs 2015 through 2019. Because OIG could not verify the accuracy of the performance metrics, OIG reviewed two judgmentally selected narrative statements from the FY 2017 Annual Performance Report. For a statement on efforts of publicizing victim assistance funding, the WA DOC provided adequate evidence that it held a webinar to discuss funding opportunities from the VOCA victim assistance awards. For the other*

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judgmentally selected statement on addressing VOCA priority categories, the WA DOC provided adequate evidence that it administered a grant program for accredited child advocacy centers. However, the WA DOC's narrative statement incorrectly described it as a competitive program instead of a formula program, as stated in the memorandum of obligation signed by the WA DOC assistant director. OIG believes that implementing their recommendations on separate accounting of grant funds and including instructions on preparing performance data reports in the comprehensive grants administration manual would assist the WA DOC towards creating more reliable annual performance reports of its VOCA victim assistance awards.

We will consider the issues OIG found during the course of our audit.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

On October 1, 2020, we requested policies and procedure related to reporting from the Program Manager. We were provided the following: FFR Process and Monitoring procedure and VOCA Comprehensive Grant Administration Manual Signed, page 77 and 78.

Financial Reporting (SF-425)

On August 20, 2020, we met with Leah Snow, Grants and Loans Manager, to gain an understanding of the SF-425 Federal Financial Reporting (FFR) process. We were informed that Melinda McNamara is the person responsible for preparing and submitting this report. The FFR details grant expenditures by state and federal share, any unobligated balance, and indirect costs for the grant period. The report is completed quarterly for each grant award open and each grant receives a final report at the end as well.

Four different reports are prepared as support for the final report:

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- 1) First, Melinda runs a "Project Billing Flexible by Project" report from Enterprise for each project code. (Control Activities/Information and Communication) Each report shows revenues and expenditures to-date for the projects. Melinda merges the two reports by combining the project totals for both revenue and expenditures. She attaches a calculator tape to the reports showing the calculations to verify the totals that will be carried to the SF-425.
 - 2) The revenues for each project are compared to a revenue report generated from the Contract Management System (CMS) which is an internal system used by Commerce to account for contracts to which grant funds are allocated. (Monitoring) We noted that the totals shown on the reports 1 and 2 should match. The CMS system downloads financial data for each project from AFRS every night.
 - 3) Melinda also compares the total revenue per project reported in AFRS to the "Draw tab" in CMS. If the report is an interim report (the grant has not closed yet), she only includes the information through the end of the first federal fiscal year for which the grant was effective. For a final report, the total should tie to the grant funds awarded and the total of draws.
 - 4) Finally, Melinda runs a report from the federal system to confirm that the amount authorized equals the amount paid. (Monitoring) Melinda does this for each grant for which a report is required. Melinda uses a separate worksheet to allocate indirect expenses to the grant (object T). (Control Activities)
- KC#1- Using project codes assigned to each grant, a fiscal analyst uses reports from Enterprise reporting, the Contract Management System, the Draw Package and the Federal System to confirm the amounts reported are accurate and include all activity for the period. (Control Activities/Information and Communication)**
- 5) The draft report and backup documents are given to Leah Snow, Grants and Loans Manager, for review. Leah reviews the report and ensures the financial data is supported by CMS and AFRS reports. (Monitoring/Control Activities/Information and Communication) Once the report is approved, Melinda files it electronically using the OLDC system for HHS and GMS system for DOJ and prints a confirmation that the report was entered. (Information and Communication/Control Activities) A second confirmation that the report was received is sent by email.

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KC#2- A supervisor (currently Leah Snow, Grants and Loans Manager) reviews and signs the report prior to its electronic submission. (Control Activities/Monitoring Activities)

Note: On Friday March 13, 2020, all Commerce staff were informed to telework in response to the COVID-19 pandemic. From March 14 forward, staff used email approvals in place of signature authority. Also, as of Friday, March 13, 2020, Melinda no longer added a calculator tape to the FFR's. She is teleworking and now provides an electronic record.

Performance Reporting:

At the beginning of contract year (typically June/July for state fiscal year contracts), all program managers verify that grantees are aware of the InfoNet reporting requirements in their contract special conditions and that grantees have the necessary InfoNet training to perform InfoNet data entry. The quarterly data deadline is 16 days after the end of the quarter. Program managers then review the InfoNet data for completeness and accuracy. The quarterly data review is documented in the grant file and program managers follow up with grantees as needed, including monitoring of performance and any data that appears to be incorrect or incomplete. **Infonet performs the aggregation of client info and service provided. (Automated Control)** We submitted a request for Team IT to gain and understanding of this automated control, see: 1. Identify General IT Controls with SWSA Team and 2. Stored procedures change controls.

If a grantee requests an extended period to update/correct their data, Program managers must notify the VOC section lead (Nicky Gleason). After the 1st of the following month (30 days after end of quarter), the VOC section lead reviews the data for the state as a whole by quarterly pulling an Excel report "VOCA Performance Measures" out of InfoNet. The VOC Section Lead reviews the data for entries that contain zero clients served, very high numbers of clients served, or any other unusual data. (Control Activities/Monitoring Activities). If found, the VOC Section Lead then compares the data to prior data for that sub-recipient to identify any anomalies. The VOC Section lead removes any sub-recipient data containing anomalies from the batch data and follows up with the applicable grant manager to get the data corrected or verified. Once corrected, VOC Section Lead uploads any

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corrected data separately from the statewide batch and formats the aggregated data to meet Federal specifications, and uploads the data to the Performance Measuring Tool (PMT) system in advance of the deadline the 15th of that month. The PMT system requires the submission of the aggregated client information and services provided on the Excel document. The PMT system will then display 5 fields: Total Subgrantees, Subgrantee completed, Subgrantee in Progress, Subgrantee Not Required to Report and Subgrantee Not Started. Nicky will then verify that the total not yet started or total in progress are zero. This comparison allows Nicky to confirm that all uploads were complete and no records were overlooked. By confirming that all records were uploaded and marked as complete, and that none are still flagged as “in progress” or “not started” allows Nicky to verify that no records generated system errors or similar on the federal side. The federal PMT system has a history of problems so it’s not unheard of for the system to generate unanticipated errors that Nicky will then need to follow up about with their help desk. Rick Torrance, Managing Director of CVA also reviews and approves the annual performance report.

Summary of key internal controls:

Financial Reporting (SF-425)

Key Control 1- Using project codes assigned to each grant, a fiscal analyst uses reports from Enterprise reporting, the Contract Management System, the Draw Package and the Federal System to confirm the amounts reported are accurate and include all activity for the period. (Control Activities/Information and Communication)

Key Control 2- A supervisor (currently Leah Snow, Grants and Loans Manager) reviews and signs the report prior to its electronic submission. (Control Activities/Monitoring Activities)

- Performance Reporting:

Infonet performs the aggregation of client info and service provided. (Automated Control)

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

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Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.4.PRG - 16.575 Crime Victim Assistance

Procedure Step: M. Subrecipient Monitoring - Controls

Prepared By: BLM, 3/19/2021

Reviewed By: LSD, 3/28/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, the impact of any subrecipient noncompliance on the pass-through entity is evaluated, and subrecipients obtained required audits and took appropriate corrective action on audit findings.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Nicky Gleason, Program Manager

Jean Denslow, Managing Director of Accounting

Conclusion:

Based on our understanding of internal controls over Subrecipient Monitoring, we assessed preliminary control risk

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as **LOW**.

Testing Strategy:

Subrecipient Monitoring - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the *Inherent and Internal Control Risk Guidance* that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

The general subrecipient monitoring requirements are described below. In addition to this information, review Part 4 of the Compliance Supplement, the grant agreement, and any available program guidelines to determine any unique requirements over Subrecipient Monitoring for the federal award you are auditing.

(a) Subrecipient Contracts – Identification Elements: The pass-through entity (PTE) must clearly identify the contract as a federal subaward when the subaward is made (or subsequent subaward modification). The contracts must include:

1. Specific federal identification elements per 2 CFR section 200.331(a)(1) – find a list of the 13 requirements in the Policy/Standards tab
2. All program requirements imposed on the PTE that are passed through to the subrecipient (federal statutes, regulations, and the terms and conditions of the PTE's award).
3. Any additional program requirements imposed by the PTE on the subrecipient.

Note: The auditor may be able to test suspension and debarment requirements while testing contracts for the other required elements. See testing strategy for Procurement/Suspension and Debarment.

(b) Risk Evaluations: PTEs must perform a risk assessment for every subrecipient to determine and support their level of monitoring. It is a best practice - but not required - to complete risk assessments before the subaward is made (unless specifically required by the grantor). Example considerations are in the Policy/Standards tab.

(c) Monitoring Activities: Monitoring activities must be reasonable based on the inherent risk of the program and subrecipient non-compliance. Auditors will need to use their judgement and consider any monitoring steps identified by the entity in the subrecipient risk evaluation or required by the award contract. At a minimum, subaward monitoring **must** include:

1. Reviewing financial, performance and special reports required by the PTE.

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2. Ensuring the subrecipient receives a single audit (if required) and the subrecipient takes timely and appropriate action on all deficiencies from audits, on-site reviews, etc.
3. Issuing a management decision when their subrecipient receives audit findings for their program.

Subrecipient's Reimbursement Requests: When the PTE receives claims for reimbursement, they should either:

1. request copies of supporting documentation for costs included on the requests; or
2. ask the subrecipient retain supporting documentation for review for on-site visits (if part of the monitoring plan).

Note: The pass-through agency is not expected to perform an extensive audit of the fiscal records, but it should have a process in place so that it can reasonably detect unallowable or unsupported costs.

Case-by-case Information: There is additional information for the auditor when the following situations occur. Find this information in the Policy/Standards tab as needed:

- A. For-Profit Subrecipients
- B. PTE Agreed-Upon Procedure Engagements
- C. Fixed-amount Subawards

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

- (a) Subrecipient Contracts:** The entity includes all necessary information in the subrecipient contract per 2 CFR section 200.331(a)(1).

NOTE: The control may be someone writes the contract to include all of the elements, someone reviews the contracts to specifically confirm all elements are included, or someone ensures they use an established contract template that includes the elements and periodically makes sure that template is up to date with the federal requirements (since elements may change over time).

- (b) Risk Assessments:** The auditee performs a risk assessment of each subrecipient to determine the appropriate level of monitoring.

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(c) Monitoring: Subrecipients are monitored to ensure that federal awards are used for authorized purposes and in accordance with Federal statutes, regulations, and the terms and conditions of the Federal award. This includes monitoring the subrecipient to ensure they are performing eligibility determinations appropriately and accurately (as applicable). The auditee must have a process in place to provide reasonable assurance that they can prevent or detect non-compliance or unallowable costs.

(d) Subrecipients' Audits:

- Subrecipients receive a single audit if necessary.
- Management decisions are issued on audit findings within 6 months after receipt of the subrecipient's audit report
- Subrecipients took timely and appropriate corrective action on all audit findings.
- Sanctions are taken (or other appropriate action) in cases of continued inability or unwillingness of a subrecipient to have the required audits.

NOTE: The control may be that someone checks with SAO, on the SAO website or with the subrecipient to determine if an audit was completed and the results. The auditee should make or retain documentation of this process.

Evaluation of Results: Did you identify any control deficiencies? If yes, you must:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as "LOW" when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

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Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

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.

Subrecipient means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. State agencies cannot be subrecipients of another state agency. (Note: there are a few very rare exceptions, such as some FEMA awards, where a federal grantor may specify state agencies be treated as subrecipients). Please keep in mind, however, that if the managing state agency gives federal funds to a second state agency, we may need to test subrecipient monitoring at the second agency.

DEFINITION OF “FIRST TIER” SUBRECIPIENT

First tier subrecipients are those that receive federal awards from direct (prime) recipients. For example, state agencies are often direct (prime) recipients of grant funds. If a state agency passes the funding through to a local government, the local government is the first tier subrecipient. Similarly, some local governments receive federal awards directly from a federal agency. In this case, the local government is the direct (prime) recipient. Then, if the local government passes funding through to another local government or non-profit, the receiving local government/non-profit is the first tier subrecipient.

SUBRECIPIENT CONTRACTS – IDENTIFICATION ELEMENTS

Subaward contracts must include the following elements per federal requirements per 2 CFR section 200.331(a)(1):

Subaward Contract Checklist

Element	Element
(i) Subrecipient name (which must match the name associated with its unique entity identifier);	(viii) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
(ii) Subrecipient's unique entity identifier;	(ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
(iii) Federal Award Identification Number (FAIN);	(x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;

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(iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency;	(xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
(v) Subaward Period of Performance Start and End Date;	(xii) Identification of whether the award is R&D; and
(vi) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;	(xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).
(vii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;	

SUBRECIPIENT RISK EVALUATIONS

PTEs must perform a risk assessment for every subrecipient to determine and support their level of monitoring (2 CFR section 200.331(b)). This evaluation may include consideration of:

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

IS THE LEVEL OF MONITORING REASONABLE?

The auditor may need to consider whether the amount of oversight is reasonable. Factors such as the size of awards, percentage of the total program's funds awarded to subrecipients, and the complexity of the compliance requirements may influence the extent of monitoring procedures. See additional monitoring considerations below. If there are significant concerns regarding monitoring, contact the Single Audit Specialist.

A. 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 the single audit is not 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 should 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,

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monitoring during the agreement, and post-award audits (2 CFR section 200.501(h)).

B. PTE AGREED-UPON PROCEDURES ENGAGEMENTS

A pass-through entity may arrange for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations. Since the pass-through entity determines the procedures to be used and compliance areas to be tested, these agreed-upon procedures engagements enable the pass-through entity to target the coverage to areas of greatest risk. The pass-through entity's costs of agreed-upon procedures engagements is allocable to the federal award if the agreed-upon procedures are performed for subrecipients below the single audit threshold for audit (currently at \$750,000 for fiscal years ending on or after December 31, 2015) **AND** the AUP is limited in scope to one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; and reporting (Uniform Guidance 2 CFR §200.425 Audit services).

C. FIXED AMOUNT SUBAWARDS

Per 2 CFR 200.332, with prior written approval from the Federal awarding agency, a pass-through entity may provide subawards based on fixed amounts up to \$150,000, provided that the subawards meet the requirements for fixed amount awards in 2 CFR 200.201. Except in the case of termination before completion, there is no governmental review of the actual costs incurred by the awardee in performance of these fixed amount subawards.

Record of Work Done.

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at Low.

Gather Information

Step 2

Review the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Subrecipient Monitoring.

Understanding of Internal Controls

Step 3

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In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We were provided a Federal audit report DOJ OIG Final Audit Report performed by the Office of Inspector General (**OIG**) regarding the Crime Victims Program. The following internal control weaknesses were identified:

- Grant Program Planning and Execution – OIG found the WA DOC and one (DSHS) of its two state-level pass-through agencies awarded VOCA and non-VOCA funds indistinguishably to subrecipients. As such, the passthrough agencies, as well as subrecipients, did not separately account for VOCA funds. The WA DOC lacked a comprehensive grants administration manual and a standardized procedure for evaluating its competitive subaward opportunities. The WA DOC did not ensure accuracy and consistency of its subaward templates.
- Grant Financial Management – OIG could not determine whether the WA DOC and its two passthrough agencies complied with the 5 percent administrative expenditures limit. Due to the commingled environment at some subrecipients, OIG limited their testing to subawards funded with VOCA grants. OIG found WA DOC inadequately supported \$70,207 in subrecipient expenditures and \$3,312 in match contributions.
- We will consider these risks during the course of our audit.

We requested the Department's written policies and procedures related to the Subrecipient Monitoring. We were provided the following: CSHD-Division-Procedure-Allocating Obligations by Contractor, Monitoring procedure, and , page 27.

Nicky Gleason is the VOCA Administrator and point of contact for audit purposes. The CVA program is separated into two sections, Sexual Assault, lead by Trisha Smith, and Core Services, lead by Nicky Gleason. The Section supervisors are commonly referred to as Program Managers. The two sections are further broken down into federal and state programs which are lead by Commerce Specialist 3's (**CS3**), commonly referred to as Grant Managers. There are also Commerce Specialist two's (**CS2**) who are each assigned a group of subrecipients. CS2's are

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commonly referred to as program coordinators, or subrecipient grant managers. Note: On March 13, 2020, all commerce staff were sent home to begin teleworking due to the coronavirus pandemic. At that time, staff began using their emails for signature authority for review and approval of documentation.

(a) Subrecipient Contracts:

The Commerce contracts office creates boilerplate contracts that include commerce language. Section Leads take the boilerplates from Intracom and add necessary federal language in Special Terms & Conditions. **KC1- The Section Leads (Currently Nicky Gleason and Trisha Smith) ensure that the federal requirements including 2 CFR section 200.331(a)(1) elements is added to the boilerplate special terms and conditions of each subaward. (Control Activities)** To determine the budget allocations for each subaward, the VOCA Administrator (Nicky) as well as Sexual Assault (SA) Section Lead (Trisha) and DSHS Domestic Violence program leads review the entire award budget and calculate the VOCA State Plan percentages and earmarking amounts upon receipt of federal award. Using the state VOCA Plan, allocations for different procurements are identified. This information is communicated to the Program Budget Analyst during the allotment process prior to the start of each biennium so that the appropriate amount can be allotted to each Master Index (MI) code. The amount available for each procurement is identified and confirmed when the procurement documents are drafted. *For example, if a particular federal award is for \$10,000,000 and 8.4% is indicated in the VOCA State Plan, there will be \$840,000 available for that grant type over the four year life of the federal award, but programmatically it may be preferable to give out half of that amount during one procurement and the other half the following year, depending on the procurement.* The procurement is finalized, posted, and the procurement process results in successful applicants, at which point the Community Services and Housing Division's Allocation Obligations by Contractor process ([CSHD- Division-Procedure-Allocating Obligations by Contractor](#)) is followed to solicit approval to obligate to various MI's. Once the obligations have been approved, notifications are sent to successful and unsuccessful bidders, and contracts are negotiated. When negotiations are final, the MI coding from the approved Obligation Spreadsheet is entered into CMS for each contract by the Commerce Specialist 1 generating the contract document. In situations where there is

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more than one MI code, if the contract negotiation results in a reduction of the total contract budget, the Section Lead is consulted to identify which MI code should be reduced. For the SA Formula programs (Core, Spec, etc.) where there is VOCA and General Fund State (GFS) – the MI Allocation break down is not finalized at the time of obligation meeting. At the obligation meeting the SA Section Lead receives approval for the total amounts of VOCA and GFS to obligate, the nuances of how much are in each contract are finalized after obligation approval. The SA Section lead updates the obligation approval worksheet as individual subrecipient contracts are finalized. Section Leads review the CMS data entry to confirm that the MI allocations match those on the Obligation Spreadsheet prior to final contract execution. The final contract is reviewed by support staff for errors. **KC2- Diane Klontz, Assistant Director, reviews and approves contracts to ensure budget capacity, the use of the established boilerplate template which includes subrecipient audit submittal requirements. (Control Activities, Information and Communication)**

(b) Risk Assessments:

KC3- Every grant application selected for funding via relevant procurement process gets a "pre-grant risk assessment" to determine if the applicant should or should not be funded. (Control Activities, Risk Assessment) This is done using the Pre-grant Assessment Tool. This tool is uniform for the whole unit and required by Commerce policy. Once the pre-grant risk assessment is complete, grant managers/CS2's and CS3's update the applicable Grant Tracker, print the pre grant assessment form, and put it in the front of the contract binder. After the subaward is executed, **KC4- Grant managers/CS2's and CS3's complete the "program risk assessment" to establish monitoring level needed. (Risk Assessment, Monitoring)**

Commerce Specialists send out a "Grantee Information Form" prior to the beginning of the biennium to all subgrantees. If a new subrecipient is identified mid-biennium, after the initial collection of documents, a Grantee Information Form is sent to the new subrecipient. These are tracked and saved in a central file on the Commerce S drive so all programs can reference the same form for common grantees. One Risk assessment per grantee per section, will be conducted on the "riskiest" grant each section manages, which is defined as the one with the most

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contracted dollars. For example, if an agency receives \$67,000 for CVSC and \$95,000 for Expansion/Enhancement, the risk assessment is done through the lens of the Expansion/Enhancement grant, and the score applied to all lesser grants. Grant managers/CS2's and CS3's use the Grantee Information Forms saved on the Commerce S drive to help score the Risk Assessment Tool. Once the Risk Assessment is complete, grant managers update the applicable Grant Tracker and create monitoring plans according to the risk assessment scores.

(c) Monitoring: Subrecipients are monitored to ensure that federal awards are used for authorized purposes and in accordance with Federal statutes, regulations, and the terms and conditions of the Federal award. The auditee must have a process in place to provide reasonable assurance that it can prevent or detect non-compliance or unallowable costs.

KC5- Grant Managers monitor grantee compliance and grant performance in accordance with OFM guidelines, Federal program rules, and Department of Commerce processes as well as OCVA policy and procedures within the contract year. (Control Activities, Monitoring) This is to ensure high-quality services are being provided to victims of crime in every community in Washington by monitoring the contractual compliance of grantees. Grant Managers complete the program risk assessment in conjunction with review of the program application and accompanying certifications and assurances. Grant Managers develop formal monitoring plans based on the risk assessment determination. For details on how monitoring is conducted for each level (High, Medium, and Low) see: [Monitoring procedure](#).

During the reimbursement request process, subrecipients are also monitored for allowable activities. **KC6- Assigned Commerce Specialists with direct knowledge of the activities performed under awards with subrecipients are reviewing and approving payments, for accuracy and correct Period of Performance. (Control Activities)**

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(d) Subrecipients' Audits:

Subrecipients' Audits: Jean provided us a copy of the recently approved revised written policy and procedure POL 08-02-00 for ensuring the Department receives federally required audits and monitoring grantee requirements. The policy and procedure describe how monitoring of subrecipients' Single Audit reports are completed centrally in the Internal Audit department. The programs only perform follow-up on findings identified during the Single Audit report review process. Program Managers also use approved federal boilerplate templates containing specific language informing subrecipients of the requirement to have a Single Audit if they expend \$750,000 or more in federal awards.

Subrecipients expending more than \$750,000

KC7- Quarterly, the Internal Auditor (Shanna-Mae Cullen-Oden) uses the Contract Management System (CMS) to run reports and verify the required Single Audits have been obtained for subrecipients. (Control Activities) The system has the ability to store audit reports, search by contract or vendor number for audit reports, record the date audit reports are received and imported into the system and track any requests for management decision letters. The Internal Auditor generates a CMS Audit Tracking Extract report for Single Audit reports each quarter to identify grantees who receive over \$750,000 in federal funds from Commerce. The report is able to be filtered to see who has not submitted the required audit report. Shanna-Mae mentioned that CMS can generate reports to identify subrecipients by their fiscal year-end and the date the audit reports are due (9 months after the fiscal year-end). When the contract information is entered into CMS, "fiscal year-end" is a required field. The Department uses CMS to track subrecipients who have expended \$750,000 or more in Federal funds and ensure they have received a Single Audit.

Audits are received either by mail or email and then uploaded into CMS by the Internal Auditor. The Internal Auditor is also on the SAO email list, which means Commerce receives notification when SAO has released an audit report. The Internal Auditor will automatically upload the audit reports when the Department receives notification from SAO.

During review of the audit reports, the Internal Auditor will determine if there was a finding related to one of the

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Department's programs. If there is a finding, the Internal Auditor will contact the contractor via email and request follow up documentation and determine if the finding has been corrected. If the contractor does not respond, the Internal Auditor will reach out to program staff for assistance. It is then the program's responsibility to follow-up with a management decision letter and ensure the subrecipient has completed a corrective action plan. If in the audit report provided, the auditor documents that the corrective action needed has been completed, the Internal Auditor will not follow up with the agency as it is not necessary.

Subrecipients expending less than \$750,000

The Internal Auditor generates a CMS Audit Contracts by Program Extract Report quarterly to identify grantees that receive from \$1 to \$750,000 in federal funds from Commerce. The Internal Auditor then filters the report to see those that have not sent an audit report. This is done quarterly to monitor which subrecipients need to be contacted and followed up with. The Department sends an Audit Verification Form to subrecipients to complete stating if they are subject to a Single Audit or if they are exempt and for what reasons. For those grantees for which an audit report has not been received, the Internal Auditor sends an email with the Audit Verification Form and requests that the form be completed and sent to auditreview@commerce.wa.gov along with the audit report, if required. If the Internal Auditor does not receive the audit, or an exemption form, they will contact program staff who are more closely involved in the day to day activities to pursue the subrecipient audit further.

The Internal Auditor will then upload the received documents into CMS and update the audit tab in CMS with the necessary information. She will run the same CMS Audit Contracts report again after 30 days to see which subrecipients she contacted have not sent the required documentation. The Internal Auditor will also check the Federal Audit Clearinghouse (FAC) for a required audit. For those that do not respond, the Internal Auditor follows-up by sending a reminder email. If still no response, the Internal Auditor will call the subrecipient directly. Generally, all subrecipients provide their audit reports, however, in the instance a sub neglects to respond, the specific Commerce program monitor will be notified and will follow up in person.

Because CMS does not have the ability to filter “for profits” the common issues that arise are when these entities

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show up in the report but they are not required to receive a single audit. Instances like this will be documented in the notes of CMS. For instances like this if the Internal Auditor is not certain whether the agency is for profit, they will either reach out to the entity or the program staff and determine if they are for profit and update the notes in CMS.

There are instances when small entities do not submit their verification forms on time due to them not being aware of what a single audit is. In these cases the Internal Auditor will contact program staff or call them directly. In many instances, these small entities are submitting financial audits in which the Internal Auditor is able to view their expenditures and grants and determine if they have not expended over \$750,000. She will then document this in CMS.

Shanna-Mae Cullen-Oden left Commerce employment July 15, 2020. She confirmed with Jean that all audit findings for audits received during FY2020 were resolved prior to her departure and that our process understanding is accurate for SFY2020. The new policy and procedure takes effect for FY 2021 and the update is to notify subrecipients one-month in advance of their audit due date if Commerce hasn't received their single audit. For entities with single audit due dates of the last day of March, April, May, and June during SFY 2020, the federal government issued an extension of due dates extending the deadline 6 months due to the coronavirus pandemic. The following table shows the revised single audit submission deadline under memorandum M-20-26:

Please note that the earlier memorandum's extension for fiscal year-ends happening from January 1 through June 30, 2020, has been rescinded.

Normal 9-month deadline	Extension past the normal deadline
March 30 – June 30	2020 Six months
July 31 – September 30	2020 Three months

Summary of key internal controls

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Control weakness: We were not provided any policy or procedure related to the subrecipient awarding process.

KC1- The Section Leads (Currently Nicky Gleason and Trisha Smith) ensure that the federal requirements including 2 CFR section 200.331(a)(1) elements is added to the boilerplate special terms and conditions of each subaward. (Control Activities)

KC2- Diane Klontz, Assistant Director, reviews and approves contracts to ensure budget capacity, the use of the established boilerplate template which includes subrecipient audit submittal requirements. (Control Activities, Information and Communication)

KC3- Every grant application selected for funding via relevant procurement process gets a "pre-grant risk assessment" to determine if the applicant should or should not be funded. (Control Activities, Risk Assessment)

KC4- Grant managers/CS2's and CS3's complete the "program risk assessment" to establish monitoring level needed. (Risk Assessment, Monitoring)

KC5- Grant Managers monitor grantee compliance and grant performance in accordance with OFM guidelines, Federal program rules, and Department of Commerce processes as well as OCVA policy and procedures within the contract year. (Control Activities, Monitoring)

KC6- Assigned Commerce Specialists with direct knowledge of the activities performed under awards with subrecipients are reviewing and approving payments, for accuracy and correct Period of Performance. (Control Activities)

KC7- Quarterly, the Internal Auditor (Shanna-Mae Cullen-Oden) uses the Contract Management System (CMS) to run reports and verify the required Single Audits have been obtained for subrecipients. (Control Activities)

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant

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requirements. We will perform testing below to determine if we can place reliance on the controls.

C.4.PRG - 16.575 Crime Victim Assistance

Procedure Step: DSHS- A-B. Activities Allowed/Cost Principles - Controls

Prepared By: BLM, 2/2/2021

Reviewed By: LSD, 2/9/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has in place to provide reasonable assurance that Federal awards are expended only for allowable activities and that expenditures charged to the Federal award are allowable and in accordance with the applicable cost principles.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Stephanie Condon, Section Supervisor

Conclusion:

Based on our understanding of internal controls over Activities Allowed and Cost Principles, we assessed preliminary control risk as **LOW**.

Testing Strategy.*

A-B. Activities Allowed/Cost Principles - **Post Uniform Guidance Awards**

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Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the *Inherent and Internal Control Risk Guidance* that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review scope of work

Allowable Activities - Determine which activities and types of costs are specifically allowed or unallowed, by reviewing the following:

1. Award agreement or approved application for scope of work, terms and conditions, and approved budget.
2. Part 4 of the Compliance Supplement that applies to your audit period.
3. Available program guidelines or handbooks. (Ex. WSDOT's LAG Manual)
4. If above information is not available, look to the federal regulations (contact the single audit specialist if you need assistance with this).

Requirements for Cost Principles are found as follows:

Pre-UG: OMB Circular A-87

UG: 2 CFR 200, Subpart E.

Please be familiar with these requirements as not all are listed below; only parts emphasized in the Compliance Supplement are listed below.

Quantitatively Material

Identify the expenditure activities that are directly charged to the program and are quantitatively material (more than 5%).

Direct Costs

Payroll Expenditures: When payroll costs are selected for our single audit, our focus is on whether the portion of payroll charged to the program (allocation) is supported by appropriate time and effort and meets the cost principles. Note that awarding agencies may require specific forms of documentation to support payroll charged to its award.

Compensated Absences (leave cash-outs or accrual): The entity may include employees' use of leave (which is included in their regular salary payments). If the entity charges any **leave cash-outs** or the **accrual of leave** to the grant, there are special rules, see extra guidance in the policy tab. There is a high risk the costs are unallowable.

Non-Payroll Expenditures: Generally, auditors should test internal controls and compliance for non-payroll expenditures when those costs are quantitatively material (5%) to the program.

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Automated Controls: If you identify key internal controls that are automated, consult with the SWSA Supervisor or SWSA AIC to determine whether to request automated control work from Team IT audit.

Indirect Costs

Determine whether the agency has recovered indirect costs via an indirect cost rate or cost allocation plan and, if so, how much was expended. If indirect costs are material to the program the auditor must test the internal controls (and compliance) over them when those costs are quantitatively material (5%) to the program.

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement. These are discussed in the **policy tab** in further detail, for when indirect costs are material to the program.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

Special – Review In-process Proposals: If the entity is preparing an Indirect Cost Rate Proposal during the audit period in order to submit it to the federal cognizant agency, we are required to review the accuracy of the base data and calculations.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

(a) Activities Allowed: grant funds are used only for allowable activities (this may include review of expenditures, program monitoring, preparing the reimbursement requests, establishment of programs);

(b) Cost Principles: direct and indirect costs charged to the grant comply with the cost principles set forth in 2 CFR 200 Subpart E (this may or may not be the same control activity for (a))

(c) Activities Allowed-Indirect Costs: if material (5%), the entity uses the proper indirect cost rate (per approved plan or rate, de minimis only when it is

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applicable, or another rate established by contract). Controls should also focus on how the entity properly calculates the direct cost base that the indirect rate is applied to. For instance, the controls should ensure that they are using only allowable types of costs in the MTDC or other direct base as applicable, that those costs are not used twice or that they occurred during the contract's period of performance. Note: These controls are likely **different** than those in (a) and possibly (b).

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as "**LOW**" when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, schedule a meeting with the SWSA AIC and Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit.

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

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Basic Cost Principles (2 CFR 200.402 – 409)

DEFINITIONS

Cost means an amount as determined on a cash, accrual, or other basis of accounting acceptable to the Federal awarding or cognizant agency.

Cost objective means a function, organizational subdivision, contract, grant, or other work unit for which cost data are needed and for which provision is made to accumulate and measure the cost of processes, projects, jobs and capitalized projects.

Direct costs are those that can be identified specifically with a particular final cost objective (i.e., a particular award, project, service, or other direct activity of an organization). Examples of Direct Costs: payroll costs of employees who perform work that is directly related to the grant program; the cost of supplies and materials used for the purpose of the grant; equipment and other approved capital expenditures made for the grant; or professional services contracted to accomplish specific grant/contract objectives.

Indirect costs are those costs incurred for a common or institution-wide objective that benefits more than one grant program or project. Such costs are not readily assignable to the cost objective specifically benefited. Examples of Indirect Costs: depreciation and use allowances of non-federal equipment and buildings; facility operation and maintenance (lights, heat, phone, janitorial, grounds, etc); and general administrative expenses such as accounting, payroll, legal and data processing expenses.

GENERAL COST PRINCIPLES AFFECTING ALLOWABILITY OF COSTS (2 CFR 200.403)

- (a) Be **necessary** and **reasonable** for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any **limitations** or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be **consistent** with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) 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.
- (e) 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 this part.
- (f) **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. See also §200.306 Cost sharing or matching paragraph (b).
- (g) Be **adequately documented**. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

What is a Reasonable Cost (§200.404)? (cost principles)

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A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Other factors that must be considered in determining whether a cost is reasonable are:

whether the cost is generally considered as ordinary and necessary to the operation of the grantee or the performance of the federal award/program;

the restraints or requirements imposed by such factors as sound business practices, arms-length bargaining, federal, state and other laws and regulations, and terms and conditions of other federal awards, or sponsored agreements;

market prices for comparable goods and services;

whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the grantee, its employees, where applicable its students or membership, the public at large, and the federal government;

whether the grantee significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal awards costs.

EXAMPLES:

1. A grantee is planning to purchase computers and printers with federal funds. The purchasing agent obtained phone quotes from three contractors. One contractor has a direct family relationship with the grantee's purchasing agent. It so happens that this contractor's quote was 20% higher than the other two. The grantee should not contract with this contractor because the price is unreasonable and has a conflict of interest (regardless of the price).

2. A grantee has been permitted in its grant contract to lease a vehicle so that it can travel within its region to deliver grant-related services to clients. The grantee has obtained quotes for a standard 4-door sedan and a luxury 4-wheel drive SUV that is twice the cost of the sedan. Which vehicle should the grantee choose? This is not to say a 4-wheel drive is not necessary or reasonable, but the price may dictate the type or model of vehicle.

What is an Allocable Cost (§200.405)? (cost principles)

A cost is considered allocable if the goods or services involved are chargeable or assignable to the federal award or cost objective (i.e., a specific function, project, sponsored agreement, service, or grant) in accordance with the relative benefits received.

Any cost allocable to a particular federal award may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions

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imposed by federal statutes, regulations, or terms and conditions of federal awards, or for other reasons.

If a grantee intends to recover the portion of its indirect costs (overhead, central administration, etc.) that relates to its grant programs, Uniform Guidance requires the grantee to develop a central service cost allocation plan and/or indirect cost rate proposal. Requirements pertaining to central service cost allocation plans and indirect cost proposals are found in Appendix III-VII to Part 200 (Uniform Guidance).

EXAMPLES:

1. An employee works on two different federal grant projects. The time spent on each project varies from day to day. This employee must keep monthly time and effort records that account for actual time spent on each project. By tracking actual effort, each grant will be charged its fair share of the costs.
2. A grantee held a training workshop for its employees. Included in the cost of the workshop was room rental, food, and travel. The workshop included a session that was specific to a federal program and a session that covered general personnel and human effectiveness training. The grantee should allocate the cost of the training among all programs/divisions that benefited from the training. Next, it should charge the allocated amount only to those awards that specifically allow for this type of cost.

Applicable Credits (§200.406) (cost principles)

A "credit" means a receipt or reduction in expenditures that offset or reduce direct or indirect cost items. Examples include:

- purchase discounts;
- rebates or allowances;
- recoveries or indemnities on losses;
- insurance refunds or rebates; and
- adjustments of overpayments or erroneous charges.

When such credits are applicable to allowable costs, they must be credited to the federal award either as a cost reduction or a cash refund. In some instances, the amounts received from the federal government to finance a grantee's activities or service operations should be treated as applicable credits.

EXAMPLE:

A grantee paid a contractor for materials it needed for a project. It was determined later that the vendor had over-billed the grantee and was issuing a refund check. This refund should be netted against the total amount charged to the grant as a cost reduction. If the grant project had already been closed out, the refund should be remitted to the grantor agency that sponsored the project. Consult with the grantor agency in such a case.

Prior written approval (§200.407) (cost principles)

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Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following sections of this part:

- (a) §200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);
- (b) §200.306 Cost sharing or matching;
- (c) §200.307 Program income;
- (d) §200.308 Revision of budget and program plans;
- (e) §200.311 Real property;
- (f) §200.313 Equipment;
- (g) §200.332 Fixed amount subawards;
- (h) §200.413 Direct costs, paragraph (c);
- (i) §200.430 Compensation—personal services, paragraph (h);
- (j) §200.431 Compensation—fringe benefits;
- (k) §200.438 Entertainment costs;
- (l) §200.439 Equipment and other capital expenditures;
- (m) §200.440 Exchange rates;
- (n) §200.441 Fines, penalties, damages and other settlements;
- (o) §200.442 Fund raising and investment management costs;
- (p) §200.445 Goods or services for personal use;
- (q) §200.447 Insurance and indemnification;
- (r) §200.454 Memberships, subscriptions, and professional activity costs, paragraph (c);
- (s) §200.455 Organization costs;
- (t) §200.456 Participant support costs;
- (u) §200.458 Pre-award costs;
- (v) §200.462 Rearrangement and reconversion costs;
- (w) §200.467 Selling and marketing costs;
- (x) §200.470 Taxes (including Value Added Tax); and
- (y) §200.474 Travel costs.

Consistency (2 CFR §200.403(d) (cost principles)

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.

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EXAMPLE:

A grantee has five departments. It allocates the cost of its basic telephone service to each department based on the number of telephones in each department. Each department should treat the telephone cost consistently for all grants it administers. That is, if a department has 3 grant programs, that department should treat this telephone cost as either a direct cost or indirect cost for all 3 grants, but not a mix of each. Next, if treated as a direct cost, a department should only request reimbursement for this type of cost if permitted under the terms of its grant agreement(s).

Grant Agreement Limitations (§200.408) (cost principles)

To be allowable, the cost being charged must conform to any limitations or exclusions set forth in the terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

EXAMPLE:

A grantee paid for a television advertisement to promote its new grant-funded health program. However, the approved grant contract limited the cost of advertising to brochures and radio ads. Therefore, the grantee should not include the cost of the television advertisement in its request for reimbursement even though “advertising” is an otherwise allowable cost according to Circular A-87.

Adequate Supporting Documentation (2 CFR §200.403(g) (cost principles)

Amounts charged to federal awards must be supported by source documentation, including:

- payroll reports
- time and attendance records
- invoice vouchers from subrecipients
- receiving reports
- original vendor invoices
- cost allocation plans

(Documentation may be in an electronic form, but make sure the integrity of the electronic documentation can be maintained for the duration of the applicable record retention period).

EXAMPLE:

A grantee made a year-end adjustment to a federal award using a journal voucher entry. The accounting entry must be supported by adequate documentation that demonstrates both allowability and allocability.

SMALL POPULATION – SELECTION SIZE

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Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

ADDITIONAL TESTING SELECTION INFO & EXAMPLES

<i>Selection Options</i>		
Method	Process	Next Steps
Sampling	This is the preferred method for large populations (over 365). Use sampling tool from teammate.	Get the sample tool from Teammate. Take the sampling training if needed.
Haphazard Selection	May use for populations less than 365. Auditor haphazardly picks transactions. It feels random but only true "random" samples can be done by the computer in the sampling method.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab)
Judgmental Selection	May use for populations less than 365. The auditor has a specific reason, associated with a risk, to pick certain or certain transactions. Explain risks in the ROWD and how transactions not selected are lower risk.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab). See examples there.

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Judgmental Population	First, the auditor has a specific reason, associated with a risk, to pick certain types of transactions (judgmental population). Explain risks in the ROWD and how populations not selected are lower risk (you can refer to the testing strategy if we have done this for you already). Next, the auditor selects transaction from the judgmental population using the sampling method above.	Get sample tool from Teammate. Take training for the form if needed.
All quantitatively material transactions	Use only when a few very large transactions make up the majority of grant activity. You will test all of these material transactions.	Keep in mind: If 10% or more of the population is made up of <i>other</i> types of costs, those transactions should be tested in some way, as well.

DUAL PURPOSE TESTING EXAMPLE

For allowable costs the key control is, "The Business Manager reviews the reimbursement request, reconciling the items requested to invoices to determine they are supported and allowable." You will test it by reperforming the Business Manager's review to determine if it is effective in preventing and detecting noncompliance. You may check the requests to see if they have the Business Manager's signature of approval but that will only tell you if they consistently do it, which is important. However, you should reperform the control.

To complete compliance testing you are tracing expenditures from the requests to support to determine if they are supported and allowable per the program.

In this case, for testing both controls and compliance you are completing the same process. However, you need to document that you tested both and clearly show the conclusion of each even though they are related. Control testing should conclude whether the control was effective in preventing or detecting noncompliance and compliance testing whether the entity was in compliance.

INDIRECT COST UNDERSTANDING OF RATES/ALLOCATIONS

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

1. Rate Provided by Grantor: The federal grantor or PTE can give the entity an indirect cost rate in the award, usually outlined in the budget

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section and based on the availability of funding. There is no separate or formal rate agreement and it is not considered negotiated.

2. Use PTE Negotiated Rate: The federal grantor, PTE or federal guidance can require the entity to use PTE's negotiated indirect cost rate. This requirement can be found in the Compliance Supplement and federal pass-through guidance. The PTE will place the rate in their award with the entity. This is common for school districts.

3. De Minimis Indirect Cost Rate: If the entity elects to use the de minimis rate, a flat 10% (of Modified Total Direct Costs), in their grant application, no direct or pass-through grantor can deny its use so long as the entity qualifies.

Restrictions: The entity can use the method so long as they have **never** had a negotiated indirect cost rate or allocation plan approved by the federal cognizant agency **or** the PTE.

UPDATED GUIDANCE: Federal guidance now clarifies that negotiated rates and allocation plans negotiated by **PTEs** can prevent the use of the de minimis rate.

Consistency: If used, the entity must use the de minimis method for all of their Uniform Guidance federal programs that allow indirect costs.

Rate: Indirect costs are calculated as base costs multiplied by a flat 10% rate that does not require a true-up to actual indirect expenses.

Base Used: The 10% is multiplied by the modified total direct costs (MTDC) base.

<i>MTDC Base</i>	
Includes	Excludes
Direct Salaries & Wages	Equipment & Capital Expenditures
Direct Fringe Benefits	Charges for Patient Care
Materials & Supplies	Participant Support Costs
Services	Rental Costs
Travel	Tuition remission, Scholarships & Fellowships
Up to \$25,000 of <i>each</i> subaward (regardless of the period of performance)	The portion of each subaward in excess of \$25,000

4. Negotiated Rates & Allocation Plans – Cognizant Agency: Only major governments are required to obtain a cognizant agency approved negotiated rate or allocation plan. Smaller governments can opt to do so. The "cognizant agency for indirect costs" is designated as:

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For central service cost allocation plans: the federal agency with the largest dollar value of *total* federal awards

For indirect cost rates and cost allocation plans: the federal agency with the largest dollar value of *direct* federal awards

Once designated, the federal entity remains the cognizant agency for five years. Under this method, the entity will be awarded a formal contract for the rate/allocation. All awarding agencies must accept the rate/allocation plan when the entity elects to use it in their program application.

Various allocation plans can be approved, but there are four types of rates:

1. **Provisional:** The provisional rate is temporary and expires upon the completion of the federal award. It requires a true-up to actual expenditures by the end of the project or whenever the entity obtains a final rate. The rate is adjusted by using the final rate.
2. **Final:** The rate is permanent and is calculated after the actual costs are known (i.e. at the conclusion of the federal project). It is used to adjust the indirect costs from the provisional rate.
3. **Predetermined:** This is a permanent rate and is calculated using actual costs from previous periods. It does not require a true-up to correspond with actual current year costs. The rate is effective between two to five years.
4. **Fixed:** This is a permanent rate and is calculated using actual costs from previous periods. It requires a true-up to correspond with actual current year costs. The variance between the costs used to create the rate and the actual costs incurred during the year the rate was used is carried-forward as an adjustment to the current rate. The entity will either recover or “pay back” the variance going forward. The rate is effective for two years and then can be annually renewed.

5. Negotiated Rates & Allocation Plans – PTE: Indirect Cost Rate Proposals and Cost Allocation Plans are not required by UG to be submitted to/approved by PTE's, but the PTEs may require it. Usually a formal contract for the rate/allocation is not issued and they just review and/or approve the plan instead. Other pass-through entities are not required accept the rate/allocation plan but they can choose to accept it.

METHODS OF INDIRECT COST RATE CALCULATION

(1) The specific methods for allocating indirect costs and computing indirect cost rates are as follows:

(a) *Simplified Method* – This method is applicable where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect cost to approximately the same degree. The allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures described in 2 CFR part 200, Appendix VII, paragraph C.2.

Multiple Allocation Base Method – This method is applicable where a governmental unit's department or agency has several major functions that benefit from its indirect costs in varying degrees. The allocation of indirect costs may require the accumulation of such costs into separate groupings which are then allocated individually to benefiting functions by means of a base which best measures the

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relative degree of benefit. (For detailed information, refer to 2 CFR part 200, Appendix VII, paragraph C.3.)

(c) *Special Indirect Cost Rates* – In some instances, a single indirect cost rate for all activities of a department or agency may not be appropriate. Different factors may substantially affect the indirect costs applicable to a particular program or group of programs, e.g., the physical location of the work, the nature of the facilities, or level of administrative support required. (For the requirements for a separate indirect cost rate, refer to 2 CFR part 200, Appendix VII, paragraph C.4.)

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

Record of Work Done.

For steps one and two see: A-B. Activities Allowed/Cost Principles - Controls.

Understanding of Internal Controls **Step 3**

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the Department's written policies and procedures related to Activities Allowed as part of gaining an understanding of internal controls. We were provided the following procedure: DV Services Budget Review & Invoice Processing - Program Staff.

On October 8th, 2020, we met with Stephanie Condon, Program Manager and section supervisor to discuss the process and controls in place in ensuring compliance with Activities Allowed.

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Subrecipient budgets:

During the application process, each subrecipient will submit a budget that details expected expenditures by expense category. These budgets are reviewed by one of the 3 program Managers (Mette Earlywine, Maureen Kelly, or Stephanie Condon) to ensure the identified expense categories are allowable per grant regulations, and that they appear to be reasonable for the expected work to be performed. Awards are also reviewed by the Fiscal Division for the overall distribution plan, prior to being authorized. Once the distribution plan is approved by fiscal, subrecipient budgets and subaward are signed. Subrecipients are then allowed to claim expenditures. The budget language states that any variances greater than \$2,000 to the budget categories must be pre-approved by the Program Manager. Any variance over \$2,000 must be requested and approved by a documented budget revision request form. Stephanie informed us that failure to obtain pre-approval may result in withholding of payment of an invoice that reflects an unapproved budget variance. **Key Control #1- Program Managers review and approve the budgets prior to award in order to ensure they only include allowable activities. (Control Activities)**

Subrecipient reimbursement requests:

Reimbursement requests are submitted through the use of an A-19-1A Invoice Voucher (A-19) and supporting documentation is required. It is not possible to submit requests unless an approved budget (i.e. contract has been executed) has been established. Subrecipients must submit an accurate and up-to-date budget when submitting A19's. **Key Control #2- Program Managers review A-19's and supporting documentation of expenditures, against the approved budget and the detailed scope of work to be performed (deliverables). (Control Activities)** If an expense is submitted that seems questionable, the program manager will collaborate with one of the other program managers and/or request clarifying information from the contractor to try to identify if it is appropriate. Program Managers have the latitude to make judgement calls. If an expense is unallowable, it will be denied and the reimbursement request will be reduced by the unallowable amount or the contractor will be asked to submit a revised reimbursement request that excludes the unallowable expense.

A fiscal review is conducted to provide additional assurance that payments are allowable and correctly charged.

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Key Control #3- Fiscal staff review each batch before approving to ensure coding, signatures and amounts are correct and charges are related to the appropriate time period. (Control Activities/Information and Communication) The Fiscal Analysts will confirm the State and Federal split by Master Index on the A-19 matches the approved budget, the contract has funding available, invoices for prior months of service have been paid, contract amendments that have been added are approved, and expenditures are being charged to the correct funding source. Upon confirming the accuracy of the fiscal documentation, the Fiscal Analyst will assign the invoices to a batch and document number.

Summary of key internal controls:

Key Control #1- Program Managers review and approve the budgets prior to award in order to ensure they only include allowable activities. (Control Activities)

Key Control #2- Program Managers review A-19's and supporting documentation of expenditures, against the approved budget and the detailed scope of work to be performed (deliverables). (Control Activities)

Key Control #3- Fiscal staff review each batch before approving to ensure coding, signatures and amounts are correct and charges are related to the appropriate time period. (Control Activities/Information and Communication)

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.4.PR.G - 16.575 Crime Victim Assistance

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Procedure Step: DSHS- M. Subrecipient Monitoring - Controls

Prepared By: BLM, 2/22/2021

Reviewed By: LSD, 2/24/2021

Purpose/Conclusion:

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, the impact of any subrecipient noncompliance on the pass-through entity is evaluated, and subrecipients obtained required audits and took appropriate corrective action on audit findings.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Stephanie Condon, Program Manager

Conclusion:

Based on our understanding of internal controls over Subrecipient Monitoring, we assessed preliminary control risk as **LOW**.

Testing Strategy:

Subrecipient Monitoring - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance

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requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

The general subrecipient monitoring requirements are described below. In addition to this information, review Part 4 of the Compliance Supplement, the grant agreement, and any available program guidelines to determine any unique requirements over Subrecipient Monitoring for the federal award you are auditing.

(a) Subrecipient Contracts – Identification Elements: The pass-through entity (PTE) must clearly identify the contract as a federal subaward when the subaward is made (or subsequent subaward modification). The contracts must include:

1. Specific federal identification elements per 2 CFR section 200.331(a)(1) – find a list of the 13 requirements in the Policy/Standards tab
2. All program requirements imposed on the PTE that are passed through to the subrecipient (federal statutes, regulations, and the terms and conditions of the PTE's award).
3. Any additional program requirements imposed by the PTE on the subrecipient.

Note: The auditor may be able to test suspension and debarment requirements while testing contracts for the other required elements. See testing strategy for Procurement/Suspension and Debarment.

(b) Risk Evaluations: PTEs must perform a risk assessment for every subrecipient to determine and support their level of monitoring. It is a best practice - but not required - to complete risk assessments before the subaward is made (unless specifically required by the grantor). Example considerations are in the Policy/Standards tab.

(c) Monitoring Activities: Monitoring activities must be reasonable based on the inherent risk of the program and subrecipient non-compliance. Auditors will need to use their judgement and consider any monitoring steps identified by the entity in the subrecipient risk evaluation or required by the award contract. At a minimum, subaward monitoring **must** include:

1. Reviewing financial, performance and special reports required by the PTE.
2. Ensuring the subrecipient receives a single audit (if required) and the subrecipient takes timely and appropriate action on all deficiencies from audits, on-site reviews, etc.
3. Issuing a management decision when their subrecipient receives audit findings for their program.

Subrecipient's Reimbursement Requests: When the PTE receives claims for reimbursement, they should either:

1. request copies of supporting documentation for costs included on the requests; or
2. ask the subrecipient retain supporting documentation for review for on-site visits (if part of the monitoring plan).

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Note: The pass-through agency is not expected to perform an extensive audit of the fiscal records, but it should have a process in place so that it can reasonably detect unallowable or unsupported costs.

Case-by-case Information: There is additional information for the auditor when the following situations occur. Find this information in the Policy/Standards tab as needed:

- A. For-Profit Subrecipients
- B. PTE Agreed-Upon Procedure Engagements
- C. Fixed-amount Subawards

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

(a) Subrecipient Contracts: The entity includes all necessary information in the subrecipient contract per 2 CFR section 200.331(a)(1).

NOTE: The control may be someone writes the contract to include all of the elements, someone reviews the contracts to specifically confirm all elements are included, or someone ensures they use an established contract template that includes the elements and periodically makes sure that template is up to date with the federal requirements (since elements may change over time).

(b) Risk Assessments: The auditee performs a risk assessment of each subrecipient to determine the appropriate level of monitoring.

(c) Monitoring: Subrecipients are monitored to ensure that federal awards are used for authorized purposes and in accordance with Federal statutes, regulations, and the terms and conditions of the Federal award. This includes monitoring the subrecipient to ensure they are performing eligibility determinations appropriately and accurately (as applicable). The auditee must have a process in place to provide reasonable assurance that they can prevent or detect non-compliance or unallowable costs.

(d) Subrecipients' Audits:

- Subrecipients receive a single audit if necessary.

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- Management decisions are issued on audit findings within 6 months after receipt of the subrecipient's audit report
- Subrecipients took timely and appropriate corrective action on all audit findings.
- Sanctions are taken (or other appropriate action) in cases of continued inability or unwillingness of a subrecipient to have the required audits.

NOTE: The control may be that someone checks with SAO, on the SAO website or with the subrecipient to determine if an audit was completed and the results. The auditee should make or retain documentation of this process.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as "LOW" when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

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.

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Subrecipient means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. State agencies cannot be subrecipients of another state agency. (Note: there are a few very rare exceptions, such as some FEMA awards, where a federal grantor may specify state agencies be treated as subrecipients). Please keep in mind, however, that if the managing state agency gives federal funds to a second state agency, we may need to test subrecipient monitoring at the second agency.

DEFINITION OF “FIRST TIER” SUBRECIPIENT

First tier subrecipients are those that receive federal awards from direct (prime) recipients. For example, state agencies are often direct (prime) recipients of grant funds. If a state agency passes the funding through to a local government, the local government is the first tier subrecipient. Similarly, some local governments receive federal awards directly from a federal agency. In this case, the local government is the direct (prime) recipient. Then, if the local government passes funding through to another local government or non-profit, the receiving local government/non-profit is the first tier subrecipient.

SUBRECIPIENT CONTRACTS – IDENTIFICATION ELEMENTS

Subaward contracts must include the following elements per federal requirements per 2 CFR section 200.331(a)(1):

Subaward Contract Checklist

Element	Element
(i) Subrecipient name (which must match the name associated with its unique entity identifier);	(viii) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
(ii) Subrecipient's unique entity identifier;	(ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
(iii) Federal Award Identification Number (FAIN);	(x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;
(iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency;	(xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
(v) Subaward Period of Performance Start and End Date;	(xii) Identification of whether the award is R&D; and
(vi) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;	(xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).

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(vii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;
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SUBRECIPIENT RISK EVALUATIONS

PTEs must perform a risk assessment for every subrecipient to determine and support their level of monitoring (2 CFR section 200.331(b)). This evaluation may include consideration of:

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

IS THE LEVEL OF MONITORING REASONABLE?

The auditor may need to consider whether the amount of oversight is reasonable. Factors such as the size of awards, percentage of the total program's funds awarded to subrecipients, and the complexity of the compliance requirements may influence the extent of monitoring procedures. See additional monitoring considerations below. If there are significant concerns regarding monitoring, contact the Single Audit Specialist.

A. 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 the single audit is not 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 should 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)).

B. PTE AGREED-UPON PROCEDURES ENGAGEMENTS

A pass-through entity may arrange for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations. Since the pass-through entity determines the procedures to be used and compliance areas to be tested, these agreed-upon procedures engagements enable the pass-through entity to target the coverage to areas of greatest risk. The pass-through entity's costs of agreed-upon procedures engagements is allocable to the federal award if the agreed-upon procedures are performed for subrecipients below the single audit threshold for audit (currently at \$750,000 for fiscal years ending on or after December 31, 2015) **AND** the AUP is limited in scope to one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; and reporting (Uniform Guidance 2 CFR §200.425 Audit services).

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C. FIXED AMOUNT SUBAWARDS

Per 2 CFR 200.332, with prior written approval from the Federal awarding agency, a pass-through entity may provide subawards based on fixed amounts up to \$150,000, provided that the subawards meet the requirements for fixed amount awards in 2 CFR 200.201. Except in the case of termination before completion, there is no governmental review of the actual costs incurred by the awardee in performance of these fixed amount subawards.

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance. In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at low.

Gather Information

Step 2

We reviewed the scope of work per the grant agreements and the Department of Justice (**DOJ**) Financial Guide: DOJ Financial Guide and the Victims of Crime Act (**VOCA**) Rule: ocva-voca-program-rule to determine specific requirements for Subrecipient Monitoring.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We were provided a Federal audit report performed by Office of Inspector General (**OIG**) regarding the Crime Victims Program. The following internal control weaknesses were identified:

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- Grant Program Planning and Execution – OIG found the WA DOC and one (**DSHS**) of its two state-level pass-through agencies awarded Victims of Crime Act (**VOCA**) and non-VOCA funds indistinguishably to subrecipients. As such, the pass through agencies, as well as subrecipients, did not separately account for VOCA funds. The WA DOC lacked a comprehensive grants administration manual and a standardized procedure for evaluating its competitive subaward opportunities. The WA DOC did not ensure accuracy and consistency of its subaward templates.
- Monitoring of Subrecipients – OIG found that one of the WA DOC's state-level pass-through agencies (**DSHS**) could enhance its monitoring of safety issues at domestic violence shelters. Finally, some of the subrecipients were at a risk of non-compliance with service standards due to a lack of state-level onsite monitoring plans. We will cover this risk as part of the normal course of our audit and no additional work is necessary.

We requested the Department's written policies and procedures related to Subrecipient Monitoring as part of gaining an understanding of internal controls. The Department provided written policies and procedures for the two different types of monitoring they have; Domestic Violence Emergency Shelters ([Contract Monitoring for DV Emergency Shelter Contracts](#)) and Competitively Procured Contracts ([Contract Monitoring - Competitively Procured Contracts 4 14 20](#)).

On October 7, 2020, we met with Stephanie Condon, Unit Administrator, to discuss the contracting process at DSHS regarding federal funding and the Crime Victim Assistance (**CVA**) program. For the Crime Victim Assistance Program at DSHS, there is a Unit Administrator, Stephanie Condon, and two Program Managers; Mette Earlywine, Competitively Procured Contracts, and Maureen Kelly, Emergency Shelters.

(a) Subrecipient Contracts: There are two types of subawards issued by DSHS for the CVA program; Annual renewals of Domestic Violence Emergency Shelters and Commerce approved Competitively Procured Contracts for direct services. Services include legal advocacy, housing and relocation advocacy and assistance, children's advocacy, support groups, therapy, psycho-educational groups, emergency assistance, and crisis intervention for domestic violence victims. Competitively procured contracts for domestic violence victim services were selected through the VOCA Victims and Survivors – Unmet Needs, VOCA Expansion and Enhancement, and VOCA By

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and For Services procurements. There may be multiple VOCA competitive initiatives RFPs/procurements (e.g. expansion/enhancement, unmet needs, etc.) conducted by Commerce within a state fiscal year, resulting in DSHS CVA subawards. Commerce approved Subrecipients are the Competitively Procured VOCA Contracts. Applications are emailed to Commerce and Commerce conducts evaluation and scoring of the applications based on the Request for Proposal criteria. Once all successful applicants are scored, Commerce selects the highest ranked applications until the funding capacity is reached. Once Commerce has conducted its evaluation process and determined the subrecipients that will be contracted with, the program manager at Commerce will email the program administrator and program manager at DSHS with a list of successful domestic violence services applicants and their funding applications, as the subrecipients that DSHS will subaward. The DSHS Program Manager will then contact the subrecipients and request any clarifications or additional information needed for the application and the suspension and debarment certifications and any other forms or information needed to complete the DSHS review. Once the program manager receives the applications, all requested information and suspension and debarment certification, the program manager will review the application for completeness, accuracy and scope of work to be completed. The program manager will then submit the request to generate the contract to the contracts office. Domestic Violence Emergency Shelters go through an annual renewal process. Applications are emailed directly to DSHS. The program manager will review the application and an annual compliance assessment for completeness, accuracy and scope of work to be completed. Each shelter will also submit an annual compliance assessment with its application. The program manager submits the request to generate the contract to the contracts office. There are typically 39 subawards issued for each state fiscal year. **KC1- The assigned Program Manager reviews each application for completeness, accuracy, budget category allowability, and scope of work to be completed. (Control Activities)**

The contracts office at DSHS requires 3 items to generate a subaward; The Contractor Intake Form, the Contractor Action and Approval Request (**CAAR**) that includes the amount of funding from each source (State or Federal), as well as the risk assessment that includes a monitoring plan. The assigned Program Manager will prepare the CAAR and submit to the Unit Administrator, Stephanie Condon for review. Once CAAR is approved by Unit

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Administrator, the Program Manager will submit the CAAR and contractor intake form to Central Contracts and Legal Services (CCLS). The General Terms and Conditions and additional General Terms and Conditions are designed and template for use by the Central Contracts and Legal Services, CCLS. This template used by CVA also includes suspension and debarment language in the General terms and conditions of the federal boilerplate that stipulates by signing the contract the subrecipient certifies that they are not suspended or debarred. Special Terms and Conditions are added by the contracts officer, Rob Bouick. Program Managers prepare the CAAR and send to Stephanie. Stephanie will review the CAAR to verify the subrecipients are correct, the subrecipient individual contract amounts are correct, the total CAAR approval amount is correct, contract purpose and CFDA information is correctly indicated. Once the CAAR is approved by Stephanie, the program manager forwards it to the contracts office who then routes it through budget and accounting. **KC2- The Program Administrator, Stephanie Condon, ensures that all necessary information including suspension and debarment is included in the subrecipient contract per 2 CFR section 200.331(a)(1). (Control Activities, Information and Communication)** Annually, Stephanie and the program managers identify needed template updates. Stephanie approves annual template updates identified and requested by program staff which the program managers then submit through the contracts office to CCLS. Once the updates are made, the templates are routed back through the contracts office to Stephanie and the Program Managers to ensure the template is accurate and complete.

There may also be contracts identified as after-the-fact contracts. These are contracts that are executed after the subaward period of performance start date. In this case, a justification memo is sent to the Community Services Division Director for approval immediately after executing the contract.

The contracts officer uses the Agency Contracts Database (ACD), to create and track all contracts. Once a contract has been prepared and is ready for subrecipient signature, the contracts officer marks the contract as “approved” in the ACD and will email the contract to the subrecipient. Once the subrecipient signs the contract and returns it to the contracts officer, the contracts officer signs the contract officially executing the contract, indicate in the ACD the contract is now active, a contract file is created in MODIS, an electronic filing system, and the subrecipient

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may begin requesting reimbursements.

Commerce informs DSHS by email to issue subawards prior to receiving its official Inter-Local Agreement (ILA) to expedite funding to subrecipients. The email includes the federal information necessary to initiate subawards.

(b) Risk Assessments and (c) Monitoring:

The program managers utilize the results of the risk assessments and the DV unit's monitoring procedures to develop contractor monitoring plans (Contract Monitoring for DV Emergency Shelter Contracts, Contract Monitoring - Competitively Procured Contracts 4 14 20) in accordance with Economic Services Administration (ESA) monitoring policy and with RCW 70.123.030 that requires that DSHS evaluate community-based domestic violence programs, emergency shelter programs, programs providing culturally or linguistically specific services, and programs providing prevention and intervention services to children or youth, and programs conducting domestic violence outreach and prevention activities receiving Departmental funds for compliance with the established minimum standards.

Risk assessment:

Risk assessment is completed prior to the contract execution and generally between April 1st and June 15th, for contracts with a July 1 sub-award state.; **KC3- Risk Assessments are conducted by the Program Managers for each subrecipient prior to Subaward Execution (Risk Assessment, Control Activities)** Monitoring activities are based on risk assessment results. Section Supervisors utilize a program standardized risk assessment tool (DSHS Risk Assessment Worksheet SFY20) to conduct risk assessments. Note: Desk Monitoring is conducted the same as a low risk contractor. The monitoring protocols outline the following:

Monitoring:

Low risk contractors:

- Monthly invoice review
- InfoNet service data review (once during contract period)

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- Narrative report review (due semi-annually) (Competitively Procured contracts only)
- Audit report review (for contractors subject to single audit requirements)
- Contractor compliance self-assessment (annually for Emergency Shelter contracts))

Medium risk contractors:

- Monthly invoice review
- InfoNet service data review (twice during contract period)
- Narrative report review (due semi-annually) (Competitively Procured contracts only)
- Audit report review (for contractors subject to single audit requirements)
- Desk monitoring (once during contract period) Includes: staff training requirement check, review of invoice source documentation. (Competitively Procured contracts only)
- Onsite visit (once during contract period)
- Contractor compliance self-assessment (annually for Emergency Shelter contracts)

High risk contractors:

- Monthly invoice review
- InfoNet service data review (twice during contract period)
- Narrative report review (due semi-annually) (Competitively Procured contracts only)
- Audit report review (for contractors subject to single audit requirements)
- Onsite monitoring visit (once during contract year)
 - Includes: staff training requirement check; review of invoice source documentation and cost allocation; review of redacted client records; review of personnel files, job descriptions, grievance files; review of required written policies, procedures and related forms; interviews with relevant staff about performance and management of contract services
- Contractor compliance self-assessment (annually for Emergency Shelter contracts)

Note: Regardless of assessed risk, Emergency Shelter contractors will receive an onsite contract compliance monitoring visit at least once every 4 years. DSHS may also conduct an investigation if it receives information that the Contractor is out of compliance with its Contract in accordance with WAC 388-61A.

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KC4- Program Managers maintain a tracker on the shared drive to ensure monitoring is conducted according to the DSHS monitoring procedure. (Control Activities, Monitoring)

(d) Subrecipients' Audits:

The Department of Social and Health Services includes a clause of all necessary audit information in the subrecipient boilerplate contract:

1. Contractors Meeting Federal OMB Uniform Guidance Audit Requirements. Contractors expending \$750,000 or more in federal funds from all sources, direct and indirect, during their fiscal year shall obtain an annual audit conducted in compliance with OMB Uniform Guidance audit requirements. A pro-rated share of reasonable audit costs may be requested by eligible Contractors. Contractor shall submit a copy of their audit reporting package, and management letter (if received), to the section supervisor within nine (9) months of the end of the Contractor's fiscal year.
2. In either the application or compliance assessment, contractors must attest that they have not expended more than 750,000.
3. Audits of state and local government entities shall be ordinarily performed by the State Auditor's Office. Audits of not-for-profit organizations shall be performed by Certified Public Accountants. OMB Uniform Guidance audits shall be performed by CPAs who meet the requirements of GAGAS and are selected in accordance with OMB Uniform Guidance.
4. The Contractor shall be financially responsible for any over payments by DSHS to the Contractor. The Contractor shall be financially responsible for any audit disallowances resulting from a federal or state audit which resulted from an action, omission or failure to act on the part of the Contractor.

KC5- Program Managers maintain an audit tracker that specifies all contractors' audit due dates. (Control Activities) When program managers receive the audit, they note that in the "audit submittal" tracking spreadsheet that is accessible to all DV unit staff. If a contractor does not submit the audit by the date due, the Program Manager follows up with the contractor to ensure immediate receipt of the audit. If there are findings, the Program Manager follows up with the contractor on the corrective actions taken and to confirm the findings have been

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satisfactorily resolved. This occurs within 6 months after receipt of the contractor's audit. Failure to comply with federal audit requirements, as with other contract terms and conditions, could result in termination or non-renewal of a contract.

During the reimbursement request process, subrecipients are also monitored for allowable activities.

KC6- Program Managers review A-19's and supporting documentation of expenditures, against the approved budget for each budget category and the detailed scope of work to be performed (deliverables). (Control Activities)

KC7- Fiscal staff review each batch before approving to ensure coding, signatures and amounts are correct and charges are related to the appropriate time period (Control Activities/Information and Communication).

For further information on key control 6 and 7 see [DSHS- A-B. Activities Allowed/Cost Principles - Controls.](#)

Summary of key internal controls:

KC1- The assigned Program Manager reviews each application for completeness, accuracy, budget category allowability, and scope of work to be completed. (Control Activities)

KC2- The Program Administrator, Stephanie Condon, ensures that all necessary information including suspension and debarment is included in the subrecipient contract per 2 CFR section 200.331(a)(1). (Control Activities, Information and Communication)

KC3- Risk Assessments are conducted by the Program Managers for each subrecipient prior to Subaward Execution (Risk Assessment, Control Activities)

KC4- Program Managers maintain a tracker on the shared drive to ensure monitoring is conducted according to the DSHS monitoring procedure. (Control Activities, Monitoring)

KC5- Program Managers maintain an audit tracker that specifies all contractors' audit due dates. (Control Activities)

KC6- Program Managers review A-19's and supporting documentation of expenditures, against the approved budget for each budget category and the detailed scope of work to be performed (deliverables).

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(Control Activities)

KC7- Fiscal staff review each batch before approving to ensure coding, signatures and amounts are correct and charges are related to the appropriate time period (Control Activities/Information and Communication).

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.4.PRG - 16.575 Crime Victim Assistance

Procedure Step: OCLA- A-B. Activities Allowed/Cost Principles - Controls

Prepared By: BLM, 2/17/2021

Reviewed By: LSD, 2/24/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has in place to provide reasonable assurance that Federal awards are expended only for allowable activities and that expenditures charged to the Federal award are allowable and in accordance with the applicable cost principles.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

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Source:

Dana Boales, Program Manager
Jim Bamberger, Director

Conclusion:

Based on our understanding of internal controls over Activities Allowed and Cost Principles, we assessed preliminary control risk as **LOW**.

Testing Strategy:

A-B. Activities Allowed/Cost Principles - **Post Uniform Guidance Awards**

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the ***Inherent and Internal Control Risk Guidance*** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review scope of work

Allowable Activities - Determine which activities and types of costs are specifically allowed or unallowed, by reviewing the following:

1. Award agreement or approved application for scope of work, terms and conditions, and approved budget.
2. Part 4 of the Compliance Supplement that applies to your audit period.
3. Available program guidelines or handbooks. (Ex. WSDOT's LAG Manual)
4. If above information is not available, look to the federal regulations (contact the single audit specialist if you need assistance with this).

Requirements for **Cost Principles** are found as follows:

Pre-UG: **OMB Circular A-87**

UG: **2 CFR 200, Subpart E.**

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Please be familiar with these requirements as not all are listed below; only parts emphasized in the Compliance Supplement are listed below.

Quantitatively Material

Identify the expenditure activities that are directly charged to the program and are quantitatively material (more than 5%).

Direct Costs

Payroll Expenditures: When payroll costs are selected for our single audit, our focus is on whether the portion of payroll charged to the program (allocation) is supported by appropriate time and effort and meets the cost principles. Note that awarding agencies may require specific forms of documentation to support payroll charged to its award.

Compensated Absences (leave cash-outs or accrual): The entity may include employees' use of leave (which is included in their regular salary payments). If the entity charges any **leave cash-outs** or the **accrual of leave** to the grant, there are special rules, see extra guidance in the policy tab. There is a high risk the costs are unallowable.

Non-Payroll Expenditures: Generally, auditors should test internal controls and compliance for non-payroll expenditures when those costs are quantitatively material (5%) to the program.

Automated Controls: If you identify key internal controls that are automated, consult with the SWSA Supervisor or SWSA AIC to determine whether to request automated control work from Team IT audit.

Indirect Costs

Determine whether the agency has recovered indirect costs via an indirect cost rate or cost allocation plan and, if so, how much was expended. If indirect costs are material to the program the auditor must test the internal controls (and compliance) over them when those costs are quantitatively material (5%) to the program.

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement. These are discussed in the **policy tab** in further detail, for when indirect costs are material to the program.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

Special – Review In-process Proposals: If the entity is preparing an Indirect Cost Rate Proposal during the audit period in order to submit it to the federal cognizant agency, we are required to review the accuracy of the base data and calculations.

Step 3: Gain an Understanding of Internal Controls

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*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

(a) Activities Allowed: grant funds are used only for allowable activities (this may include review of expenditures, program monitoring, preparing the reimbursement requests, establishment of programs);

(b) Cost Principles: direct and indirect costs charged to the grant comply with the cost principles set forth in 2 CFR 200 Subpart E (this may or may not be the same control activity for (a))

(c) Activities Allowed-Indirect Costs: if material (5%), the entity uses the proper indirect cost rate (per approved plan or rate, de minimis only when it is applicable, or another rate established by contract). Controls should also focus on how the entity properly calculates the direct cost base that the indirect rate is applied to. For instance, the controls should ensure that they are using only allowable types of costs in the MTDC or other direct base as applicable, that those costs are not used twice or that they occurred during the contract's period of performance. Note: These controls are likely **different** than those in (a) and possibly (b).

Evaluation of Results: Did you identify any control deficiencies? If yes, you must:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as "LOW" when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

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Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Basic Cost Principles (2 CFR 200.402 – 409)

DEFINITIONS

Cost means an amount as determined on a cash, accrual, or other basis of accounting acceptable to the Federal awarding or cognizant agency.

Cost objective means a function, organizational subdivision, contract, grant, or other work unit for which cost data are needed and for which provision is made to accumulate and measure the cost of processes, projects, jobs and capitalized projects.

Direct costs are those that can be identified specifically with a particular final cost objective (i.e., a particular award, project, service, or other direct activity of an organization). Examples of Direct Costs: payroll costs of employees who perform work that is directly related to the grant program; the cost of supplies and materials used for the purpose of the grant; equipment and other approved capital expenditures made for the grant; or professional services contracted to accomplish specific grant/contract objectives.

Indirect costs are those costs incurred for a common or institution-wide objective that benefits more than one grant program or project. Such costs are not readily assignable to the cost objective specifically benefited. Examples of Indirect Costs: depreciation and use allowances of non-federal equipment and buildings; facility operation and maintenance (lights, heat, phone, janitorial, grounds, etc); and general administrative expenses such as accounting, payroll, legal and data processing expenses.

GENERAL COST PRINCIPLES AFFECTING ALLOWABILITY OF COSTS (2 CFR 200.403)

- (a) Be **necessary** and **reasonable** for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any **limitations** or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be **consistent** with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) 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.

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(e) 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 this part.

(f) **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. See also §200.306 Cost sharing or matching paragraph (b).

(g) Be **adequately documented**. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

What is a Reasonable Cost (§200.404)? (cost principles)

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Other factors that must be considered in determining whether a cost is reasonable are:

whether the cost is generally considered as ordinary and necessary to the operation of the grantee or the performance of the federal award/program;

the restraints or requirements imposed by such factors as sound business practices, arms-length bargaining, federal, state and other laws and regulations, and terms and conditions of other federal awards, or sponsored agreements;

market prices for comparable goods and services;

whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the grantee, its employees, where applicable its students or membership, the public at large, and the federal government;

whether the grantee significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal awards costs.

EXAMPLES:

1. A grantee is planning to purchase computers and printers with federal funds. The purchasing agent obtained phone quotes from three contractors. One contractor has a direct family relationship with the grantee's purchasing agent. It so happens that this contractor's quote was 20% higher than the other two. The grantee should not contract with this contractor because the price is unreasonable and has a conflict of interest (regardless of the price).

2. A grantee has been permitted in its grant contract to lease a vehicle so that it can travel within its region to deliver grant-related services to

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clients. The grantee has obtained quotes for a standard 4-door sedan and a luxury 4-wheel drive SUV that is twice the cost of the sedan. Which vehicle should the grantee choose? This is not to say a 4-wheel drive is not necessary or reasonable, but the price may dictate the type or model of vehicle.

What is an Allocable Cost (§200.405)? (cost principles)

A cost is considered allocable if the goods or services involved are chargeable or assignable to the federal award or cost objective (i.e., a specific function, project, sponsored agreement, service, or grant) in accordance with the relative benefits received.

Any cost allocable to a particular federal award may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by federal statutes, regulations, or terms and conditions of federal awards, or for other reasons.

If a grantee intends to recover the portion of its indirect costs (overhead, central administration, etc.) that relates to its grant programs, Uniform Guidance requires the grantee to develop a central service cost allocation plan and/or indirect cost rate proposal. Requirements pertaining to central service cost allocation plans and indirect cost proposals are found in Appendix III-VII to Part 200 (Uniform Guidance).

EXAMPLES:

1. An employee works on two different federal grant projects. The time spent on each project varies from day to day. This employee must keep monthly time and effort records that account for actual time spent on each project. By tracking actual effort, each grant will be charged its fair share of the costs.
2. A grantee held a training workshop for its employees. Included in the cost of the workshop was room rental, food, and travel. The workshop included a session that was specific to a federal program and a session that covered general personnel and human effectiveness training. The grantee should allocate the cost of the training among all programs/divisions that benefited from the training. Next, it should charge the allocated amount only to those awards that specifically allow for this type of cost.

Applicable Credits (§200.406) (cost principles)

A "credit" means a receipt or reduction in expenditures that offset or reduce direct or indirect cost items. Examples include:

- purchase discounts;
- rebates or allowances;
- recoveries or indemnities on losses;
- insurance refunds or rebates; and
- adjustments of overpayments or erroneous charges.

When such credits are applicable to allowable costs, they must be credited to the federal award either as a cost reduction or a cash refund. In some instances, the amounts received from the federal government to finance a grantee's activities or service operations should be treated as

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applicable credits.

EXAMPLE:

A grantee paid a contractor for materials it needed for a project. It was determined later that the vendor had over-billed the grantee and was issuing a refund check. This refund should be netted against the total amount charged to the grant as a cost reduction. If the grant project had already been closed out, the refund should be remitted to the grantor agency that sponsored the project. Consult with the grantor agency in such a case.

Prior written approval (§200.407) (cost principles)

Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following sections of this part:

- (a) §200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);
- (b) §200.306 Cost sharing or matching;
- (c) §200.307 Program income;
- (d) §200.308 Revision of budget and program plans;
- (e) §200.311 Real property;
- (f) §200.313 Equipment;
- (g) §200.332 Fixed amount subawards;
- (h) §200.413 Direct costs, paragraph (c);
- (i) §200.430 Compensation—personal services, paragraph (h);
- (j) §200.431 Compensation—fringe benefits;
- (k) §200.438 Entertainment costs;
- (l) §200.439 Equipment and other capital expenditures;
- (m) §200.440 Exchange rates;
- (n) §200.441 Fines, penalties, damages and other settlements;
- (o) §200.442 Fund raising and investment management costs;
- (p) §200.445 Goods or services for personal use;
- (q) §200.447 Insurance and indemnification;
- (r) §200.454 Memberships, subscriptions, and professional activity costs, paragraph (c);
- (s) §200.455 Organization costs;
- (t) §200.456 Participant support costs;

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- (u) §200.458 Pre-award costs;
- (v) §200.462 Rearrangement and reversion costs;
- (w) §200.467 Selling and marketing costs;
- (x) §200.470 Taxes (including Value Added Tax); and
- (y) §200.474 Travel costs.

Consistency (2 CFR §200.403(d) (cost principles)

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.

EXAMPLE:

A grantee has five departments. It allocates the cost of its basic telephone service to each department based on the number of telephones in each department. Each department should treat the telephone cost consistently for all grants it administers. That is, if a department has 3 grant programs, that department should treat this telephone cost as either a direct cost or indirect cost for all 3 grants, but not a mix of each. Next, if treated as a direct cost, a department should only request reimbursement for this type of cost if permitted under the terms of its grant agreement(s).

Grant Agreement Limitations (§200.408) (cost principles)

To be allowable, the cost being charged must conform to any limitations or exclusions set forth in the terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

EXAMPLE:

A grantee paid for a television advertisement to promote its new grant-funded health program. However, the approved grant contract limited the cost of advertising to brochures and radio ads. Therefore, the grantee should not include the cost of the television advertisement in its request for reimbursement even though "advertising" is an otherwise allowable cost according to Circular A-87.

Adequate Supporting Documentation (2 CFR §200.403(g) (cost principles)

Amounts charged to federal awards must be supported by source documentation, including:

- payroll reports
- time and attendance records
- invoice vouchers from subrecipients
- receiving reports
- original vendor invoices
- cost allocation plans

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(Documentation may be in an electronic form, but make sure the integrity of the electronic documentation can be maintained for the duration of the applicable record retention period).

EXAMPLE:

A grantee made a year-end adjustment to a federal award using a journal voucher entry. The accounting entry must be supported by adequate documentation that demonstrates both allowability and allocability.

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

ADDITIONAL TESTING SELECTION INFO & EXAMPLES

<i>Selection Options</i>		
Method	Process	Next Steps
Sampling	This is the preferred method for large populations (over 365). Use sampling tool from teammate.	Get the sample tool from Teammate. Take the sampling training if needed.
Haphazard Selection	May use for populations less than 365. Auditor haphazardly	Use policy 3240 table in the policy tab to determine

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	picks transactions. It feels random but only true "random" samples can be done by the computer in the sampling method.	minimum selection size (policy tab)
Judgmental Selection	May use for populations less than 365. The auditor has a specific reason, associated with a risk, to pick certain or certain transactions. Explain risks in the ROWD and how transactions not selected are lower risk.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab). See examples there.
Judgmental Population	First, the auditor has a specific reason, associated with a risk, to pick certain types of transactions (judgmental population). Explain risks in the ROWD and how populations not selected are lower risk (you can refer to the testing strategy if we have done this for you already). Next, the auditor selects transaction from the judgmental population using the sampling method above.	Get sample tool from Teammate. Take training for the form if needed.
All quantitatively material transactions	Use only when a few very large transactions make up the majority of grant activity. You will test all of these material transactions.	Keep in mind: If 10% or more of the population is made up of <i>other</i> types of costs, those transactions should be tested in some way, as well.

DUAL PURPOSE TESTING EXAMPLE

For allowable costs the key control is, "The Business Manager reviews the reimbursement request, reconciling the items requested to invoices to determine they are supported and allowable." You will test it by reperforming the Business Manager's review to determine if it is effective in preventing and detecting noncompliance. You may check the requests to see if they have the Business Manager's signature of approval but that will only tell you if they consistently do it, which is important. However, you should reperform the control.

To complete compliance testing you are tracing expenditures from the requests to support to determine if they are supported and allowable per the program.

In this case, for testing both controls and compliance you are completing the same process. However, you need to document that you tested both and clearly show the conclusion of each even though they are related. Control testing should conclude whether the control was effective in preventing or detecting noncompliance and compliance testing whether the entity was in compliance.

INDIRECT COST UNDERSTANDING OF RATES/ALLOCATIONS

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement.

1. Rate provided by the grantor

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2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

1. Rate Provided by Grantor: The federal grantor or PTE can give the entity an indirect cost rate in the award, usually outlined in the budget section and based on the availability of funding. There is no separate or formal rate agreement and it is not considered negotiated.

2. Use PTE Negotiated Rate: The federal grantor, PTE or federal guidance can require the entity to use PTE's negotiated indirect cost rate. This requirement can be found in the Compliance Supplement and federal pass-through guidance. The PTE will place the rate in their award with the entity. This is common for school districts.

3. De Minimis Indirect Cost Rate: If the entity elects to use the de minimis rate, a flat 10% (of Modified Total Direct Costs), in their grant application, no direct or pass-through grantor can deny its use so long as the entity qualifies.

Restrictions: The entity can use the method so long as they have **never** had a negotiated indirect cost rate or allocation plan approved by the federal cognizant agency **or** the PTE.

UPDATED GUIDANCE: Federal guidance now clarifies that negotiated rates and allocation plans negotiated by **PTEs** can prevent the use of the de minimis rate.

Consistency: If used, the entity must use the de minimis method for all of their Uniform Guidance federal programs that allow indirect costs.

Rate: Indirect costs are calculated as base costs multiplied by a flat 10% rate that does not require a true-up to actual indirect expenses.

Base Used: The 10% is multiplied by the modified total direct costs (MTDC) base.

<i>MTDC Base</i>	
Includes	Excludes
Direct Salaries & Wages	Equipment & Capital Expenditures
Direct Fringe Benefits	Charges for Patient Care
Materials & Supplies	Participant Support Costs
Services	Rental Costs

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Travel	Tuition remission, Scholarships & Fellowships
Up to \$25,000 of <i>each</i> subaward (regardless of the period of performance)	The portion of each subaward in excess of \$25,000

4. Negotiated Rates & Allocation Plans – Cognizant Agency: Only major governments are required to obtain a cognizant agency approved negotiated rate or allocation plan. Smaller governments can opt to do so. The “cognizant agency for indirect costs” is designated as:

For central service cost allocation plans: the federal agency with the largest dollar value of ***total*** federal awards

For indirect cost rates and cost allocation plans: the federal agency with the largest dollar value of ***direct*** federal awards

Once designated, the federal entity remains the cognizant agency for five years. Under this method, the entity will be awarded a formal contract for the rate/allocation. All awarding agencies must accept the rate/allocation plan when the entity elects to use it in their program application.

Various allocation plans can be approved, but there are four types of rates:

1. **Provisional:** The provisional rate is temporary and expires upon the completion of the federal award. It requires a true-up to actual expenditures by the end of the project or whenever the entity obtains a final rate. The rate is adjusted by using the final rate.
2. **Final:** The rate is permanent and is calculated after the actual costs are known (i.e. at the conclusion of the federal project). It is used to adjust the indirect costs from the provisional rate.
3. **Predetermined:** This is a permanent rate and is calculated using actual costs from previous periods. It does not require a true-up to correspond with actual current year costs. The rate is effective between two to five years.
4. **Fixed:** This is a permanent rate and is calculated using actual costs from previous periods. It requires a true-up to correspond with actual current year costs. The variance between the costs used to create the rate and the actual costs incurred during the year the rate was used is carried-forward as an adjustment to the current rate. The entity will either recover or “pay back” the variance going forward. The rate is effective for two years and then can be annually renewed.

5. Negotiated Rates & Allocation Plans – PTE: Indirect Cost Rate Proposals and Cost Allocation Plans are not required by UG to be submitted to/approved by PTE's, but the PTEs may require it. Usually a formal contract for the rate/allocation is not issued and they just review and/or approve the plan instead. Other pass-through entities are not required accept the rate/allocation plan but they can choose to accept it.

METHODS OF INDIRECT COST RATE CALCULATION

(1) The specific methods for allocating indirect costs and computing indirect cost rates are as follows:

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(a) *Simplified Method* – This method is applicable where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect cost to approximately the same degree. The allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures described in 2 CFR part 200, Appendix VII, paragraph C.2.

Multiple Allocation Base Method – This method is applicable where a governmental unit's department or agency has several major functions that benefit from its indirect costs in varying degrees. The allocation of indirect costs may require the accumulation of such costs into separate groupings which are then allocated individually to benefiting functions by means of a base which best measures the relative degree of benefit. (For detailed information, refer to 2 CFR part 200, Appendix VII, paragraph C.3.)

(c) *Special Indirect Cost Rates* – In some instances, a single indirect cost rate for all activities of a department or agency may not be appropriate. Different factors may substantially affect the indirect costs applicable to a particular program or group of programs, e.g., the physical location of the work, the nature of the facilities, or level of administrative support required. (For the requirements for a separate indirect cost rate, refer to 2 CFR part 200, Appendix VII, paragraph C.4.)

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

Record of Work Done.*

For steps one and two see: A-B. Activities Allowed/Cost Principles - Controls.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested all of the Office's written policies and procedures related to Activities Allowed as part of gaining an

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understanding of internal controls. We were provided the following procedure related to Activities Allowed:VOCA Invoice Processing Instructions FINAL.

On October 12, 2020, we met with Jim Bamberger, Director and Dana Boales, Program Manager to discuss the process of ensuring grant funds are only used for allowable activities. There are three FTE's at Office of Civil Legal Aig (**OCLA**): James Bamberger, Director; Dana Boales, Program Manager; and Hope Hough, Senior Administrative Assistant.

OCLA has six subrecipients that request expenditure reimbursements quarterly on an A19. All subrecipients are paid on a reimbursement basis only and cash advances are not allowed. Subrecipients submit A19's via email to Hope. **Key Control 1- Hope Hough, Senior Administrative Assistant, reviews each quarterly reimbursement for completion, accuracy, and year-to-date budget capacity. (Control Activities)** If Hope does not identify any errors, she will forward the payment request to Dana. **Key Control 2 - The Program Manager monitors subrecipients when reviewing their quarterly payment requests (A19's) to ensure federal funds are used for authorized purposes. (Control Activities/Monitoring).** If an invoice needs adjustment during review, the invoice will be sent back to the subrecipients to have corrected prior to any expenditures being sent to fiscal for that period. Once Dana approves the A-19, the request is sent to fiscal for payment processing and budget reduction. The Administrative Office of the Courts (AOC) is contracted through an interlocal agreement to conduct fiscal activities. AOC also reviews each invoice for coding accuracy, year-to-date budget capacity, and subrecipient match requirements. The A-19, supporting documentation, and review/approval memorandum is all stored electronically. At the same time invoices are reviewed, Dana will also ensure that each subrecipient has submitted its crime demographic information through the online federal reporting system, Infonet. There are two criteria that must be met to be an eligible crime victim that could receive Civil Legal Assistance:

- 1- there must be an underlying crime and
- 2- the civil legal problem must arise from or relate to the underlying crime.

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Summary of Key Controls

Key Control 1 - Hope Hough, Senior Administrative Assistant ,l reviews each quarterly reimbursement for completion, accuracy, and year-to-date budget capacity. (Control Activities)

Key Control 2 - The Program Manager monitors subrecipients when reviewing their quarterly payment requests (A19's) to ensure federal funds are used for authorized purposes. (Control Activities/Monitoring)

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.4.PRG - 16.575 Crime Victim Assistance

Procedure Step: OCLA- M. Subrecipient Monitoring - Controls

Prepared By: BLM, 2/17/2021

Reviewed By: LSD, 2/25/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, the impact of any subrecipient noncompliance on the pass-through entity is evaluated, and subrecipients obtained required audits and took appropriate corrective action on

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audit findings.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Dana Boales, Program Manager
Jim Bamberger, Director

Conclusion:

Based on our understanding of internal controls over Subrecipient Monitoring, we assessed preliminary control risk as **LOW**.

Testing Strategy:

Subrecipient Monitoring - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

The general subrecipient monitoring requirements are described below. In addition to this information, review Part 4 of the Compliance Supplement, the grant agreement, and any available program guidelines to determine any unique requirements over Subrecipient Monitoring for the federal award you are auditing.

(a) Subrecipient Contracts – Identification Elements: The pass-through entity (PTE) must clearly identify the contract as a federal subaward when the subaward is made (or subsequent subaward modification). The contracts must include:

1. Specific federal identification elements per 2 CFR section 200.331(a)(1) – find a list of the 13 requirements in the Policy/Standards tab
2. All program requirements imposed on the PTE that are passed through to the subrecipient (federal statutes, regulations, and the terms and conditions of the PTE's award).

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3. Any additional program requirements imposed by the PTE on the subrecipient.

Note: The auditor may be able to test suspension and debarment requirements while testing contracts for the other required elements. See testing strategy for Procurement/Suspension and Debarment.

(b) Risk Evaluations: PTEs must perform a risk assessment for every subrecipient to determine and support their level of monitoring. It is a best practice - but not required - to complete risk assessments before the subaward is made (unless specifically required by the grantor). Example considerations are in the Policy/Standards tab.

(c) Monitoring Activities: Monitoring activities must be reasonable based on the inherent risk of the program and subrecipient non-compliance. Auditors will need to use their judgement and consider any monitoring steps identified by the entity in the subrecipient risk evaluation or required by the award contract. At a minimum, subaward monitoring **must** include:

1. Reviewing financial, performance and special reports required by the PTE.
2. Ensuring the subrecipient receives a single audit (if required) and the subrecipient takes timely and appropriate action on all deficiencies from audits, on-site reviews, etc.
3. Issuing a management decision when their subrecipient receives audit findings for their program.

Subrecipient's Reimbursement Requests: When the PTE receives claims for reimbursement, they should either:

1. request copies of supporting documentation for costs included on the requests; or
2. ask the subrecipient retain supporting documentation for review for on-site visits (if part of the monitoring plan).

Note: The pass-through agency is not expected to perform an extensive audit of the fiscal records, but it should have a process in place so that it can reasonably detect unallowable or unsupported costs.

Case-by-case Information: There is additional information for the auditor when the following situations occur. Find this information in the Policy/Standards tab as needed:

- A. For-Profit Subrecipients
- B. PTE Agreed-Upon Procedure Engagements
- C. Fixed-amount Subawards

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that*

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material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.

Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

(a) Subrecipient Contracts: The entity includes all necessary information in the subrecipient contract per 2 CFR section 200.331(a)(1).

NOTE: The control may be someone writes the contract to include all of the elements, someone reviews the contracts to specifically confirm all elements are included, or someone ensures they use an established contract template that includes the elements and periodically makes sure that template is up to date with the federal requirements (since elements may change over time).

(b) Risk Assessments: The auditee performs a risk assessment of each subrecipient to determine the appropriate level of monitoring.

(c) Monitoring: Subrecipients are monitored to ensure that federal awards are used for authorized purposes and in accordance with Federal statutes, regulations, and the terms and conditions of the Federal award. This includes monitoring the subrecipient to ensure they are performing eligibility determinations appropriately and accurately (as applicable). The auditee must have a process in place to provide reasonable assurance that they can prevent or detect non-compliance or unallowable costs.

(d) Subrecipients' Audits:

- Subrecipients receive a single audit if necessary.
- Management decisions are issued on audit findings within 6 months after receipt of the subrecipient's audit report
- Subrecipients took timely and appropriate corrective action on all audit findings.
- Sanctions are taken (or other appropriate action) in cases of continued inability or unwillingness of a subrecipient to have the required audits.

NOTE: The control may be that someone checks with SAO, on the SAO website or with the subrecipient to determine if an audit was completed and the results. The auditee should make or retain documentation of this process.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.

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2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

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.

Subrecipient means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. State agencies cannot be subrecipients of another state agency. (Note: there are a few very rare exceptions, such as some FEMA awards, where a federal grantor may specify state agencies be treated as subrecipients). Please keep in mind, however, that if the managing state agency gives federal funds to a second state agency, we may need to test subrecipient monitoring at the second agency.

DEFINITION OF “FIRST TIER” SUBRECIPIENT

First tier subrecipients are those that receive federal awards from direct (prime) recipients. For example, state agencies are often direct (prime) recipients of grant funds. If a state agency passes the funding through to a local government, the local government is the first tier subrecipient. Similarly, some local governments receive federal awards directly from a federal agency. In this case, the local government is the direct (prime) recipient. Then, if the local government passes funding through to another local government or non-profit, the receiving local government/non-profit is the first tier subrecipient.

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SUBRECIPIENT CONTRACTS – IDENTIFICATION ELEMENTS

Subaward contracts must include the following elements per federal requirements per 2 CFR section 200.331(a)(1):

Subaward Contract Checklist

Element	Element
(i) Subrecipient name (which must match the name associated with its unique entity identifier);	(viii) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
(ii) Subrecipient's unique entity identifier;	(ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
(iii) Federal Award Identification Number (FAIN);	(x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;
(iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency;	(xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
(v) Subaward Period of Performance Start and End Date;	(xii) Identification of whether the award is R&D; and
(vi) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;	(xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).
(vii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;	

SUBRECIPIENT RISK EVALUATIONS

PTEs must perform a risk assessment for every subrecipient to determine and support their level of monitoring (2 CFR section 200.331(b)). This evaluation may include consideration of:

1. The subrecipient's prior experience with the same or similar subawards;
2. The results of previous audits including whether or not the subrecipient receives a single audit as mandated, and the extent to which the same or similar subaward has been audited as a major program at the subrecipient;
3. Whether the subrecipient has new personnel or new or substantially changed systems

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4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

IS THE LEVEL OF MONITORING REASONABLE?

The auditor may need to consider whether the amount of oversight is reasonable. Factors such as the size of awards, percentage of the total program's funds awarded to subrecipients, and the complexity of the compliance requirements may influence the extent of monitoring procedures. See additional monitoring considerations below. If there are significant concerns regarding monitoring, contact the Single Audit Specialist.

A. 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 the single audit is not 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 should 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)).

B. PTE AGREED-UPON PROCEDURES ENGAGEMENTS

A pass-through entity may arrange for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations. Since the pass-through entity determines the procedures to be used and compliance areas to be tested, these agreed-upon procedures engagements enable the pass-through entity to target the coverage to areas of greatest risk. The pass-through entity's costs of agreed-upon procedures engagements is allocable to the federal award if the agreed-upon procedures are performed for subrecipients below the single audit threshold for audit (currently at \$750,000 for fiscal years ending on or after December 31, 2015) **AND** the AUP is limited in scope to one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; and reporting (Uniform Guidance 2 CFR §200.425 Audit services).

C. FIXED AMOUNT SUBAWARDS

Per 2 CFR 200.332, with prior written approval from the Federal awarding agency, a pass-through entity may provide subawards based on fixed amounts up to \$150,000, provided that the subawards meet the requirements for fixed amount awards in 2 CFR 200.201. Except in the case of termination before completion, there is no governmental review of the actual costs incurred by the awardee in performance of these fixed amount subawards.

Record of Work Done.

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance

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requirement and assess the inherent risk of noncompliance at Low.

Gather Information

Step 2

We reviewed the scope of work per the grant agreement, and the DOJ Financial Guide section 3.14 ([DOJ FinancialGuide](#)) for available program guidelines to determine specific requirements for Subrecipient Monitoring.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the Office's written policies and procedures related to the Subrecipient Monitoring as part of gaining an understanding of internal controls. We were provided the following: [Subrecipient Risk Assessment and Federal Fiscal Compliance Policy](#).

On October 13, 2020, we met with Jim Bamberger, Director and Dana Boales, Program Manager to discuss the processes related to subrecipient monitoring. There are three employees involved with the Crime Victim's Assistance (CVA) program at Office of Civil Legal Aid (OCLA): James Bamberger, Director; Dana Boales, Program Manager; and Hope Hough, Senior Administrative Assistant.

Subrecipient Contracts:

In FY 2020, the Office of Civil Legal Aid (OCLA) issued subrecipient agreements to five nonprofit civil legal aid organizations:

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- Eastside Legal Assistance Program
- King County Bar Association
- Northwest Immigrant Rights Project
- Northwest Justice Project
- Tacoma-Pierce County Volunteer Legal Services (dba Tacomaprobono)
- In FY 2020, OCLA did not renew their subrecipient agreement with YWCA Sexual Violence Legal Services, only extended the FY 2019 subrecipient agreement. OCLA determined YWCA was no longer a good fit for the Sexual Violence Legal Services Program. On January 1, 2020, Sexual Violence Legal Services became a program of Legal Voice. OCLA executed a subrecipient agreement with Legal Voice from January 1st, 2020 through June 30, 2020.

Subgrantee Selection Process:

In 2015/2016, OCLA convened a series of meetings with the key legal aid programs capable and interested in working together under a common umbrella and in service of a common plan to provide civil legal aid services to victims of crime in every corner of the state. OCLA brought to the table the principal statewide legal aid provider (the Northwest Justice Project), the statewide provider of legal assistants to immigrants, including immigrant victims of crime (Northwest Immigrant Rights Project), a specialized program dedicated to addressing the civil legal problems experienced by sexual assault survivors, and four county-based volunteer attorney programs that had a demonstrated history of providing relevant, effective civil legal aid services in partnership with community-based crime victim first responders. In 2019, OCLA downsized its providers in response to reductions in funding.

Purpose:

The purpose of the agreements is to provide legal advice, assistance, and representation to victims of crime in Washington State.

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Funding and Authority to Contract:

OCLA subawards Victims of Crime Act (**VOCA**) victim assistance funds from the Office for Victims of Crime, US Department of Justice. The funding for the services provided by OCLA's subrecipients are part of OCLA's State Plan through 2019. OCLA's authority to subaward VOCA funds is provided through an Interagency Grant Agreement with the Department of Commerce, see:[OCLA-IAG-F18-31219-115](#).

Note: Commerce did not receive the Federal Award until after the state fiscal year had already began. The feds did provide an email of the amounts expected to be awarded to Nicky Gleason, Commerce Section Supervisor. To ensure there were no lapses in services provided, once the feds provided this to Commerce, Nicky passed along the amounts allocated to OCLA and provided a notice to proceed with funding subrecipients without interruption. Once the federal award was received, the Interagency Grant Agreement was also executed. When the contract year ended without the Interagency Grant Agreement in place, OCLA authorized its VOCA subrecipients to continue services until their subrecipient agreements were executed.

Contracting Process:

The program manager negotiates the scope of work and budget with each subrecipient. Once the scope of work and budgets are agreed upon, the Program Manager prepares the subrecipient agreements ensuring compliance with state and federal laws, rules and regulations. The OCLA Director reviews the contract template to ensure compliance. After the Interagency Grant Agreement is executed, the Program Manager sends the subrecipient agreements out to the subgrantees for signature.

Key Control 1- After the subrecipient signs the agreement, the OCLA Director reviews the agreement for compliance with state and federal laws, rules and regulations and completes the contracting process.

(Control Activities)

Risk Assessments:

Pre-Subaward – Key Control 2- Prior to entering into a subgrant, the Program Manager will conduct a risk

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assessment utilizing a standardized risk assessment tool to ascertain the proposed subrecipient's ability to perform the work and adequately manage the administrative and financial responsibilities in accordance with the subaward's terms and conditions. (Control Activities/Risk Assessment)

Post-Subaward – All existing subrecipient organizations will be reviewed annually to determine if there is an elevated risk associated with the proposed subrecipient organization prior to issuance of a new subaward agreement or amendment to an existing agreement.

Monitoring:

Key Control 3- The Program Manager monitors subrecipients when reviewing their quarterly payment requests (A19's) to ensure federal funds are used for authorized purposes. (Control Activities/Monitoring)

Risk Based Monitoring – Subrecipients scoring 0-99 on the risk assessment tool are considered to be low risk. Low risk subrecipients will be subject to baseline level data reviews, onsite visits, and invoice reviews. Subrecipients scoring 100-235 on the risk assessment tool are considered to be medium risk. Medium risk subrecipients will be subject to increased data reviews, invoice reviews, and onsite visits within 12 months of the risk assessment. Subrecipients scoring 236-340 on the risk assessment tool are considered to be high risk. High risk subrecipients will be subject to increased data reviews, invoice reviews, and onsite visits within six (6) months of the risk assessment. Note: The Office also conducts issue specific monitoring to address specific concerns. These issues are assessed for risk level as they are identified and will follow the standard procedures otherwise.

Key Control 4- Dana Boales, Program Manager, will perform a monitoring for each subrecipient in accordance to their risk level. (Control Activities)

The following monitoring tools will be used to ensure proper accountability and compliance with program requirements and achievement of performance goals:

- (1) Offering subrecipients training and technical assistance on program related matters;
- (2) Performing additional on-site reviews of the subrecipient's program operations;
- (3) Arranging for agreed-upon procedures engagements as described in 2 CFR § 200.425 Audit Services; and

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(4) Conducting external audits of subrecipient compliance including, but not limited to, expenditure tracking and cost allocation procedures.

The goal is to develop a deeper understanding of the services being provided by the grantees. Following her meeting with staff, Dana will meet one-on-one with program leaders to explore and address any ongoing issues as well as those that may have come up during the meeting with staff. OCLA will follow up each meeting with a memo describing key findings, offering recommendations, and identifying issues for which corrective action may need to be taken. Below are the topics covered during the onsite visit:

1. Overview of the provider's work, priorities, and intake protocols
2. Client service highlights and successes
3. Client service challenges and obstacles
4. Client demographics and trends
5. Nature and quality of relations and referrals protocols with community-based crime victim service providers
6. Outreach to racial and ethnic communities and other communities with high victimization rates and high barriers to access (e.g., LGBTQ+, LEP, immigrant, and refugee)
7. Relationships (if any) with other local law enforcement and prosecuting attorney offices
8. Relationships and protocols (if any) with other legal aid and related providers (pro bono, law school clinic, other)
9. Examples of representative legal work from each staff attorney
10. Questions and answers

Subrecipients' Audits: Subrecipient Risk Assessment and Federal Fiscal Compliance Policy

During the annual subaward process, a Certification of Federal Award Requirements is obtained by subrecipients, which outlines the Single Audit requirements and thresholds. The subrecipient will check either the "yes" or "no" box to determine if the organization received \$750,000 or more in federal funding in the agency's preceding fiscal year and will require an audit. **Key Control 5- The Program Manager utilizes an annual outlook calendar reminder on the last day of August to ensure subrecipients submit their audit reports as required by**

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subaward terms and conditions. (Control Activities/Monitoring)

Summary of Key Controls:

Key Control 1- After the subrecipient signs the agreement, the OCLA Director reviews the agreement for compliance with state and federal laws, rules and regulations and completes the contracting process.

(Control Activities)

Key Control 2- Prior to entering into a subgrant, the Program Manager will conduct a risk assessment utilizing a standardized risk assessment tool to ascertain the proposed subrecipient's ability to perform the work and adequately manage the administrative and financial responsibilities in accordance with the subaward's terms and conditions. (Control Activities/Risk Assessment)

Key Control 3- The Program Manager monitors subrecipients when reviewing their quarterly payment requests (A19's) to ensure federal funds are used for authorized purposes. (Control Activities/Monitoring)

Key Control 4- Dana Boales, Program Manager, will perform a monitoring for each subrecipient in accordance to their risk level. (Control Activities)

Key Control 5- The Program Manager utilizes an annual outlook calendar reminder on the last day of August to ensure subrecipients submit their audit reports as required by subaward terms and conditions. (Control Activities/Monitoring)

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

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Procedure Step: A-B. Activities Allowed/Cost Principles - Controls - Salaries and Benefits
Prepared By: LSD, 3/2/2021
Reviewed By: LSD, 3/2/2021

Purpose/Conclusion:

Purpose:

To gain an understanding of the internal controls the agency has in place to provide reasonable assurance that Federal awards are expended only for allowable activities and that expenditures charged to the Federal award are allowable and in accordance with the applicable cost principles.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Robert St. Lawrence, Policy Manager and Audit Liaison

Jamie Evans, Budget and Fiscal Manager Analyst

Time Certification tracking spreadsheets and supporting time certifications

Conclusion:

Based on our understanding of internal controls over Activities Allowed and Cost Principles, we assessed preliminary control risk as **LOW**.

Testing Strategy:

A-B. Activities Allowed/Cost Principles - **Post Uniform Guidance Awards**

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

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See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review scope of work

Allowable Activities - Determine which activities and types of costs are specifically allowed or unallowed, by reviewing the following:

1. Award agreement or approved application for scope of work, terms and conditions, and approved budget.
2. Part 4 of the Compliance Supplement that applies to your audit period.
3. Available program guidelines or handbooks. (Ex. WSDOT's LAG Manual)
4. If above information is not available, look to the federal regulations (contact the single audit specialist if you need assistance with this).

Requirements for **Cost Principles** are found as follows:

Pre-UG: OMB Circular A-87

UG: 2 CFR 200, Subpart E.

Please be familiar with these requirements as not all are listed below; only parts emphasized in the Compliance Supplement are listed below.

Quantitatively Material

Identify the expenditure activities that are directly charged to the program and are quantitatively material (more than 5%).

Direct Costs

Payroll Expenditures: When payroll costs are selected for our single audit, our focus is on whether the portion of payroll charged to the program (allocation) is supported by appropriate time and effort and meets the cost principles. Note that awarding agencies may require specific forms of documentation to support payroll charged to its award.

Compensated Absences (leave cash-outs or accrual): The entity may include employees' use of leave (which is included in their regular salary payments). If the entity charges any **leave cash-outs** or the **accrual of leave** to the grant, there are special rules, see extra guidance in the policy tab. There is a high risk the costs are unallowable.

Non-Payroll Expenditures: Generally, auditors should test internal controls and compliance for non-payroll expenditures when those costs are quantitatively material (5%) to the program.

Automated Controls: If you identify key internal controls that are automated, consult with the SWSA Supervisor or SWSA AIC to determine whether to request automated control work from Team IT audit.

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Indirect Costs

Determine whether the agency has recovered indirect costs via an indirect cost rate or cost allocation plan and, if so, how much was expended. If indirect costs are material to the program the auditor must test the internal controls (and compliance) over them when those costs are quantitatively material (5%) to the program.

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement. These are discussed in the **policy tab** in further detail, for when indirect costs are material to the program.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

Special – Review In-process Proposals: If the entity is preparing an Indirect Cost Rate Proposal during the audit period in order to submit it to the federal cognizant agency, we are required to review the accuracy of the base data and calculations.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

(a) Activities Allowed: grant funds are used only for allowable activities (this may include review of expenditures, program monitoring, preparing the reimbursement requests, establishment of programs);

(b) Cost Principles: direct and indirect costs charged to the grant comply with the cost principles set forth in 2 CFR 200 Subpart E (this may or may not be the same control activity for (a))

(c) Activities Allowed-Indirect Costs: if material (5%), the entity uses the proper indirect cost rate (per approved plan or rate, de minimis only when it is applicable, or another rate established by contract). Controls should also focus on how the entity properly calculates the direct cost base that the indirect rate is applied to. For instance, the controls should ensure that they are using only allowable types of costs in the MTDC or other direct base as applicable, that those costs are not used twice or that they occurred during the contract's period of performance. Note: These controls are likely **different** than those in (a) and

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possibly (b).

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “**LOW**” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.*

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Basic Cost Principles (2 CFR 200.402 – 409)

DEFINITIONS

Cost means an amount as determined on a cash, accrual, or other basis of accounting acceptable to the Federal awarding or cognizant agency.

Cost objective means a function, organizational subdivision, contract, grant, or other work unit for which cost data are needed and for which

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provision is made to accumulate and measure the cost of processes, projects, jobs and capitalized projects.

Direct costs are those that can be identified specifically with a particular final cost objective (i.e., a particular award, project, service, or other direct activity of an organization). Examples of Direct Costs: payroll costs of employees who perform work that is directly related to the grant program; the cost of supplies and materials used for the purpose of the grant; equipment and other approved capital expenditures made for the grant; or professional services contracted to accomplish specific grant/contract objectives.

Indirect costs are those costs incurred for a common or institution-wide objective that benefits more than one grant program or project. Such costs are not readily assignable to the cost objective specifically benefited. Examples of Indirect Costs: depreciation and use allowances of non-federal equipment and buildings; facility operation and maintenance (lights, heat, phone, janitorial, grounds, etc); and general administrative expenses such as accounting, payroll, legal and data processing expenses.

GENERAL COST PRINCIPLES AFFECTING ALLOWABILITY OF COSTS (2 CFR 200.403)

- (a) Be **necessary** and **reasonable** for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any **limitations** or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be **consistent** with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) 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.
- (e) 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 this part.
- (f) **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. See also §200.306 Cost sharing or matching paragraph (b).
- (g) Be **adequately documented**. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

What is a Reasonable Cost (§200.404)? (cost principles)

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Other factors that must be considered in determining whether a cost is reasonable are:

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whether the cost is generally considered as ordinary and necessary to the operation of the grantee or the performance of the federal award/program;

the restraints or requirements imposed by such factors as sound business practices, arms-length bargaining, federal, state and other laws and regulations, and terms and conditions of other federal awards, or sponsored agreements;

market prices for comparable goods and services;

whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the grantee, its employees, where applicable its students or membership, the public at large, and the federal government;

whether the grantee significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal awards costs.

EXAMPLES:

1. A grantee is planning to purchase computers and printers with federal funds. The purchasing agent obtained phone quotes from three contractors. One contractor has a direct family relationship with the grantee's purchasing agent. It so happens that this contractor's quote was 20% higher than the other two. The grantee should not contract with this contractor because the price is unreasonable and has a conflict of interest (regardless of the price).

2. A grantee has been permitted in its grant contract to lease a vehicle so that it can travel within its region to deliver grant-related services to clients. The grantee has obtained quotes for a standard 4-door sedan and a luxury 4-wheel drive SUV that is twice the cost of the sedan. Which vehicle should the grantee choose? This is not to say a 4-wheel drive is not necessary or reasonable, but the price may dictate the type or model of vehicle.

What is an Allocable Cost (§200.405)? (cost principles)

A cost is considered allocable if the goods or services involved are chargeable or assignable to the federal award or cost objective (i.e., a specific function, project, sponsored agreement, service, or grant) in accordance with the relative benefits received.

Any cost allocable to a particular federal award may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by federal statutes, regulations, or terms and conditions of federal awards, or for other reasons.

If a grantee intends to recover the portion of its indirect costs (overhead, central administration, etc.) that relates to its grant programs, Uniform Guidance requires the grantee to develop a central service cost allocation plan and/or indirect cost rate proposal. Requirements pertaining to central service cost allocation plans and indirect cost proposals are found in Appendix III-VII to Part 200 (Uniform Guidance).

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EXAMPLES:

1. An employee works on two different federal grant projects. The time spent on each project varies from day to day. This employee must keep monthly time and effort records that account for actual time spent on each project. By tracking actual effort, each grant will be charged its fair share of the costs.
2. A grantee held a training workshop for its employees. Included in the cost of the workshop was room rental, food, and travel. The workshop included a session that was specific to a federal program and a session that covered general personnel and human effectiveness training. The grantee should allocate the cost of the training among all programs/divisions that benefited from the training. Next, it should charge the allocated amount only to those awards that specifically allow for this type of cost.

Applicable Credits (§200.406) (cost principles)

A "credit" means a receipt or reduction in expenditures that offset or reduce direct or indirect cost items. Examples include:

- purchase discounts;
- rebates or allowances;
- recoveries or indemnities on losses;
- insurance refunds or rebates; and
- adjustments of overpayments or erroneous charges.

When such credits are applicable to allowable costs, they must be credited to the federal award either as a cost reduction or a cash refund. In some instances, the amounts received from the federal government to finance a grantee's activities or service operations should be treated as applicable credits.

EXAMPLE:

A grantee paid a contractor for materials it needed for a project. It was determined later that the vendor had over-billed the grantee and was issuing a refund check. This refund should be netted against the total amount charged to the grant as a cost reduction. If the grant project had already been closed out, the refund should be remitted to the grantor agency that sponsored the project. Consult with the grantor agency in such a case.

Prior written approval (§200.407) (cost principles)

Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain

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circumstances in the following sections of this part:

- (a) §200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);
- (b) §200.306 Cost sharing or matching;
- (c) §200.307 Program income;
- (d) §200.308 Revision of budget and program plans;
- (e) §200.311 Real property;
- (f) §200.313 Equipment;
- (g) §200.332 Fixed amount subawards;
- (h) §200.413 Direct costs, paragraph (c);
- (i) §200.430 Compensation—personal services, paragraph (h);
- (j) §200.431 Compensation—fringe benefits;
- (k) §200.438 Entertainment costs;
- (l) §200.439 Equipment and other capital expenditures;
- (m) §200.440 Exchange rates;
- (n) §200.441 Fines, penalties, damages and other settlements;
- (o) §200.442 Fund raising and investment management costs;
- (p) §200.445 Goods or services for personal use;
- (q) §200.447 Insurance and indemnification;
- (r) §200.454 Memberships, subscriptions, and professional activity costs, paragraph (c);
- (s) §200.455 Organization costs;
- (t) §200.456 Participant support costs;
- (u) §200.458 Pre-award costs;
- (v) §200.462 Rearrangement and reconversion costs;
- (w) §200.467 Selling and marketing costs;
- (x) §200.470 Taxes (including Value Added Tax); and
- (y) §200.474 Travel costs.

Consistency (2 CFR §200.403(d) (cost principles)

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.

EXAMPLE:

A grantee has five departments. It allocates the cost of its basic telephone service to each department based on the number of telephones in each department. Each department should treat the telephone cost consistently for all grants it administers. That is, if a department has 3 grant programs, that department should treat this telephone cost as either a direct cost or indirect cost for all 3 grants, but not a mix of each. Next, if

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treated as a direct cost, a department should only request reimbursement for this type of cost if permitted under the terms of its grant agreement(s).

Grant Agreement Limitations (§200.408) (cost principles)

To be allowable, the cost being charged must conform to any limitations or exclusions set forth in the terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

EXAMPLE:

A grantee paid for a television advertisement to promote its new grant-funded health program. However, the approved grant contract limited the cost of advertising to brochures and radio ads. Therefore, the grantee should not include the cost of the television advertisement in its request for reimbursement even though "advertising" is an otherwise allowable cost according to Circular A-87.

Adequate Supporting Documentation (2 CFR §200.403(g) (cost principles)

Amounts charged to federal awards must be supported by source documentation, including:

- payroll reports
- time and attendance records
- invoice vouchers from subrecipients
- receiving reports
- original vendor invoices
- cost allocation plans

(Documentation may be in an electronic form, but make sure the integrity of the electronic documentation can be maintained for the duration of the applicable record retention period).

EXAMPLE:

A grantee made a year-end adjustment to a federal award using a journal voucher entry. The accounting entry must be supported by adequate documentation that demonstrates both allowability and allocability.

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High

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<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

ADDITIONAL TESTING SELECTION INFO & EXAMPLES

<i>Selection Options</i>		
Method	Process	Next Steps
Sampling	This is the preferred method for large populations (over 365). Use sampling tool from teammate.	Get the sample tool from Teammate. Take the sampling training if needed.
Haphazard Selection	May use for populations less than 365. Auditor haphazardly picks transactions. It feels random but only true "random" samples can be done by the computer in the sampling method.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab)
Judgmental Selection	May use for populations less than 365. The auditor has a specific reason, associated with a risk, to pick certain or certain transactions. Explain risks in the ROWD and how transactions not selected are lower risk.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab). See examples there.
Judgmental Population	First, the auditor has a specific reason, associated with a risk, to pick certain types of transactions (judgmental population). Explain risks in the ROWD and how populations not selected are lower risk (you can refer to the testing strategy if we have done this for you already). Next, the auditor selects transaction from the judgmental population using the sampling method above.	Get sample tool from Teammate. Take training for the form if needed.

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All quantitatively material transactions	Use only when a few very large transactions make up the majority of grant activity. You will test all of these material transactions.	Keep in mind: If 10% or more of the population is made up of <i>other</i> types of costs, those transactions should be tested in some way, as well.
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DUAL PURPOSE TESTING EXAMPLE

For allowable costs the key control is, "The Business Manager reviews the reimbursement request, reconciling the items requested to invoices to determine they are supported and allowable." You will test it by reperforming the Business Manager's review to determine if it is effective in preventing and detecting noncompliance. You may check the requests to see if they have the Business Manager's signature of approval but that will only tell you if they consistently do it, which is important. However, you should reperform the control.

To complete compliance testing you are tracing expenditures from the requests to support to determine if they are supported and allowable per the program.

In this case, for testing both controls and compliance you are completing the same process. However, you need to document that you tested both and clearly show the conclusion of each even though they are related. Control testing should conclude whether the control was effective in preventing or detecting noncompliance and compliance testing whether the entity was in compliance.

INDIRECT COST **UNDERSTANDING OF RATES/ALLOCATIONS**

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

1. Rate Provided by Grantor: The federal grantor or PTE can give the entity an indirect cost rate in the award, usually outlined in the budget section and based on the availability of funding. There is no separate or formal rate agreement and it is not considered negotiated.

2. Use PTE Negotiated Rate: The federal grantor, PTE or federal guidance can require the entity to use PTE's negotiated indirect cost rate. This requirement can be found in the Compliance Supplement and federal pass-through guidance. The PTE will place the rate in their award with the entity. This is common for school districts.

3. De Minimis Indirect Cost Rate: If the entity elects to use the de minimis rate, a flat 10% (of Modified Total Direct Costs), in their grant

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application, no direct or pass-through grantor can deny its use so long as the entity qualifies.

Restrictions: The entity can use the method so long as they have **never** had a negotiated indirect cost rate or allocation plan approved by the federal cognizant agency **or** the PTE.

UPDATED GUIDANCE: Federal guidance now clarifies that negotiated rates and allocation plans negotiated by **PTEs** can prevent the use of the de minimis rate.

Consistency: If used, the entity must use the de minimis method for all of their Uniform Guidance federal programs that allow indirect costs.

Rate: Indirect costs are calculated as base costs multiplied by a flat 10% rate that does not require a true-up to actual indirect expenses.

Base Used: The 10% is multiplied by the modified total direct costs (MTDC) base.

<i>MTDC Base</i>	
Includes	Excludes
Direct Salaries & Wages	Equipment & Capital Expenditures
Direct Fringe Benefits	Charges for Patient Care
Materials & Supplies	Participant Support Costs
Services	Rental Costs
Travel	Tuition remission, Scholarships & Fellowships
Up to \$25,000 of <i>each</i> subaward (regardless of the period of performance)	The portion of each subaward in excess of \$25,000

4. Negotiated Rates & Allocation Plans – Cognizant Agency: Only major governments are required to obtain a cognizant agency approved negotiated rate or allocation plan. Smaller governments can opt to do so. The “cognizant agency for indirect costs” is designated as:

For central service cost allocation plans: the federal agency with the largest dollar value of **total** federal awards

For indirect cost rates and cost allocation plans: the federal agency with the largest dollar value of **direct** federal awards

Once designated, the federal entity remains the cognizant agency for five years. Under this method, the entity will be awarded a formal contract for the rate/allocation. All awarding agencies must accept the rate/allocation plan when the entity elects to use it in their program application.

Various allocation plans can be approved, but there are four types of rates:

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1. **Provisional**: The provisional rate is temporary and expires upon the completion of the federal award. It requires a true-up to actual expenditures by the end of the project or whenever the entity obtains a final rate. The rate is adjusted by using the final rate.
2. **Final**: The rate is permanent and is calculated after the actual costs are known (i.e. at the conclusion of the federal project). It is used to adjust the indirect costs from the provisional rate.
3. **Predetermined**: This is a permanent rate and is calculated using actual costs from previous periods. It does not require a true-up to correspond with actual current year costs. The rate is effective between two to five years.
4. **Fixed**: This is a permanent rate and is calculated using actual costs from previous periods. It requires a true-up to correspond with actual current year costs. The variance between the costs used to create the rate and the actual costs incurred during the year the rate was used is carried-forward as an adjustment to the current rate. The entity will either recover or “pay back” the variance going forward. The rate is effective for two years and then can be annually renewed.

5. Negotiated Rates & Allocation Plans – PTE: Indirect Cost Rate Proposals and Cost Allocation Plans are not required by UG to be submitted to/approved by PTE's, but the PTEs may require it. Usually a formal contract for the rate/allocation is not issued and they just review and/or approve the plan instead. Other pass-through entities are not required accept the rate/allocation plan but they can choose to accept it.

METHODS OF INDIRECT COST RATE CALCULATION

(1) The specific methods for allocating indirect costs and computing indirect cost rates are as follows:

(a) *Simplified Method* – This method is applicable where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect cost to approximately the same degree. The allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures described in 2 CFR part 200, Appendix VII, paragraph C.2.

Multiple Allocation Base Method – This method is applicable where a governmental unit's department or agency has several major functions that benefit from its indirect costs in varying degrees. The allocation of indirect costs may require the accumulation of such costs into separate groupings which are then allocated individually to benefiting functions by means of a base which best measures the relative degree of benefit. (For detailed information, refer to 2 CFR part 200, Appendix VII, paragraph C.3.)

(c) *Special Indirect Cost Rates* – In some instances, a single indirect cost rate for all activities of a department or agency may not be appropriate. Different factors may substantially affect the indirect costs applicable to a particular program or group of programs, e.g., the physical location of the work, the nature of the facilities, or level of administrative support required. (For the requirements for a separate indirect cost rate, refer to 2 CFR part 200, Appendix VII, paragraph C.4.)

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

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance. In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

Review scope of work

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement, and any available program guidelines to determine which activities and costs are allowed or unallowed.

A. Activities Allowed or Unallowed

1. *Services to Individuals*

VR services provided under Section 103(a) of the Act (29 USC 723(a)) are any services described in an IPE necessary to assist an individual with a disability in preparing for, securing, retaining, or regaining an employment outcome that is consistent with the individual's strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice. Section 103(a) of the

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Act contains examples of the types of services that can be provided to individuals with disabilities under an IPE. In addition, State VR agencies may provide pre-employment transition services, pursuant to Section 113 of the Act (29 USC 733), to students with disabilities, regardless of whether they have applied and been determined eligible for VR services. A student with a disability does not have to have an IPE to receive pre-employment transition services under Section 113 of the Act; however, a student with a disability must have an IPE if he or she needs other VR services that are beyond the scope of pre-employment transition services described in section 113 of the Act.

2. *Services to Groups*

The State VR agency may provide VR services that benefit a group of individuals with disabilities. Section 103(b) of the Act (29 USC 723(b)) contains examples of services State VR agencies may provide to groups of individuals with disabilities.

3. *Participation in a One-Stop Service Delivery System*

Any service or infrastructure cost charged to the VR program through its participation in the one-stop service delivery system must be allowable under the program's authorizing statute and regulations and allocable to the VR program, consistent with the MOU between the State VR agency and the Local Workforce Development Board. The MOU is the primary vehicle by which the State VR agency sets forth how it will participate in and share in the costs of operating the one-stop service delivery system.

The MOU identifies the resources the State VR agency will contribute to support a fair share of the one-stop system's common operating costs, including infrastructure and shared services costs. The

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amount provided must be proportionate to the use of the system and the relative benefits received by the program. VR agencies may provide contributions for infrastructure and shared services costs through cash, non-cash, or third-party in-kind contributions, in accordance with the MOU. Cash contributions are cash funds provided to the Local Workforce Development Board or its designee by one-stop partners, either directly or through an interagency transfer. Non-cash contributions are expenditures incurred by one-stop partners on behalf of the one-stop center and goods or services contributed by a partner program and used by the one-stop center, fairly valued consistent with 2 CFR section 200.306. Third-party in-kind contributions are contributions of space, equipment, technology, non-personnel services, or other like items to support the infrastructure costs associated with one-stop operations, contributed either directly to one-stop partners or on behalf of a specific partner. While the VR agency may provide third-party in-kind contributions for the one-stop system, such contributions do not count as match under the VR program (see III.G.1.c, “Matching, Level of Effort, Earmarking –Matching,” below) (29 USC 3151(b)(1)(A)(iv)); 34 CFR sections 361.23 and 361.60(b) and subpart F).

4. *Administrative Costs for Pre-Employment Transition Services*

Administrative costs incurred while providing pre-employment transition services are allowable under the VR program, but must be paid with other VR funds.

States may not use any of the funds reserved in accordance with 29 USC 730(d)(1) for administrative costs, as defined in 29 USC 705(1), related to the provision of pre-employment transition services under Section 113 of the Act (29 USC 730(d)(2)).

Indirect Costs

DSHS recovers indirect costs for all grant programs via a cost allocation plan. The DSHS administrative costs

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(finance office, budget office, informational technology office, etc.) are allocated to all administrations/grants based on FTEs. The indirect costs are charged to programs other than DVR (which is program 100). The majority of the indirect costs are charged to program 110 and 145. The amount charged to the Vocational Rehabilitation grant are coded to cost objectives P26* and 826* (All direct costs are charged to program 100).

Cost Allocation Plans and Indirect Cost Plans

DSHS utilize a cost allocation plan to distribute indirect expenditures through the agencies. As is defined in Title 2 CFR Part 200 for Public Assistance Cost Allocation plans, DSHS - as a State Public Assistance agency - is required to use a cost allocation plan instead of an indirect rate. The purpose of a cost allocation system is to ensure that all direct and indirect costs are identified and distributed to benefiting federal and state programs in a fair, equitable, and consistent manner. The system does not use an indirect rate, but is based on the distribution of actual dollars (direct and overhead) and FTEs. An indirect cost rate is a percentage applied to direct costs as a method to recover the related administrative (overhead) costs. These expenditures are cost allocated as incurred. The system consists of the written and the automated allocation plan. The DSHS written cost allocation plan, which is called the Public Assistance Cost Allocation Plan (PACAP) is prepared pursuant to the requirements in the Title 45 Code of Federal Regulations and the Uniform Guidance.

Cost allocation will be separately reviewed centrally for DSHS. Documentation including copies of any and all approved Cost Allocation Plans and Indirect Cost Plans and testing can be viewed at [DSHS Centralized Cost Allocation](#). As we are testing cost allocation centrally, we will pass further examination.

Material Expenditures

We identified the following expenditure activities that are directly charged to the program and are quantitatively material (more than 5%) located at "DSB_DSHS_Exp_Combined" tab at C.9.6: [Revenue and Expenditure Analysis](#), and found the only material expenditure types (over 5%) for grant funds directly charged to the program were used for the following activities:

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- Salaries & Benefits (objects A/B)
- Direct Payments to Providers (sub object NB)

This PRG will include controls for Salaries and Benefits while the controls for Direct Payments to Providers (sub object NB) will be described in separate procedure A-B. Activities Allowed/Cost Principles - Controls - Payments to Clients and Providers.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the Department's written policies and procedures and received the following - see DSHS-AP-19-50-01A-AllowableCosts_Policy.

We also requested the Department provide us with the key internal controls they have established to ensure compliance over these requirements. We received the following:

Key Controls for Salaries and Benefits

- Key Internal Control #1: The fiscal Staff identifies who needs to complete certification using payroll reports to ensure all employees are included
- Key Internal Control #2: DVR fiscal staff use a tracking spreadsheet to monitor and ensure all required time certifications are completed timely.

Salaries & Benefits (objects A/B)

We met with Robert St. Lawrence - Policy Manager, and Jamie Evans - Budget Analyst on December 14, 2020, to discuss the payroll process for the Voc Rehab program during SFY20. Jamie explained for employees at DVR

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who work solely on grant activities, time sheets are neither used nor required (the Division has one employee who sometimes works a small amount on another program and fills out a tracking timesheet. The person also certifies the time). Instead, DVR documents and collects time worked by single cost objective employees every two weeks and compiles over six months period through semi-annual time certifications. The certification time periods are October -March and April-September and are due 45 days after the period ends: May 15 and November 15 respectively. DVR keeps the original signed and dated hard copy certifications on file in the DVR headquarters office. The administration has been following the DSHS Administrative Policy No. 19.50.01.A: Time Certification for Positions Charged to a Single Federal Award (Control Environment) (see [DSHS-AP-19-50-01A-AllowableCosts_Policy](#)). This policy requires both the employee and the supervisor to sign the certification. Before the Covid-19 pandemic, there was a physical signature on the document. With the beginning of the pandemic, managers certify charges with an email signature. There is an exception for when an entire division or work unit works on a single federal award. In this case the supervisor may certify for the entire division or work unit if they have first-hand knowledge of the actual work performed by the individuals being certified. It was also mentioned that the DSHS cost allocation plan contains a section for Vocational Rehabilitation that spells out how DVR planned to bill its time (Control Environment).

To begin the certification process, Jamie obtains an electronic "DVR Payroll File" from the Human Resource Division for the six month certification period (**Key Internal Control #1 - Information and Communication**). This is to ensure she has a complete listing of all federally charged salaries and benefits. She sorts the data by person and verifies the region. She will then compare this file to the Voc Rehab organizational chart to determine if staff that billed to specific field offices were supposed to and to ensure that all staff under a specific supervisor are listed. If an employee quits in a month and a second employee is hired to replace them in that same month, both would appear under that specific supervisor. If there are inaccuracies in the list, Jamie contacts HR. Jamie documents each required certification on a tracking spreadsheet and then creates an electronic semi-annual certification form titled "Semi-Annual Certification: Single Grant/Cost Objective" and forwards it via email to each supervisor. The email message also contains a combined certification sheet listing all staff that that supervisor was managing during that six month period. Both of these documents contain the necessary language to attest to the

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employees charges, therefore only one of these needs to be signed by the employee and supervisor. When the list of employees is sent out to each supervisor, they are required to review the reports to ensure staff are being billed under the correct field office. If a staff member is in the wrong location, their employment status is different than that listed on the report or they no longer bill 100% of their time, the supervisor is required to indicate that on the list and send it back. The supervisor then has the employees sign one of the two forms, after which they sign as well. This certifies the employees on the spreadsheet are accurate. Once completed, the supervisor sends the documentation to a Fiscal Analyst 3 who uses the tracking spreadsheet to ensure that all certifications are completed and returned to her timely. (**Key Internal Control #2 - Monitoring**). She also documents the date that each certification is completed on the tracking spreadsheet. Jamie then conducts the second review. DVR Finance and Budget Unit keeps all of the original signed documentation in a file.

Identified Key Controls:

Key Internal Control #1: The Budget Analyst identifies who needs to have completed certifications using source payroll reports to ensure all employees are included. (Information and Communication)

Key Control #2: DVR fiscal staff use a tracking spreadsheet to monitor and ensure all required time certifications are completed timely. (Monitoring)

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.8.PR.G - 84.126 Rehabilitation Services Vocational Rehabilitation - DSHS

Procedure Step:

A-B. Activities Allowed/Cost Principles - Controls - Payments to Clients and Providers

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Prepared By: OB, 3/26/2021

Reviewed By: LSD, 4/13/2021

Purpose/Conclusion:

Purpose:

To gain an understanding of the internal controls the agency has in place to provide reasonable assurance that Federal awards are expended only for allowable activities and that expenditures charged to the Federal award are allowable and in accordance with the applicable cost principles.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Robb St. Lawrence - Policy Manager

Jamie Evans - Budget and Fiscal Manager

Michael Krubsack, IT Specialist

Conclusion:

Based on our understanding of internal controls over Activities Allowed and Cost Principles, we assessed preliminary control risk as **LOW**.

Testing Strategy:

A-B. Activities Allowed/Cost Principles - **Post Uniform Guidance Awards**

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

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Review scope of work

Allowable Activities - Determine which activities and types of costs are specifically allowed or unallowed, by reviewing the following:

1. Award agreement or approved application for scope of work, terms and conditions, and approved budget.
2. Part 4 of the Compliance Supplement that applies to your audit period.
3. Available program guidelines or handbooks. (Ex. WSDOT's LAG Manual)
4. If above information is not available, look to the federal regulations (contact the single audit specialist if you need assistance with this).

Requirements for Cost Principles are found as follows:

Pre-UG: OMB Circular A-87

UG: 2 CFR 200, Subpart E.

Please be familiar with these requirements as not all are listed below; only parts emphasized in the Compliance Supplement are listed below.

Quantitatively Material

Identify the expenditure activities that are directly charged to the program and are quantitatively material (more than 5%).

Direct Costs

Payroll Expenditures: When payroll costs are selected for our single audit, our focus is on whether the portion of payroll charged to the program (allocation) is supported by appropriate time and effort and meets the cost principles. Note that awarding agencies may require specific forms of documentation to support payroll charged to its award.

Compensated Absences (leave cash-outs or accrual): The entity may include employees' use of leave (which is included in their regular salary payments). If the entity charges any **leave cash-outs** or the **accrual of leave** to the grant, there are special rules, see extra guidance in the policy tab. There is a high risk the costs are unallowable.

Non-Payroll Expenditures: Generally, auditors should test internal controls and compliance for non-payroll expenditures when those costs are quantitatively material (5%) to the program.

Automated Controls: If you identify key internal controls that are automated, consult with the SWSA Supervisor or SWSA AIC to determine whether to request automated control work from Team IT audit.

Indirect Costs

Determine whether the agency has recovered indirect costs via an indirect cost rate or cost allocation plan and, if so, how much was expended. If indirect costs are material to the program the auditor must test the internal controls (and compliance) over them when those costs are quantitatively material (5%) to the program.

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement. These are

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discussed in the **policy tab** in further detail, for when indirect costs are material to the program.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

Special – Review In-process Proposals: If the entity is preparing an Indirect Cost Rate Proposal during the audit period in order to submit it to the federal cognizant agency, we are required to review the accuracy of the base data and calculations.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

(a) Activities Allowed: grant funds are used only for allowable activities (this may include review of expenditures, program monitoring, preparing the reimbursement requests, establishment of programs);

(b) Cost Principles: direct and indirect costs charged to the grant comply with the cost principles set forth in 2 CFR 200 Subpart E (this may or may not be the same control activity for (a))

(c) Activities Allowed-Indirect Costs: if material (5%), the entity uses the proper indirect cost rate (per approved plan or rate, de minimis only when it is applicable, or another rate established by contract). Controls should also focus on how the entity properly calculates the direct cost base that the indirect rate is applied to. For instance, the controls should ensure that they are using only allowable types of costs in the MTDC or other direct base as applicable, that those costs are not used twice or that they occurred during the contract's period of performance. Note: These controls are likely **different** than those in (a) and possibly (b).

Evaluation of Results: Did you identify any control deficiencies? If yes, you must:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than**

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material/material>.

2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.7

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

----- **Basic Cost Principles (2 CFR 200.402 – 409)**

DEFINITIONS

Cost means an amount as determined on a cash, accrual, or other basis of accounting acceptable to the Federal awarding or cognizant agency.

Cost objective means a function, organizational subdivision, contract, grant, or other work unit for which cost data are needed and for which provision is made to accumulate and measure the cost of processes, projects, jobs and capitalized projects.

Direct costs are those that can be identified specifically with a particular final cost objective (i.e., a particular award, project, service, or other direct activity of an organization). Examples of Direct Costs: payroll costs of employees who perform work that is directly related to the grant program; the cost of supplies and materials used for the purpose of the grant; equipment and other approved capital expenditures made for the grant; or professional services contracted to accomplish specific grant/contract objectives.

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Indirect costs are those costs incurred for a common or institution-wide objective that benefits more than one grant program or project. Such costs are not readily assignable to the cost objective specifically benefited. Examples of Indirect Costs: depreciation and use allowances of non-federal equipment and buildings; facility operation and maintenance (lights, heat, phone, janitorial, grounds, etc);and general administrative expenses such as accounting, payroll, legal and data processing expenses.

GENERAL COST PRINCIPLES AFFECTING ALLOWABILITY OF COSTS (2 CFR 200.403)

- (a) Be **necessary** and **reasonable** for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any **limitations** or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be **consistent** with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) 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.
- (e) 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 this part.
- (f) **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. See also §200.306 Cost sharing or matching paragraph (b).
- (g) Be **adequately documented**. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

What is a Reasonable Cost (§200.404)? (cost principles)

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Other factors that must be considered in determining whether a cost is reasonable are:

whether the cost is generally considered as ordinary and necessary to the operation of the grantee or the performance of the federal award/program;

the restraints or requirements imposed by such factors as sound business practices, arms-length bargaining, federal, state and other laws and regulations, and terms and conditions of other federal awards, or sponsored agreements;

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market prices for comparable goods and services;

whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the grantee, its employees, where applicable its students or membership, the public at large, and the federal government;

whether the grantee significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal awards costs.

EXAMPLES:

1. A grantee is planning to purchase computers and printers with federal funds. The purchasing agent obtained phone quotes from three contractors. One contractor has a direct family relationship with the grantee's purchasing agent. It so happens that this contractor's quote was 20% higher than the other two. The grantee should not contract with this contractor because the price is unreasonable and has a conflict of interest (regardless of the price).

2. A grantee has been permitted in its grant contract to lease a vehicle so that it can travel within its region to deliver grant-related services to clients. The grantee has obtained quotes for a standard 4-door sedan and a luxury 4-wheel drive SUV that is twice the cost of the sedan. Which vehicle should the grantee choose? This is not to say a 4-wheel drive is not necessary or reasonable, but the price may dictate the type or model of vehicle.

What is an Allocable Cost (§200.405)? (cost principles)

A cost is considered allocable if the goods or services involved are chargeable or assignable to the federal award or cost objective (i.e., a specific function, project, sponsored agreement, service, or grant) in accordance with the relative benefits received.

Any cost allocable to a particular federal award may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by federal statutes, regulations, or terms and conditions of federal awards, or for other reasons.

If a grantee intends to recover the portion of its indirect costs (overhead, central administration, etc.) that relates to its grant programs, Uniform Guidance requires the grantee to develop a central service cost allocation plan and/or indirect cost rate proposal. Requirements pertaining to central service cost allocation plans and indirect cost proposals are found in Appendix III-VII to Part 200 (Uniform Guidance).

EXAMPLES:

1. An employee works on two different federal grant projects. The time spent on each project varies from day to day. This employee must keep monthly time and effort records that account for actual time spent on each project. By tracking actual effort, each grant will be charged its fair share of the costs.

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2. A grantee held a training workshop for its employees. Included in the cost of the workshop was room rental, food, and travel. The workshop included a session that was specific to a federal program and a session that covered general personnel and human effectiveness training. The grantee should allocate the cost of the training among all programs/divisions that benefited from the training. Next, it should charge the allocated amount only to those awards that specifically allow for this type of cost.

Applicable Credits (§200.406) (cost principles)

A "credit" means a receipt or reduction in expenditures that offset or reduce direct or indirect cost items. Examples include:

- purchase discounts;
- rebates or allowances;
- recoveries or indemnities on losses;
- insurance refunds or rebates; and
- adjustments of overpayments or erroneous charges.

When such credits are applicable to allowable costs, they must be credited to the federal award either as a cost reduction or a cash refund. In some instances, the amounts received from the federal government to finance a grantee's activities or service operations should be treated as applicable credits.

EXAMPLE:

A grantee paid a contractor for materials it needed for a project. It was determined later that the vendor had over-billed the grantee and was issuing a refund check. This refund should be netted against the total amount charged to the grant as a cost reduction. If the grant project had already been closed out, the refund should be remitted to the grantor agency that sponsored the project. Consult with the grantor agency in such a case.

Prior written approval (§200.407) (cost principles)

Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following sections of this part:

- (a) §200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);
- (b) §200.306 Cost sharing or matching;
- (c) §200.307 Program income;
- (d) §200.308 Revision of budget and program plans;
- (e) §200.311 Real property;

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- (f) §200.313 Equipment;
- (g) §200.332 Fixed amount subawards;
- (h) §200.413 Direct costs, paragraph (c);
- (i) §200.430 Compensation—personal services, paragraph (h);
- (j) §200.431 Compensation—fringe benefits;
- (k) §200.438 Entertainment costs;
- (l) §200.439 Equipment and other capital expenditures;
- (m) §200.440 Exchange rates;
- (n) §200.441 Fines, penalties, damages and other settlements;
- (o) §200.442 Fund raising and investment management costs;
- (p) §200.445 Goods or services for personal use;
- (q) §200.447 Insurance and indemnification;
- (r) §200.454 Memberships, subscriptions, and professional activity costs, paragraph (c);
- (s) §200.455 Organization costs;
- (t) §200.456 Participant support costs;
- (u) §200.458 Pre-award costs;
- (v) §200.462 Rearrangement and reconversion costs;
- (w) §200.467 Selling and marketing costs;
- (x) §200.470 Taxes (including Value Added Tax); and
- (y) §200.474 Travel costs.

Consistency (2 CFR §200.403(d) (cost principles)

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.

EXAMPLE:

A grantee has five departments. It allocates the cost of its basic telephone service to each department based on the number of telephones in each department. Each department should treat the telephone cost consistently for all grants it administers. That is, if a department has 3 grant programs, that department should treat this telephone cost as either a direct cost or indirect cost for all 3 grants, but not a mix of each. Next, if treated as a direct cost, a department should only request reimbursement for this type of cost if permitted under the terms of its grant agreement(s).

Grant Agreement Limitations (§200.408) (cost principles)

To be allowable, the cost being charged must conform to any limitations or exclusions set forth in the terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

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EXAMPLE:

A grantee paid for a television advertisement to promote its new grant-funded health program. However, the approved grant contract limited the cost of advertising to brochures and radio ads. Therefore, the grantee should not include the cost of the television advertisement in its request for reimbursement even though "advertising" is an otherwise allowable cost according to Circular A-87.

Adequate Supporting Documentation (2 CFR §200.403(g) (cost principles)

Amounts charged to federal awards must be supported by source documentation, including:

- payroll reports
- time and attendance records
- invoice vouchers from subrecipients
- receiving reports
- original vendor invoices
- cost allocation plans

(Documentation may be in an electronic form, but make sure the integrity of the electronic documentation can be maintained for the duration of the applicable record retention period).

EXAMPLE:

A grantee made a year-end adjustment to a federal award using a journal voucher entry. The accounting entry must be supported by adequate documentation that demonstrates both allowability and allocability.

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8

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52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

ADDITIONAL TESTING SELECTION INFO & EXAMPLES

<i>Selection Options</i>		
Method	Process	Next Steps
Sampling	This is the preferred method for large populations (over 365). Use sampling tool from teammate.	Get the sample tool from Teammate. Take the sampling training if needed.
Haphazard Selection	May use for populations less than 365. Auditor haphazardly picks transactions. It feels random but only true "random" samples can be done by the computer in the sampling method.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab)
Judgmental Selection	May use for populations less than 365. The auditor has a specific reason, associated with a risk, to pick certain or certain transactions. Explain risks in the ROWD and how transactions not selected are lower risk.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab). See examples there.
Judgmental Population	First, the auditor has a specific reason, associated with a risk, to pick certain types of transactions (judgmental population). Explain risks in the ROWD and how populations not selected are lower risk (you can refer to the testing strategy if we have done this for you already). Next, the auditor selects transaction from the judgmental population using the sampling method above.	Get sample tool from Teammate. Take training for the form if needed.
All quantitatively material transactions	Use only when a few very large transactions make up the majority of grant activity. You will test all of these material transactions.	Keep in mind: If 10% or more of the population is made up of <i>other</i> types of costs, those transactions should be tested in some way, as well.

DUAL PURPOSE TESTING EXAMPLE

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For allowable costs the key control is, "The Business Manager reviews the reimbursement request, reconciling the items requested to invoices to determine they are supported and allowable." You will test it by reperforming the Business Manager's review to determine if it is effective in preventing and detecting noncompliance. You may check the requests to see if they have the Business Manager's signature of approval but that will only tell you if they consistently do it, which is important. However, you should reperform the control.

To complete compliance testing you are tracing expenditures from the requests to support to determine if they are supported and allowable per the program.

In this case, for testing both controls and compliance you are completing the same process. However, you need to document that you tested both and clearly show the conclusion of each even though they are related. Control testing should conclude whether the control was effective in preventing or detecting noncompliance and compliance testing whether the entity was in compliance.

INDIRECT COST UNDERSTANDING OF RATES/ALLOCATIONS

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

1. Rate Provided by Grantor: The federal grantor or PTE can give the entity an indirect cost rate in the award, usually outlined in the budget section and based on the availability of funding. There is no separate or formal rate agreement and it is not considered negotiated.

2. Use PTE Negotiated Rate: The federal grantor, PTE or federal guidance can require the entity to use PTE's negotiated indirect cost rate. This requirement can be found in the Compliance Supplement and federal pass-through guidance. The PTE will place the rate in their award with the entity. This is common for school districts.

3. De Minimis Indirect Cost Rate: If the entity elects to use the de minimis rate, a flat 10% (of Modified Total Direct Costs), in their grant application, no direct or pass-through grantor can deny its use so long as the entity qualifies.

Restrictions: The entity can use the method so long as they have **never** had a negotiated indirect cost rate or allocation plan approved by the federal cognizant agency **or** the PTE.

UPDATED GUIDANCE: Federal guidance now clarifies that negotiated rates and allocation plans negotiated by **PTEs** can prevent the use of the de minimis rate.

Consistency: If used, the entity must use the de minimis method for all of their Uniform Guidance federal programs that allow indirect

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costs.

Rate: Indirect costs are calculated as base costs multiplied by a flat 10% rate that does not require a true-up to actual indirect expenses.

Base Used: The 10% is multiplied by the modified total direct costs (MTDC) base.

<i>MTDC Base</i>	
Includes	Excludes
Direct Salaries & Wages	Equipment & Capital Expenditures
Direct Fringe Benefits	Charges for Patient Care
Materials & Supplies	Participant Support Costs
Services	Rental Costs
Travel	Tuition remission, Scholarships & Fellowships
Up to \$25,000 of <i>each</i> subaward (regardless of the period of performance)	The portion of each subaward in excess of \$25,000

4. Negotiated Rates & Allocation Plans – Cognizant Agency: Only major governments are required to obtain a cognizant agency approved negotiated rate or allocation plan. Smaller governments can opt to do so. The “cognizant agency for indirect costs” is designated as:

For central service cost allocation plans: the federal agency with the largest dollar value of ***total*** federal awards

For indirect cost rates and cost allocation plans: the federal agency with the largest dollar value of ***direct*** federal awards

Once designated, the federal entity remains the cognizant agency for five years. Under this method, the entity will be awarded a formal contract for the rate/allocation. All awarding agencies must accept the rate/allocation plan when the entity elects to use it in their program application.

Various allocation plans can be approved, but there are four types of rates:

1. **Provisional:** The provisional rate is temporary and expires upon the completion of the federal award. It requires a true-up to actual expenditures by the end of the project or whenever the entity obtains a final rate. The rate is adjusted by using the final rate.
2. **Final:** The rate is permanent and is calculated after the actual costs are known (i.e. at the conclusion of the federal project). It is used to adjust the indirect costs from the provisional rate.
3. **Predetermined:** This is a permanent rate and is calculated using actual costs from previous periods. It does not require a true-up to

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correspond with actual current year costs. The rate is effective between two to five years.

4. **Fixed:** This is a permanent rate and is calculated using actual costs from previous periods. It requires a true-up to correspond with actual current year costs. The variance between the costs used to create the rate and the actual costs incurred during the year the rate was used is carried-forward as an adjustment to the current rate. The entity will either recover or “pay back” the variance going forward. The rate is effective for two years and then can be annually renewed.

5. Negotiated Rates & Allocation Plans – PTE: Indirect Cost Rate Proposals and Cost Allocation Plans are not required by UG to be submitted to/approved by PTE's, but the PTEs may require it. Usually a formal contract for the rate/allocation is not issued and they just review and/or approve the plan instead. Other pass-through entities are not required accept the rate/allocation plan but they can choose to accept it.

METHODS OF INDIRECT COST RATE CALCULATION

(1) The specific methods for allocating indirect costs and computing indirect cost rates are as follows:

(a) *Simplified Method* – This method is applicable where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect cost to approximately the same degree. The allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures described in 2 CFR part 200, Appendix VII, paragraph C.2.

Multiple Allocation Base Method – This method is applicable where a governmental unit's department or agency has several major functions that benefit from its indirect costs in varying degrees. The allocation of indirect costs may require the accumulation of such costs into separate groupings which are then allocated individually to benefiting functions by means of a base which best measures the relative degree of benefit. (For detailed information, refer to 2 CFR part 200, Appendix VII, paragraph C.3.)

(c) *Special Indirect Cost Rates* – In some instances, a single indirect cost rate for all activities of a department or agency may not be appropriate. Different factors may substantially affect the indirect costs applicable to a particular program or group of programs, e.g., the physical location of the work, the nature of the facilities, or level of administrative support required. (For the requirements for a separate indirect cost rate, refer to 2 CFR part 200, Appendix VII, paragraph C.4.)

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

Record of Work Done.:

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Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance. In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

Review scope of work

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine which activities and costs are allowed or unallowed. We identified the following:

A. Activities Allowed or Unallowed

1. *Services to Individuals*

VR services provided under Section 103(a) of the Act (29 USC 723(a)) are any services described in an IPE necessary to assist an individual with a disability in preparing for, securing, retaining, or regaining an employment outcome that is consistent with the individual's strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice. Section 103(a) of the Act contains examples of the types of services that can be provided to individuals with disabilities under an IPE. In addition, State VR agencies may provide pre-employment transition services, pursuant to Section 113 of the Act (29 USC 733), to students with disabilities, regardless of whether they have applied and been determined eligible for VR services. A student with a disability does not have to have an IPE to receive pre-employment transition services under

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Section 113 of the Act; however, a student with a disability must have an IPE if he or she needs other VR services that are beyond the scope of pre-employment transition services described in section 113 of the Act.

2. *Services to Groups*

The State VR agency may provide VR services that benefit a group of individuals with disabilities. Section 103(b) of the Act (29 USC 723(b)) contains examples of services State VR agencies may provide to groups of individuals with disabilities.

3. *Participation in a One-Stop Service Delivery System*

Any service or infrastructure cost charged to the VR program through its participation in the one-stop service delivery system must be allowable under the program's authorizing statute and regulations and allocable to the VR program, consistent with the MOU between the State VR agency and the Local Workforce Development Board. The MOU is the primary vehicle by which the State VR agency sets forth how it will participate in and share in the costs of operating the one-stop service delivery system.

The MOU identifies the resources the State VR agency will contribute to support a fair share of the one-stop system's common operating costs, including infrastructure and shared services costs. The amount provided must be proportionate to the use of the system and the relative benefits received by the program. VR agencies may provide contributions for infrastructure and shared services costs through cash, non-cash, or third-party in-kind contributions, in accordance with the MOU. Cash contributions are cash funds provided to the Local Workforce Development Board or its designee by one-stop partners, either directly or through an interagency transfer. Non-cash

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contributions are expenditures incurred by one-stop partners on behalf of the one-stop center and goods or services contributed by a partner program and used by the one-stop center, fairly valued consistent with 2 CFR section 200.306. Third-party in-kind contributions are contributions of space, equipment, technology, non-personnel services, or other like items to support the infrastructure costs associated with one-stop operations, contributed either directly to one-stop partners or on behalf of a specific partner. While the VR agency may provide third-party in-kind contributions for the one-stop system, such contributions do not count as match under the VR program (see III.G.1.c, “Matching, Level of Effort, Earmarking –Matching,” below) (29 USC 3151(b)(1)(A)(iv)); 34 CFR sections 361.23 and 361.60(b) and subpart F).

4. *Administrative Costs for Pre-Employment Transition Services*

Administrative costs incurred while providing pre-employment transition services are allowable under the VR program, but must be paid with other VR funds.

States may not use any of the funds reserved in accordance with 29 USC 730(d)(1) for administrative costs, as defined in 29 USC 705(1), related to the provision of pre-employment transition services under Section 113 of the Act (29 USC 730(d)(2)).

Material Expenditures

We identified the following expenditure activities that are directly charged to the program and are quantitatively material (more than 5%) see DSB_DSHS_Exp_Combined tab at C.9.6: Revenue and Expenditure Analysis

- Salaries and Benefits (objects A/B)
- Direct Payments to Providers (sub object NB)

This PRG will include controls for Direct Payments to Providers while the controls for Salaries and Benefits (sub objects A & B) will be described in separate procedure A-B. Activities Allowed/Cost Principles - Controls - Salaries and Benefits

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Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested and reviewed the Department's written policies and procedures (see [Pre-ETS Invoice Payments and Tracking](#)).

There was a finding issued over this area in the 2018 and 2019 audits. Finding 2019-023 stating the Department of Social and Health Services did not have adequate internal controls over and was not compliant with federal requirements to ensure payments paid on behalf of clients for Vocational Rehabilitation were allowable (see [2019-023 Finding Allowable Costs](#)). We obtained the Corrective Action Plan from the Department (see C.8.43 [Updates to Activities Allowed CAP July 2020](#)). According to this CAP, the Department implemented some changes but not all. For more detail see Date and Status/Action Taken column at C.8.43. Some improvements were made in April-June 2020 time frame while others were scheduled to be made by September 30 and December 31, 2020. These improvements were too late in the audit period to have ensured material compliance. The CAP did not take full effect during this audit period. We will evaluate the effectiveness of the Department's key controls during this audit period to determine if a control deficiency still exists.

Direct Payments to Clients and Providers (sub objects NA and NB) in STARS

We met with Robert St. Lawrence - Policy Manager, Michael Krubsack, IT specialist, and Jamie Evans - Budget Analyst on December 15, 2020, to discuss the processes in place over direct payments to clients and providers during SFY20. Before the meeting, we had requested internal controls from the Department. Please see the internal controls and our discussion of them with the Department below.

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There are multiple levels of control for direct payments to clients and providers of services, including policy level controls and automated controls, as well as review at several stages.

The following policy level controls are key to ensuring that dollars spent against the Basic Support grant for direct payments to clients/providers are allowable:

- As described in WAC 388-891A-1105, staff must make written authorization prior to purchasing services other than in exceptional circumstances. **AFP** (Authorizations for Purchase) are recorded in the Service Tracking and Reporting System (**STARS**) – a database used by all DVR field offices to maintain client data. At first, DVR identifies client's need for services and records them in the client's Individual Plan for Employment (**IPE**) in STARS. Additional authorizations for services planned between customer (client) and Department can also occur. Contracted services can be authorized through individual requests (at the client level) where the service is authorized for a contractor and for a particular client/individual, e.g., request for interpretation services.
- The scope of VR service categories is described both in the WAC and the DVR Customer Services Manual (**CSM**) (see starting on p.306 Customer Services Manual (June 04 2020)), and a crosswalk for which category in STARS to select for specific purchases is available for staff reference in the DVR CSM, VR Services Table. - **Key Control #1 - Information and Communication Control**
- There are extensive procedural requirements for purchases found in the DVR CSM.

The following automated controls are key to ensuring that dollars spent against the Basic Support grant for direct payments to clients/providers are allowable:

- There is an automated separation of duties (that is role-based access) between the individual authorizing a purchase for a DVR customer and the individual issuing the payment in the system. Levels of purchasing authority are also automated by the STARS system. Role-based access levels are defined by local area controls (office level). Paraprofessional and Vocational Rehabilitation Counselor

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(VRC) split these payment and authorization functions. Purchase limits are defined in CSM based on delegated authority (p.70, 544 at C.8.44). IT controls permissions for all staff. Thach Tran may have more information on staff permissions in AFP system. Individual helpdesk requests are sent into IT to be able to manage caseload information or AFP requests as needed. Permissions are granted system-wide, meaning they do not change for an individual so long as they remain in the same job title/position.

- Once customers have developed an individualized plan for employment, there is an automated validation in the STARS system (implemented during FY19) between services agreed upon in the individualized plan for employment (**IPE**) and authorizations for purchase (**AFPs**), so that services must have been agreed upon in the most recent approved IPE in order to initiate an AFP. Before an IPE is established, assessment services or services related to pre-assessment are generally allowed to be funded by the program. STARS is programmed to block unallowed access and will produce an error notification in such case.
- Within STARS, there is a predetermined list of "eligible" services under Vocational Rehabilitation that can be selected to be input into a client's IPE. VR Counselors can only select services from this drop-down list to add to the IPE. Otherwise, a supervisor can approve the creation/addition of a new service category to add to the IPE. - **Key Automated Control #2.**
- For direct employment services provided by contracted community rehabilitation programs (**CRPs**), automated controls validate authorizations for service against the services agreed upon in the contract for services. Within vendor module, there are authorized services recorded by contracts staff that a vendor(s) is/are authorized to provide.
- There are automated controls that ensure valid dates are provided for the start and end dates of services on authorizations for purchase initiated in the STARS system. The start and end dates in AFPs are restricted based on program code.

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The following in-line review activities are key to ensuring that dollars spent against the Basic Support grant for direct payments to clients/providers are allowable:

- There are supervisory reviews required for the inclusion in IPEs of purchased services in a number of categories, such as job services provided by CRPs, postsecondary training, and self-employment services. Before services are incorporated into an IPE as a supported service, and before issuing payment, supervisors should check that service(s) are appropriate. After the review, a supervisor writes a case note to indicate approval.- **Key Control # 3 - Monitoring.** Supervisory approvals are required on each IPE. A paraprofessional and a counselor also review appropriateness of services in Customer Service Module. These reviews began around November 2018.

On the first of each month, an extract report is generated. It identifies specific case statuses. Supervisors are expected to review the extract report as part of QA monitoring. Extract process is designed to select cases using selection criteria (2 or less cases for each VRC – based on caseload).

- There are procedural requirements for the review and approval of certain categories of service and high dollar value equipment. Dollar thresholds of equipment, and service categories requiring approval are documented in the CSM. The review includes both field and operations staff in the approval process. Bids/quotes for equipment purchases are reviewed by Fiscal HQ staff. Should we pick the equipment purchase, we will test it.

The following quality assurance activities help to address inaccuracies that may be reflected in existing case information.

- There is a monthly review, by field office supervisors, of a sampling of AFPs generated for each counseling staff. - **Key Control #4 - Detective Control** This review includes a sample of items that present risk as determined according to a suggested set of criteria and the professional judgment of the supervisor. Review of AFPs is supposed to be more timely based on prior month of AFPs. After the review, the case supervisor does not report findings to anybody externally (up the chain). They submit

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a copy of findings to regional administrators. Fiscal Compliance Manager also reviews the documentation.

- There is a monthly case review, by field office supervisors, for a sample of cases for each counseling staff. The cases populated for review are randomized unless the supervisor requests specific cases or a specific kind of case to address issues with local office counseling staff .

Key Controls for Direct Payments to Clients/Providers (sub object NA and NB) not in STARS – Paid at HQ.

These controls are specifically for Pre-Employment Transition Services (Pre-ETS) contract payments that are paid at State Office that are not paid in STARS.

- **Key Internal Control #1: The Transition Manager reviews the submitted invoices to ensure they are accurate, complete and allowable and then signs the A19 or responds via email with approval to pay the invoice (Control Activities).** To ensure accuracy and completeness of invoices, transition consultants (in field office) receive the invoice – A19 (pre-ETS) package from the contractor that includes an Excel tracking sheet to track student/individual data, including services provided, and dates of services provided. Depending on the contract, contractors may also submit additional documentation that includes consent forms, sign-in or attendance sheets. Before Tammie Doyle, Transition Manager, reviews, consultants do the first round of reviews and follow up to make sure all required documentation is provided and questions to the contractor are addressed.
- **Key Internal Control #2 The fiscal staff reviews the approved invoice to ensure it is properly coded and is allowable and then signs off on the A19 (Control Activities).** Excel workbooks given to DVR contractors have preliminary account coding. Fiscal staff are checking that the coding on the A19 matches these workbooks and appear to be allowable before issuing payment. An electronic signature is recorded on the A19. Physical (wet) signatures were also recorded before COVID-19 pandemic.

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Summary of Key Internal Controls:

Related to Direct Payments to Clients and Providers (sub objects NA and NB) in STARS

Policy Controls:

Key Internal Control #1: CSM provides information on what specific purchases are available. (Information and Communication)

Automated Controls:

Key Internal Control #2: Within STARS, there is a predetermined list of "eligible" services under Vocational Rehabilitation that can be selected to be input into a client's IPE. VR Counselors can only select services from this drop-down list to add to the IPE. Otherwise, a supervisor can approve the creation/addition of a new service category to add to the IPE. (Automated Control)

Review Controls:

Key Internal Control #3: Before services are incorporated into an IPE as a supported service, and before issuing payment, supervisors should check that service(s) are appropriate. After the review, a supervisor writes a case note to indicate approval. (Monitoring)

Quality Assurance Controls:

Key Internal Control #4: On a monthly basis, field office supervisors review a sampling of AFPs generated for each counseling staff to address inaccuracies that may be reflected in existing case information. (Detective Control)

Related to Direct Payments to Clients/Providers (sub object NA and NB) not in STARS – Paid at HQ:

Key Internal Control #1: The Transition Manager reviews the submitted invoices to ensure they are accurate, complete and allowable and then signs the A19 or responds via email with approval to pay the invoice. (Control Activities)

Key Internal Control #2: The fiscal staff reviews the approved invoice to ensure it is properly coded and is

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allowable and then signs off on the A19. (Control Activities)

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.8.PRG - 84.126 Rehabilitation Services Vocational Rehabilitation - DSHS

Procedure Step: C. Cash Management - Controls

Prepared By: OB, 2/7/2021

Reviewed By: LSD, 2/8/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established over Cash Management.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Robert St. Lawrence, Policy Manager

Jamie Evans, Finance & Budget Manager

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Jeanette Ogg, Chief of Operations
Rick Meyer, DSHS External Audit Compliance Manager
Violeta Perales, Senior Financial Coordinator

Conclusion:

Based on our understanding of internal controls over Cash Management, we assessed preliminary control risk as **LOW**.

Testing Strategy:

Reminder: Cash management is always direct and material whether the entity operates on a reimbursement or cash advance basis. (The only exception is for a non-cash award, e.g. federal equipment, real property, supplies or commodities received.)

Note: Entities may receive awards funded on a reimbursement basis, as well as awards funded through advance payments. For such entities, the auditor should plan the audit to address the objectives of both payment methods, i.e., the auditor should include audit procedures to separately assess and test internal control and compliance for the reimbursement and advance payment methods.

Cash Management - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the *Inherent and Internal Control Risk Guidance* that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

CMIA Agreement

- (a) Determine whether the program is subject to the CMIA (Cash Management Improvement Act) agreement made between the U.S. Treasury and OFM (see attached pdf file in planning at **B.1.14**). This will typically only apply to larger programs over \$20 million.
- (b) If the program is subject to the OFM/Treasury CMIA agreement, obtain an understanding of funding technique prescribed for the program. Review Part 4 of Compliance Supplement for any program-specific requirements.
- (c) If the program is not subject to the CMIA, review Part 4 of Compliance Supplement for any program-specific requirements.

Awards to Subrecipients

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Determine whether the agency made any awards to subrecipients.

Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and/or program regulations to determine the method of payment for the federal program (i.e., cash advance or cost reimbursement). If a grantee states that it is paid on a "cost reimbursement" basis, determine whether the grantee is permitted to request its funding from the grantor before it actually disburses its own cash to pay project/program costs.

Information for all other awards (generally):

A. CASH ADVANCE – Some programs allow the grantee to draw down funding before program expenses are incurred or paid. The requests the auditee submits to their grantor should identify it as an advance request. The entity must:

- (1) Create and maintain written policies that address how it will comply with the cash advance requirements (UG only). The auditor does not need to determine whether the written procedures are sufficient. Sufficiency is up to the interpretation of the grantee unless the awarding agency has provided guidance.
- (2) Disburses the grant funding as soon as possible after it is received;
- (3) Limits its cash advance requests to its immediate needs; and
- (4) Tracks interest earned from cash advances. They must remit interest earned over \$100 for Pre-UG and over \$500 for UG.

B. COST REIMBURSEMENT – This occurs when the grantee incurs costs before the federal funds are received. Either situation could occur (even for the same program, transaction by transaction):

1. Costs are incurred but not paid before federal funds are received (like a cash advance): This pertains to those contracts or program regulations that **do not specifically require** the grantee to disburse its own funds before it requests reimbursement. For example, if a grantee incurs an expense (e.g., ordering supplies and receiving a vendor invoice), but does not disburse any of its own funds (paying the invoice) until after it submits a request to the grantor and receives its federal funding, the grantee is essentially receiving a cash advance. Thus, the grantee could potentially be maintaining an excess cash balance and earning interest. The same could be applied if the entity collects an improper payment or later receives a rebate, discount, refund on returned items, etc. that they keep – as an advance – rather than returning the funds to the grantor if the cost had already been reimbursed.

NOTE: The awarding agency may have regulations and/or guidance in these cases as to the specific amount of time the entity has from receipt of the funds to disburse the funds. For example, OSPI requires 3 days from receipt of funds to disburse. If the awarding agency does not have guidance on this, use auditor judgement to determine if the amount of time between receipt of funds and disbursement is reasonable and consistent with the entities disbursement policies and procedures.

2. Costs are incurred and paid before federal funds are received: This is a true cost reimbursement. The focus of the auditor's review is that the entity has controls to ensure they maintain a cost reimbursement basis – only requesting transactions that have been paid – and are in compliance with the requirement. The audit objective from the Compliance Supplement is, "For grants and cooperative agreements to non-Federal entities that are paid on a reimbursement basis, supporting documentation shows that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request."

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Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

(a) CMIA programs - Identify and document the key internal controls used by the agency to comply with the CMIA funding technique to (1) ensure cash advances are limited to its immediate cash needs, (2) minimize the time elapsing between receiving the funds and expending the funds, and (3) assure that subrecipients are minimizing the time elapsing between receipt of the funds and expenditure of the funds.

(b) non-CMIA programs - Identify and document the key internal controls used by the auditee to (1) ensure cash advances are limited to its immediate cash needs, (2) minimize the time elapsing between receiving the funds and expending the funds, and (3) assure that subrecipients are minimizing the time elapsing between receipt of the funds and expenditure of the funds.

Gain an understanding of the grantee's internal controls and identify the key controls over its requests for federal funding as follows.

Cash Advances - our focus is on the controls that ensure:

- (1) The grantee established written procedures to minimize the time between receipt and disbursement of funds and ensures those procedures are up-to-date with federal requirements in subsequent years.
- (2) the grantee is disbursing the funding as soon as possible after it is received,
- (3) the grantee is limiting its cash advance requests to its immediate needs
- (4) the grantee is tracking interest earned from cash advances and remitting any interest over \$500 back to the grantor.

Cost Reimbursement (incurred but not paid before reimbursed)

- (1) the grantee is disbursing the funding as soon as possible after it is received,
- (2) the grantee is limiting its cash advance requests to its immediate needs
- (3) the grantee is tracking interest earned from cash advances and remitting any interest over \$500 back to the grantor.

Cost Reimbursement (incurred and paid before reimbursed – true reimbursement)

- (1) the grantee ensures it only requests costs that have been paid.

For example, the person responsible for creating the reimbursement request includes only costs paid based upon their tracking spreadsheet, because they generate a report for only costs that have been paid, or generates detailed transaction reports and includes items based on the date paid.

***Note:** If the auditee usually maintains a true cost reimbursement but has some transactions (occasionally or as special situations) that are incurred but not paid before reimbursement, the controls of each should be addressed.

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Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

(Deficiencies Identified: Use the decision matrix in the “Major Federal Program” spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).)

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.7

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High

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<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

Record of Work Done.:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

Subject to the Cash Management Improvement Act (CMIA) Agreement 2020 CMIA Agreement

Component: Direct program/benefit payments to subrecipients and service providers, and administrative costs including payroll

Technique: Modified Direct Program Costs - Admin, Payroll, Payments to Providers (ACH Drawdown on Payroll Cycle)

Average Day of Clearance: N/A

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Component: Administrative costs including payroll

Technique: Modified Direct Program Costs - Admin, Payroll, Payments to Providers (ACH Drawdown on Payroll Cycle)

Average Day of Clearance: 0 Days

Awards to Subrecipients

The agency does not have subrecipients for this program.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the Department's policies or procedures related to cash management. Violeta Perales, Senior Financial Coordinator, informed us via email that they "do not have any federal grant "draw policies"; only OAS (Auditor Note: Office of Accounting Services) process instructions."

In lieu of obtaining the Departments' internal controls beforehand, we discussed them during our meeting.

To gain an understanding of the draw process, on December 14, 2020 we met with:

- Robert St. Lawrence, Policy Manager
- Jamie Evans, Finance and Budget Manager
 - Jeanette Ogg, Chief of Operations
- Rick Meyer, DSHS External Audit Compliance Manager
- Violeta Perales, Senior Financial Coordinator

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Per the OFM Treasury-State Agreement (same as CMIA terms & conditions), cash draws are to be done the day before payday occurs.

The Department stated that any “special draw” can be scheduled for processing as needed. Written procedures are available for the Grants Specialist to help perform the weekly and payday draw processes. DSHS has approximately 90 grants currently open. The Department uses the Grants Management System (**GMS**) which interfaces with the Agency Financial Reporting System (**AFRS**) on a nightly basis to generate the draw information for each grant. The interface ensures the draw amounts are accurately calculated, prepared for review, and have required approval prior to submitting the draw request. This is accomplished by requiring preparers and reviewers to check a box when a step is completed in **GMS**.

GMS tracks revenues and expenditures for each grant by identifying revenue sources and cost objectives. New cost objectives can be added at the beginning of each federal fiscal year by DSHS. The financial coordinator reviews the Unassignable Revenue report that details any cost objectives that were created and has expenditures but not tied to a grant to ensure all expenditures are accurately captured.

Draw Process

All Senior Financial Coordinators (**SFC**) or designated backup coordinators (Violeta Perales, Jayda Williams) can perform cash draws. Most often it was Violeta who did draws. Jayda is no longer with DSHS. The day before a scheduled draw, the senior financial coordinator (**SFC**) will go into **GMS** where each grant is identified by year and period of performance. There, **SFC** clicks on the Financial Status icon. Within that screen, they select the program that they will be drawing funds for and ensure that the appropriate scheduled draw date is selected, reflecting the date that the draw will actually be performed. On this screen, the **SFC** will go through each grant for their designated program to analyze and review the amounts that are in the "Over/Under Drawn" column. An

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amount that is noted in this field indicates that a draw needs to occur. Any notes that are made by authorized SFCs are noted in the Office of Accounting Services (**OAS**) Comment field and the Senior FC column will auto populate with the SFC's name. The standard notes that will go into this column are either to draw the funds, draw - adjust/return funds, or decline - explain why declined.

The SFC will review each line item in the draw report and look to ensure that the total dollar amount of the grant award as well as the Letter of Credit (**LOC**) authorization which is the maximum dollar amount that can be drawn against that LOC. 2 days before scheduled draw date, DVR receives a pre-draw report (based on AFRS data, generated through GMS) to verify amounts before the actual draw is due and to catch any discrepancies. Both the total grant award and the LOC Authorized amount should be the same. If not, then the SFC will work with a program and research to identify the discrepancy. An example of this would be if the LOC received an increase but the grant award for the increase hasn't been received. The SFC will then have to request the grant award from the program or the Feds and then ask a Fiscal Analyst (**FA4**) to enter the increase in GMS. An approval from the manager is needed if the variance is on a pre-draw day.

Other fields that are reviewed include the following:

- Cash Disbursements: Sum of the Cash Disbursements Prior Periods plus Cash Disbursements in Current FY
- Revenue Drawn: Sum of Revenue Drawn in Prior Periods plus Revenue Drawn in Current FY
- Grant Award Balance: Total Grant Award amount minus the Total Revenue Drawn Amount
- LOC Authorization Balance: Total LOC Authorized amount minus the Total Revenue Drawn Amount
- Negative amounts in this field are researched before proceeding with any further steps
- Over/Under Drawn: Total Cash Disbursements minus the Total Revenue Drawn
- Amounts in this column that exceed the grant award balance or the LOC authorization balance on the date of the draw, the draw must be adjusted to match the LOC authorization balance

After reviewing the GMS Grant Financial Status Report, the senior financial coordinator sends the report to

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the designated program fund manager for review and to ensure the draw amount is based on actual program expenditures (Key Internal Control #1 - Control Activities). Violeta checks notification button to send to program fund manager for review. Each program fund manager has the most knowledge as to the expenditures and revenues of their program since they review them more frequently. Once the draw request amount has been confirmed by the program fund manager, they send an email notification back within GMS notifying the SFC that the draw amount is ok to draw. The SFC then does a final review of the draw before sending the draw requests to the accounting manager or office chief to review and approve the draw. (Pre-draw report comments remain in GMS on separate report/section; alternate section for actual draw. These are on two separate tabs in GMS). **The accounting manager will then go into GMS to review the draw to ensure it was accurately calculated before approving the draw (Key Internal Control #2 - Monitoring).** After the draw has been approved, the federal grants manager sends an email to the SFC indicating that the draw was reviewed and approved.

After approval of the draw, it is then processed through the federal payment system. A notification report is emailed to the Office of Treasury (**OST**) to notify the revenue accountant the amount of federal funds that will be received by the Department. The A8 is also entered into OST's Treasury Management System (**TMS**). This process, including the various approvals by other section managers, financial coordinators, and accountants, is completed electronically within the system.

Key Internal Control #1 - After reviewing the GMS Grant Financial Status Report, the senior financial coordinator sends the report to the designated program fund manager for review and to ensure the draw amount is based on actual program expenditures (Control Activities).

Key Internal Control #2 - The accounting manager will go into GMS to review the draw to ensure it was accurately calculated before approving the draw (Monitoring).

Evaluation of Results: We did not identify any control deficiencies.

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Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.8.PR.G - 84.126 Rehabilitation Services Vocational Rehabilitation - DSHS

Procedure Step: G. Matching - Controls

Prepared By: OB, 1/19/2021

Reviewed By: LSD, 2/6/2021

Purpose/Conclusion:

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Matching requirements are met using only allowable funds or costs which are properly calculated and valued.
To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Jenny Baxter, Compliance Manager

Jeanette Ogg, Chief of Operations

Jamie Evans, Finance and Budget Manager

Conclusion:

Based on our understanding of internal controls over Matching, we assessed preliminary control risk as **LOW**.

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Testing Strategy:

Matching - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the ***Inherent and Internal Control Risk Guidance*** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and any available program guidelines to determine the specific requirements over matching.

Matching or cost sharing includes requirements to provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. The match may be cash or non-cash such as:

1. **Most Common Method**: For each allowable program expenditure incurred, the entity only requests the federal portion to be reimbursed (for example 80%), and the remaining portion of the expenditure not reimbursed (for example 20%) is considered the entity's match.
2. **In-Kind Contributions**: When provided by the entity, these are usually non-cash contributions whose value is agreed upon with the grantor, such as infrastructure and other capital assets.
3. **Third-Party In-Kind Contributions**: Contributions from the public or other governments may be cash or non-cash and can include the value of volunteer services or employees of other agencies, donated supplies, and loaned equipment.
4. **Program Income**: Program income can be used as matching funds only with prior written approval from the grantor.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

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(a) Matching: the minimum amount of local contributions/matching funds were provided from an allowable source.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

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.

Record of Work Done.:

Inherent Risk of Noncompliance

Step 1

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We do not believe there are any inherent risks that increase the risk of material noncompliance. In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

Review the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Matching.

Matching

- a. The State share of expenditures made by the State VR agency under the VR services portion of the Unified or Combined State Plan, including expenditures for the provision of VR services and the administration of the VR services portion of the Unified or Combined State Plan, is 21.3 percent (29 USC 705(14) and 731(a)(1)). The State, not each VR agency if a State has two VR agencies, must satisfy the match requirement. This means that if a State has two VR agencies and one of those agencies does not provide a match of 21.3 percent, the State could still be in compliance if the other VR agency provided sufficient non-Federal expenditures to make up the difference.
- b. The Federal share of expenditures made for the construction of a facility for community rehabilitation program purposes may not be more than 50 percent of the total cost of the project (29 USC 731(a)(3)(A); 34 CFR section 361.60(a)(2)). **N/A - DVR does not provide for construction of facilities or include this in the state plan as allowable. (Confirmed with Jeanette Ogg - 8/11/2020)**

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- c. Third-party in-kind contributions, as defined in 2 CFR section 200.96, may not be used to meet the non-Federal share for the VR program (34 CFR sections 361.4(d) and 361.60(b)(2)). **N/A - DVR does not receive third party in-kind contributions. They only utilize indirect costs through the cost allocation system to meet their state match. (Confirmed with Jeanette Ogg - 8/11/2020)**

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

Prior to meeting with staff for this area, we requested the Department provide us with the key internal controls they have established to ensure compliance over these requirements. We did not receive a response but decided to proceed with the meeting because we had responses from the FY19 audit and the same staff we planned to meet with were the same staff from the prior audit. On July 31, 2020, we met with Jeanette Ogg and Jamie Evans to discuss the processes in place over matching requirements for this program. We reviewed the key internal controls from the FY19 audit and updated the key controls if new processes were in place. We told Jeanette and Jamie that we would forward them the information provided by Jenny from the prior audit and asked that they review that information as well as the key internal controls identified during the meeting. On August 10, 2020 we forwarded the document to Jenny Baxter, Jeanette Ogg and Jamie Evans and requested that they respond with any updates no later than August 17, 2020. Jamie Evans responded via email on Monday, August 17 and stated: *"I reviewed the key internal controls identified in the attached document. I don't believe anything needs to be updated at this time."*

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Controls provided by Department (*in italic font below:*)

Rehabilitation Services Administration (RSA) views both VR General and VR blind as one entity for Match and MoE purposes. Finance Managers for DSB and DVR work together to verify whether or not either entity can over/under match, yet meet the state requirements. This is done annually, generally in August or September.

DVR must not incur additional state match expenses in Year Two of the grant without revising the SF 425 so that the increase counts toward MoE.

If DVR has a MoE deficit for a prior FFY, RSA will reduce the state's grant in a subsequent year by that deficit amount.

Fiscal Responsibilities

Fiscal staff monitor both Match and MoE on the BS Grant History and Grant Balances tracking spreadsheet located on the "S" drive in the fiscal grant tracking folder. This spreadsheet calculates by grant:

- Grant award*
- Reallotment funds received*
- Required state match*
- Actual state match*
- MoE Requirement*
- Over/under Match and MoE*
- Grant dollars reverted*

Washington General does not provide for the construction of facilities for Community Rehabilitation Programs (CRPs)

Process

Lead Fiscal Analyst:

- Until the final GAN arrives, estimate grant awards for at least two years in advance (in italics) on the BS Grant History and Grant Balances tracking spreadsheet. Together with the Finance Manager, determine whether or not DVR will receive sufficient GFS funds to meet both match and*

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*MoE for the appropriate grant. Both Match and MoE must be met by the end of Year One of the grant (09/30). (Only request reallotment funds if DVR has sufficient GFS to match by 9/30).
Update spreadsheet and discuss any concerns with Finance Manager.*

Finance Manager:

- Review spreadsheet against the GAN and determine if action needs to be taken.*
- Meet with DSB to discuss overall state match and MoE in August or September of each year.*
- If unable to meet either Match or MoE, discuss options with senior management and take measures to ensure grant dollars that cannot be matched are not spent, and are relinquished on the annual RSA-692 form by August 15th of the FFY in which the funds were awarded.*

We requested and reviewed all of the Department's written procedures related to the compliance area as part of gaining an understanding of internal controls (see [Match Procedures](#)).

During our meeting with Jeanette Ogg, DSHS Fiscal Manager, and Jamie Evans, Lead Fiscal Analyst, on July 31, 2020, we discussed the processes in place over the matching requirements for this program.

Jamie provided us with a packet that included the Division of Vocational Rehabilitation (**DVR**)s policies and procedures for Matching, Maintenance of Effort, and Earmarking that were utilized during SFY20 (**Key Control #1 - Control Activities**).

Jeanette explained that the Division of Vocational Rehabilitation (**DVR**), which is an administration within the Department of Social and Health Services (**DSHS**), mostly uses state indirect expenditures and Voc Rehab admin time as match. DVR is required to make a 21.3% state match for funding received under the regular vocational rehabilitation grant basic support program by the end of the award period. If the match is met by the end of the award period, DVR is allowed to carry forward any federal amounts that are not spent for an additional year. Jeanette explained that the state portion comes from indirect costs which are coded under specific allocation codes which are specifically assigned to Voc Rehab. This ensures that only the amount of indirects that were appropriated

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to Voc Rehab state match will go to this code. Once the costs go to the allocation, they are split into the correct cost objective. The cost objectives designate the grant year that the match will be applied to (**Key Control #2 - Information and Communication**). We noted that the following cost objectives were used for FFY20: **826A0, 826A9; 826AA, 826AJ, 826B0, 826B9**. Jeanette tracks the amount of match closer at the end of the grant period to ensure that the match amount is not exceeded. If she finds that they are over matched, she will transfer funds to the next grant year state match.

At the beginning of the state fiscal year, DVR is appropriated money which is used to meet the match. Because of this, DVR is aware if they are going to meet their match towards the beginning of the year. Jeanette reported that the amount can change towards the end of the year, so she doesn't worry about not meeting the match until closer to the end of the grant award period. If they find that they are not going to meet their match, she will contact the Department of Services for the Blind (**DSB**) because it receives part of the state Voc Rehab grant. Because of this, the US Department of Ed looks at the match made by both agencies combined. This allows DVR to use any overmatch amount on the part of DSB to meet its individual match amount. Jeanette stated that DSB can also use any overmatch amounts that DSHS might have as well. Jeanette also pointed out that, if one of the agencies does not meet its match, DSHS is solely responsible for the grant penalty.

Jeanette uses an Excel spreadsheet titled "Basic Support Match-MOE" to determine how much the match and level of effort requirements will be for the year. Jeanette also uses this to monitor the grant expenditures and track the match on a weekly basis (**Key Control #3 - Control Activities/Monitoring**) (see [MoE and Reserve Tracking Spreadsheet](#)) . She will schedule an AFRS expenditures report run by Program/State dollars/federal dollars/total dollar each month (**Information and Communication**). She also noted that she will run this report weekly or even daily when it's close to the end of the grant award period to ensure that they spend only the match amount. Jeanette meets with Jamie Evans, Budget and Fiscal Manager, and other financial staff regularly to discuss and verify the spreadsheets and reports for accuracy.

Key Control #1 - The Department maintains written policies and procedures addressing the Matching federal compliance requirement.

Key Control #2 - Specific expenditure coding is used to separately identify each federal grant award and

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associated state matching expenditures and track each grant award's state match amount separately to ensure the Matching requirement is met.

Key Control #3 - The fiscal manager reviews monthly expenditures coded to match and tracks the amount on an Excel spreadsheet to ensure required state match amounts are met. The fiscal manager documents any changes and discusses them with staff during update meetings.

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.8.PR.G - 84.126 Rehabilitation Services Vocational Rehabilitation - DSHS

Procedure Step: O. G. Level of Effort - Controls

Prepared By: OB, 2/8/2021

Reviewed By: LSD, 2/9/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Level of Effort requirements are met using only allowable funds or costs which are properly calculated and valued. To identify the key internal controls and provide a preliminary control risk assessment based upon our

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understanding of the internal controls.

Source:

Jenny Baxter, Compliance Manager

Jeanette Ogg, Chief of Operations

Jamie Evans, Finance and Budget Manager

Conclusion:

Based on our understanding of internal controls over Level of Effort, we assessed preliminary control risk as **LOW**.

Testing Strategy:

Level of Effort - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the ***Inherent and Internal Control Risk Guidance*** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and any available program guidelines to determine the specific requirements over level of effort /supplanting. Be aware that these requirements vary as to when they must be met. For example, level of effort requirements might be based on each fiscal year, the federal fiscal year, the end of the grant period, etc. If you have any question as to how or when the requirement must be met please consult with a SWSA supervisor. Refer to the Policy/Standards tab for examples of Supplanting.

Level of effort includes requirements for:

- a) Maintaining a specified level of service from period to period.
- b) Maintaining a specified level of expenditures from period to period, with emphasis on the funding source used and the activities they relate to.
- c) Using federal funds to supplement, not supplant, services provided through non-federal (state/local) funding. If the requirement relates to supplanting,

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refer to the policy tab for examples.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

- (a) the specified service level or expenditure levels were maintained (Level of Effort),
- (b) state/local funding (funded services) were not replaced by federal funds (Supplanting, under Level of Effort)

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must**:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

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Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Source of Governing Requirements

The requirements for level of effort are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

WHAT IS SUPPLANTING?

The federal government wants the grantee to use its federal funds to supplement (enhance) the existing resources for the program, instead of supplanting (replacing) its local funds with the federal grant. Basically, federal funds should supplement the existing local resources and build upon the current program. The federal funds should not supplant (replace) the existing local/state funds. Below are some examples:

-

For example:

Title I Schools (CFDA 84.010)

It is presumed that supplanting has occurred if a school district used its Title I grant to provide services that it provided with non-Federal funds in the prior year. Example: A teacher's sole function at the district is to provide Title I services (a single cost objective). In years 1 and 2, the teacher's salary was paid from the following sources: 20% Basic Education; 80% Title I. In year 3, the teacher's salary was paid 100% with Title I funds. Supplanting has occurred in year 3 because Title I replaced (supplanted) the non-federal funding that had been used to provide Title I services. However, this is only one teacher and the auditor should evaluate all services of the program taken as a whole to determine the aggregate effect.

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

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Gather Information

Step 2

Review the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Level of Effort.

Level of Effort

2.1 Level of Effort – *Maintenance of Effort*

- a. The amount otherwise payable to a State for a fiscal year shall be reduced by the amount by which expenditures from non-Federal sources under the VR services portion of the Unified or Combined State Plan for any previous fiscal year are less than the total of such expenditures for the fiscal year 2 years prior to that previous fiscal year. For example, for fiscal year 2018, a State's maintenance of effort level is based on the amount of its expenditures from non-Federal sources for fiscal year 2016 (29 USC 731(a)(2)(B)).
- b. If the VR services portion of the Unified or Combined State Plan provides for the construction of a facility, or the establishment of a facility, for community rehabilitation program purposes, the amount of the State's share of expenditures for a fiscal year for VR services under the Plan must be at least equal to the State's share of those expenditures for the second prior fiscal year; however, non-Federal expenditures incurred for the construction of the facility, or the establishment of a facility, for a community rehabilitation program are not included in the calculation for determining

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whether a State met its maintenance of effort requirement (29 USC 721(a)(17)(C); 34 CFR section 361.62). - **N/A - DVR dos not provide for construction of facilities or include this in the state plan as allowable. (Confirmed with Jeanette Ogg - 8/11/2020)**

2.2 Level of Effort – *Supplement Not Supplant*

Not Applicable

Understanding of Internal Controls **Step 3**

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

Prior to meeting with staff for this area, we requested the Department provide us with the key internal controls they have established to ensure compliance over these requirements. We did not receive a response but decided to proceed with the meeting because we had responses from the FY19 audit and the same staff we planned to meet with were the same staff from the prior audit. On July 31, 2020, we met with Jeanette Ogg and Jamie Evans to discuss the processes in place over level of effort requirements for this program. We reviewed the key internal controls from the FY19 audit and updated they key controls if new processes were in place. We told Jeanette and Jamie that we would forward them the information provided by Jenny from the prior audit and asked that they review that information as well as the key internal controls identified during the meeting. On August 10, 2020 we forwarded the document to Jenny Baxter, Jeanette Ogg and Jamie Evans and requested that they respond with any updates no later than Friday, August 17. Jamie Evans via email on Monday, August 17 and stated: "I reviewed the

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key internal controls identified in the attached document. I don't believe anything needs to be updated at this time."

We requested and reviewed all of the Department's written policies and procedures related to the compliance area as part of gaining an understanding of internal controls.

Controls provided by Department (*in italic font below:*)

Rehabilitation Services Administration (RSA) views both VR General and VR blind as one entity for Match and MoE purposes. Finance Managers for DSB and DVR work together to verify whether or not either entity can over/under match, yet meet the state requirements. This is done annually, generally in August or September.

DVR must not incur additional state match expenses in Year Two of the grant without revising the SF 425 so that the increase counts toward MoE.

If DVR has a MoE deficit for a prior FFY, RSA will reduce the state's grant in a subsequent year by that deficit amount.

Fiscal Responsibilities

Fiscal staff monitor both Match and MoE on the BS Grant History and Grant Balances tracking spreadsheet located on the "S" drive in the fiscal grant tracking folder. This spreadsheet calculates by grant:

- *Grant award*
- *Reallotment funds received*
- *Required state match*
- *Actual state match*
- *MoE Requirement*
- *Over/under Match and MoE*
- *Grant dollars reverted*

Washington does not provide for the construction of facilities for Community Rehabilitation Programs (CRPs)

Process

Lead Fiscal Analyst:

- *Until the final GAN arrives, estimate grant awards for at least two years in advance (in italics) on the BS Grant History and Grant Balances tracking spreadsheet. Together with the Finance Manager, determine whether or not DVR will receive sufficient GFS funds to meet both match and MoE for the appropriate grant. Both Match and MoE must be met by the end of Year One of the grant (09/30). (Only request reallotment funds if DVR has sufficient GFS to match by 9/30). Update spreadsheet and discuss any concerns with Finance Manager.*

Finance Manager:

- *Review spreadsheet against the GAN and determine if action needs to be taken.*

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- *Meet with DBS to discuss overall state match and MoE in August or September of each year.*
- *If unable to meet either Match or MoE, discuss options with senior management and take measures to ensure grant dollars that cannot be matched are not spent, and are relinquished on the annual RSA-692 form by August 15th of the FFY in which the funds were awarded.*

We met with Jeanette Ogg, Operations Chief and Jamie Evans, Budget and Fiscal Manager, to discuss the processes in place over the Level of Effort (LOE) requirements for this program. Jamie first provided us with a packet that included the Division of Vocational Rehabilitation (DVR)s policies and procedures for Matching, Maintenance of Effort, and Earmarking that were utilized during SFY20 (**Key Control #1 - Control Activities**). Jeanette then explained that the Division of Vocational Rehabilitation (DVR), which is an administration in the Department of Social and Health Services (DSHS), has a Level of Effort required amount (she refers to it as MOE or Maintenance of Effort) that is equal to the actual state amount of match spent two years prior. The Department is required to meet the "MOE" by the end of the funding period, which is the first year the grant was awarded. If they do not meet the requirement by the end of this time period, the Department will lose the exact amount that they were under in the next fiscal year award. DVR was required to meet the LOE requirement for the FFY19 award during our audit period (Funding period 10/1/2018-9/30/2019). The amount of actual state match from the FFY17 award (which was two years prior) was \$12,567,547.

Jeanette ensures that the LOE is met every year by utilizing the same spreadsheet that she uses to track match. DVR starts by updating the required LOE amount on the Excel spreadsheet titled "MoE and Reserve Tracking Spreadsheet" ([MoE and Reserve Tracking Spreadsheet](#)). This spreadsheet shows the federal year, final grant award amount, required state match, actual state match, required level of effort and if DVR is over or under on their match and level of effort. This spreadsheet is used as a final report for the year and to track grant data from year to year. Because this spreadsheet goes back to federal year 1984, she is able to see what was actually spent in non-federal expenditures two years prior for state match. She uses that amount to update the "MOE requirement" column for the current grant award.

At this point she will track the state expenditures until the end of the grant period. For the FFY19 grant, the award

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period is (10/1/2018 - 9/30/2019). The Grant Balance spreadsheet is then updated with the "actual state spent" amount based on the MoE and Reserve Tracking Spreadsheet (**Key Control #2 - Monitoring**). She will schedule an AFRS expenditure report that is run automatically each month. She also noted that she will run this report (Grant Balance) weekly or even daily when it's close to the end of the grant award period to ensure that they spend only the required amount. The expenditure report is run by Program/State dollars/federal dollars/total dollars. Jeanette explained that the state portion comes from indirect costs which are separately coded. This ensures that only the amount of indirects that were appropriated to Voc Rehab state expenditures will go to this code. Once the costs go to the allocation, they are split into the correct cost objective through the cost allocation plan. The cost objectives designate the grant year that the state expenditures will be applied to (Control Activities). Jeanette pulls cost objectives to ensure that items are not miscoded. She tracks the amount of state expenditures closer at the end of the grant period to ensure that the required amount is not exceeded. If she finds that they are over, she will transfer funds to the next grant year state expenditures. Jeanette meets with fiscal regularly to discuss and verify the spreadsheets and reports for accuracy.

Identified Key Controls

Key Internal Control #1 - The Department maintains written policies and procedures addressing the Level of Effort federal compliance requirement (Control Activities).

Key Internal Control #2 - The fiscal manager reviews expenditures coded to level of effort and tracks amounts on the "BS Grant History and Grant Balances" Excel spreadsheets to ensure required state level of effort amounts are met (Monitoring).

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant

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requirements. We will perform testing below to determine if we can place reliance on the controls.

C.8.PR.G - 84.126 Rehabilitation Services Vocational Rehabilitation - DSHS

Procedure Step: G. Earmarking - Controls

Prepared By: AMG, 3/26/2021

Reviewed By: LSD, 3/29/2021

Purpose/Conclusion:

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Earmarking requirements are met using only allowable funds or costs which are properly calculated and valued. To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Jenny Baxter, Compliance Manager

Jeanette Ogg, Chief of Operations

Jamie Evans, Finance and Budget Manager

Conclusion:

Based on our understanding of internal controls over Earmarking, we assessed preliminary control risk as **LOW**.

Testing Strategy:

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Earmarking - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the *Inherent and Internal Control Risk Guidance* that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and any available program guidelines to determine the specific requirements over earmarking.

Earmarking, a.k.a. set-asides, 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.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure the minimum or maximum limits for specified purposes or types of participants were met (Earmarking).

Evaluation of Results: Did you identify any control deficiencies? If yes, you must:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be

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assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Source of Governing Requirements

The requirements for earmarking are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award, as well as 2 CFR section 200.306 for awards under UG **OR** A-102 Common Rule (§__.204) for pre-UG awards.

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

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Gather Information

Step 2

Review the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Earmarking.

Earmarking

States must reserve and expend at least 15 percent of their VR allotment under Section 110(a) of the Act for the provision of pre-employment transition services to students with disabilities who are eligible, or potentially eligible, for VR services. State VR agencies may use the reserved funds to cover the costs of all pre-employment transition services activities described in Section 113(b) through (d) of the Act (29 USC 730(d)(1) and 733)).

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

Prior to meeting with staff for this area, we requested the Department provide us with the key internal controls they have established to ensure compliance over these requirements. We did not receive a response but decided to proceed with the meeting because we had responses from the FY19 audit and the same staff we planned to meet with were the same staff from the prior audit. On July 31, 2020, we met with Jeanette Ogg and Jamie Evans to discuss the processes in place over earmarking requirements for this program. We reviewed the key internal controls from the FY19 audit and updated the key controls if new processes were in place. We told Jeanette and Jamie that we would forward them the information provided by Jenny from the prior audit and asked that they

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review that information as well as the key internal controls identified during the meeting. On August 10, 2020, we forwarded the document to the Department and requested that they respond with any updates no later than Friday, August 17, see [Earmarking key internal controls - identified](#). Jamie Evans responded via email on Monday, August 17 and stated: "I reviewed the key internal controls identified in the attached document. I don't believe anything needs to be updated at this time."

We requested and reviewed all of the Department's written policies and procedures related to the compliance area as part of gaining an understanding of internal controls.

Controls provided by Department (*in italic font below:*)

** When the Division of Vocational Rehabilitation Services (DVR) receives a Grant Award Notification (GAN), the Finance and Budget Manager enters the amount of the award and calculates the reserve on the Pre-ETS Grant Reserve Tracking sheet. The Lead analyst verifies accuracy.*

** Each FFY grant can receive up to four awards per grant. As additional grant awards arrive, the set aside is adjusted by the Finance and Budget Manager and the Lead Fiscal analyst reviews the new reserve amount for accuracy.*

** Expenditure Reports are scheduled weekly to track Pre-ETS expenditures against the reserve amount. The reports are delivered to the Lead Fiscal Analyst and Finance Manager for analysis.*

(Key Internal Control #4 - Monitoring/Control Activities)

The Lead Analyst and Finance Manager monitor all grant expenditures to ensure the reserve is not expended for general VR. Example:

<u>Basic Support 16</u>	\$ 47,593,772
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<i>TOTAL 16 Grant</i>	<i>\$ 47,593,772</i>
<i>Pre-ETS 15%</i>	<i>\$ 7,139,066</i>
<i>General VR 85%</i>	<i>\$ 40,454,706</i>

<i>Pre-ETS Set Aside Requirement</i>	<i>\$ 7,139,066</i>
<i>TOTAL Pre ETS Expenditures FYTD</i>	<i>\$ 2,583,272</i>
<i>Remaining Reserve</i>	<i>\$ 4,555,794</i>

Percentage of Reserve expended **36%**

The grant award that the Department closed during the audit period was FFY18. (September 2019)

Earmarking Tracking and Monitoring

We met with Jeanette Ogg, DSHS Fiscal Manager, and Jamie Evans (Lead Fiscal Analyst) on July 31, 2020 to discuss the processes in place over the earmarking requirement for this program. She informed us that this was a newer requirement that was implemented during FFY15. Jeanette explained that the Division of Vocational Rehabilitation (**DVR**) must reserve at least 15% of their VR allotment for pre-employment transition services (**Pre-ETS**) for students with disabilities.

Jeanette explained that there are two types of expenditures under the Pre-ETS set-aside; contract payments and clients payments in STARS.

Contract payments are for services provided to students that are not participants in the Vocational Rehabilitation program or clients of DSHS-DVR. These are often activities providing services to groups of potentially eligible students. We gained an understanding of these payments in conjunction with our work for activities allowed (A-B. Activities Allowed/Cost Principles - Controls - Payments to Clients and Providers) and identified the following key internal controls:

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Key Internal Control #1 - The Transition Manager reviews the submitted invoices to ensure they are accurate, complete and allowable and then signs the A-19 or sends an email indicating approval. **(Control Activities)**

Key Internal Control #2 - The Fiscal Analyst reviews the approved invoice to ensure it is properly coded and is allowable and then signs the A-19 or sends an email indicating approval. **(Control Activities)**

Key Internal Control #3: DVR uses Program Index J1161 (Pre-ets-Pre employment Transition Services - general), Program Index J1162 (Pre-ets-Pre employment Transition Services – STARS), and J1163 (Pre-ets-Pre employment Transition Services – Contract) to differentiate between regular Voc Rehab participants and Pre-ets participants. **(Control Activities)**

Summary of Key Internal Controls

Key Internal Control #1 - The Transition Manager reviews the submitted invoices to ensure they are accurate, complete and allowable and then signs the A-19 or sends an email indicating approval. **(Control Activities)**

Key Internal Control #2 - The Fiscal Analyst reviews the approved invoice to ensure it is properly coded and is allowable and then signs the A-19 or sends an email indicating approval. **(Control Activities)**

Key Internal Control #3 - DVR uses Program Index J1161 (Pre-ETS-Pre employment Transition Services - general), Program Index J1162 (Pre-ETS-Pre employment Transition Services – STARS), and J1163 (Pre-ETS-Pre employment Transition Services – Contract) to differentiate between regular Voc Rehab participants and Pre-ETS participants. **(Control Activities)**

Key Internal Control #4 - When the Department receives the grant, they calculate the reserve on the Pre-ETS Grant Reserve Tracking spreadsheet and uses expenditure reports to monitor the reserve amount in the spreadsheet. **(Monitoring/Control Activities)**

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

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Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.8.PR.G - 84.126 Rehabilitation Services Vocational Rehabilitation - DSHS

Procedure Step: H. Period of Performance - Controls

Prepared By: ALC, 4/5/2021

Reviewed By: LSD, 4/9/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Federal funds are used only during the authorized period of performance.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Jeanette Ogg, Fiscal Manager

Jamie Evans, Finance and Budget Manager

Robert St. Lawrence, Policy Manager

Rick Meyer, Audit Liaison

Enterprise Reporting System

Conclusion:

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Based on our understanding of internal controls over Period of Performance, we assessed preliminary control risk as **LOW**.

Testing Strategy:

*Review the award documents and regulations pertaining to the program and determine if there are any award-specific requirements related to the period of performance. Document the performance period in the ROWD. If you have come this far and you determine that **NONE OF THE GRANT PERIODS FOR YOUR PROGRAM BEGIN OR END DURING OUR SCOPE**, then the only applicable requirement is that the expenditure occurred during the grant period. This can be tested while performing A-B. Activities Allowed/Cost Principles testing. If you choose to test with A-B testing you must ensure you identify at least one key internal control that ensures expenditures are effectively monitored for having occurred during the proper period. You can add documentation to direct the reader to A-B controls and compliance sections as well as any testing spreadsheets.*

Period of Performance - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

**Note: All awards have beginning and ending dates, except perhaps for some non-cash equipment/real property awards. The requirement is direct and material if the award began or ended during the audit period.*

Review the grant award notice to determine the period that grant funds are available for expenditure (the official starting and ending dates) and whether there are any provisions for carryover that allow the entity to use unspent funds in the following year. All contracts have a period of performance. If the auditor does not see the period in the agreement, refer to CFDA.gov, the grantors' manuals, handbooks, or other documents referenced in the agreement to determine the length of the award. (For example, Federal Transit Authority agreements 20.507 regularly do not provide a timeline. The beginning date is the award date. The end date is set by FTA policy, so is not stated in the contract. On CFDA.gov, it says the "length and time phasing of assistance" is a period of five years following the close of the fiscal year for which funds are apportioned.)

Funds must be obligated during the period of performance (or can be pre-award costs before the period if there is prior written approval by the grantor) and generally liquidated/paid no later than 90 calendar days after the end date of performance.

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“Obligations” can vary by grant but in general it means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period (i.e funds have been committed to be spent).

Be aware that treatment of carry-over (unspent) funds by grantors will vary. Some grantors will give the grantee more time to spend the funds, thereby extending the period of performance. On the other hand, some grantors will combine the unspent amount with a new grant award and define a new period of performance.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

- (a) Federal funds are obligated within the period of performance (this may include review of expenditures to determine if they are within the period of the grant, or if the entity is applying for and receiving approval for carryover). *Avoid the use of “knowledge” or generic program oversight as the control. A control is likely performed during the preparation of the reimbursement request.
- (b) Obligations were liquidated within the required time period (generally, this is 90 days, but refer to the program rules).

Examples of control elements: review of expenses submitted for reimbursement to ensure they are within the period, keeping a calendar of period of performance dates; sending messages/reports to departments with performance dates and status updates; reminders to staff about submitting final claims, computer system edits that would reject claims outside of the period of performance, etc.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “**LOW**” when:

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1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

[§200.77 Period of performance. \(definition\)](#)

Period of performance means the time during which the non-Federal entity may incur new obligations to carry out the work authorized under the Federal award. The Federal awarding agency or pass-through entity must include start and end dates of the period of performance in the Federal award (see §§200.210 Information contained in a Federal award paragraph (a)(5) and 200.331 Requirements for pass-through entities, paragraph (a)(1)(iv)).

[§200.71 Obligations. \(definition\)](#)

When used in connection with a non-Federal 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 non-Federal entity during the same or a future period.

[§200.309 Period of performance. \(requirement\)](#)

A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in §200.461 Publication and printing costs) 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.

[§200.343 Closeout.](#)

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The Federal awarding agency or pass-through entity will close-out the Federal award when it determines that all applicable administrative actions and all required work of the Federal award have been completed by the non-Federal entity. This section specifies the actions the non-Federal entity and Federal awarding agency or pass-through entity must take to complete this process at the end of the period of performance...

(b) Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal 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...

Definition of obligation: an obligation is not necessarily a liability in accordance with GAAP. When an obligation occurs (is made) depends on the type of property or services that the obligation is for (34 CFR section 76.707 – see for table demonstrating obligations).

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

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Record of Work Done:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance. In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

Review the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Period of Performance.

H. Period of Performance

Federal funds appropriated for a fiscal year under the State VR Services program remain available for obligation in the succeeding fiscal year only to the extent that the State VR agency met the matching requirement for those Federal funds by obligating, in accordance with 34 CFR section 76.707, the non-Federal share in the fiscal year for which the funds were appropriated. Any program income received during a fiscal year that is not obligated by the State VR agency by the end of that fiscal year will remain available for obligation by the State VR agency during the succeeding fiscal year (29 USC 716; 34 CFR section 361.64).

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The grant provides 90 days liquidation period.

We reviewed the recent Vocational Rehabilitation grant awards issued to DSHS Division of Vocational Rehabilitation (**DVR**) to determine which grants began and/or ended during SFY20 audit period (7/1/2019-6/30/2020). We determined the following:

- FFY18 – H126A180071 – Funding Period 10/1/2017 – 9/30/2019 - Period after match 10/1/2018 - 9/30/2019. Cost Objective – 826A8, 826B8, 826AI. Filed our Final SF425 on 12/9/2019. – Closed during SFY20
- FFY19 – H126A190071 – Funding Period 10/1/2018 - 9/30/2020 – Period after match 10/1/2019 – 9/30/2020. Cost Objective – 826A9, 826B9, 826AJ. Filed our Final SF425 12/17/2020 – Continued During SFY20
- FFY20 – H126A200071 – Funding Period 10/1/2019 – 9/30/2021 – Period after match 10/1/2020 – 9/30/2021. Cost Objective – 826A0, 826B0, 826AA. – Opened during SFY20

According to Jamie Evans, DVR only had three Grants during the SFY20 audit period. 2018 Closed, 2019 Continued and 2020 opened. The Cost Objectives associated with the grant are:

- 826A# = Cost Allocates in AFRS to split between federal and state.
- 826B* = Federal
- 826A* = State

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested and reviewed the Department's written policies and procedures (see [Period of Performance Monthly Review](#)

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Procedure_DVR) related to the compliance area as part of gaining an understanding of internal controls.

We also requested Department's internal controls over period of performance and received the following - see bottom of p.3, Key Controls - DVR's Response section at Internal Control letter - Period of Performance_8.19.2020

We met with Jeanette Ogg, Fiscal Manager, Jamie Evans, Finance and Budget Manager, Robert St. Lawrence, Policy Manager, and Rick Meyer, Audit Liaison, on January 11, 2021, to discuss the processes in place over Period of Performance during SFY20. There was a finding issued over this area in the 2019 audit, finding 2019-024 stating the Department of Social and Health Services improperly charged \$279,844 to the Vocational Rehabilitation grant (see 2019-024 Finding Period of Performance). We obtained the Corrective Action Plan from the Department (see 2019-029 DVR-OAS Period of Performance CAP Final). According to this CAP, the Department developed procedures related to the period of performance (see Period of Performance Monthly Review Procedure_DVR) and contacted RSA to discuss the finding. We asked Jamie Evans regarding the finding and corrective action plans the Department has implemented to address the audit issues. Jamie confirmed all the corrective actions stated in the Corrective Action Plan. She added in spring 2020 DVR sent journal vouchers to RSA to correct those chargers but did not hear back from them. Recently, RSA has contacted DVR saying they did not receive JVs. That is why DVR sent the JVs again in October/November. RSA confirmed receiving JVs both times and apologized for misplacing them the first time. We will test period of performance compliance at H. Period of Performance - Compliance and conclude on finding resolution.

The Division of Vocational Rehabilitation (**DVR**), which is an administration in the Department of Social and Health Services (**DSHS**), is awarded the voc rehab grants every federal fiscal year and the period of performance for each is for that one federal fiscal year. If DVR meets the required match amount, they are allowed to carry the amount forward for an additional fiscal year of spending. The Department operates on a first in first out basis, charging to the oldest grant first in an attempt to spend all federally awarded grant dollars prior to the close of the grant. (Control Activities).

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To track each grant award, DVR uses unique cost objectives in the centralized DSHS Cost Allocation System to ensure the grant funds are obligated and paid within the period of availability for the grant (**Key Control #1 - Information and Communication**). Brooke Gore, Fiscal Analyst, will only open a new grant award coding when she is close to the end of spending on the previous grant award, which is generally a few months after the grant award becomes available. Cost objectives can be created before a grant is activated. It depends on how much carry over is left. Jamie reviews and makes changes to the DSHS Cost Allocation Plan on a monthly basis for all DVR grants as needed. After Brooke opens a new grant award coding, she sends it to Jamie for approval. When a new federal grant is awarded to DVR, a new cost objective is established. When the federal award amount is spent or when a federal grant has reached the end of its period of performance, the appropriate cost objectives are made inactive. No new expenditures can process against an inactive cost objective and if the Department has to expend in the liquidation period, fiscal is directly involved in reviewing and approving the costs.

Jamie tracks expenditures on a monthly basis using Enterprise and the grant specific cost objectives to ensure that each grant is not over spent and are within the period of performance of the Grant (**Key Control #2 - Control Activities**). She will pull these reports and update her tracking spreadsheet as needed until the grant funds have been spent and/or the period of performance is met. Jamie's spreadsheet shows the state match requirement, which allows the Department an additional year of spending if it is met, the federal grant spending, and the total for the year. She breaks these amounts down by program so that she is aware of the directs and indirects charged to the grant as well. Jamie also meets with senior leadership on a monthly basis to discuss the progress of the grants that DVR has been awarded. If the grant is charged during the wrong period of performance, a Lead Fiscal Analyst or designee runs the reports and completes the JV to move any identified expenditures that are outside the period of performance for the grant and moves them accordingly. Finance and Budget Manager or designee reviews the JV and Approves. This ensures a separation of duty from the preparer. (**Key Control #3 - Monitoring**)

Jeanette and Jamie also receive updates from Office of Accounting Services (**OAS**) on the grant draws. They both receive a pre-draw report before payday and a draw report on payday. This is so that Jamie can review the draw

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amount to ensure that the grants won't be over drawn. Jamie reviews the report and designates whether to draw. Jamie puts a note within GMS system, saves it and sends to OAS telling OAS the draw was reviewed and if the draw needs to be reduced for any reason.

Identified Key Internal Controls:

Key Control #1 - The Department uses specific cost objectives for each grant award to ensure it can track the expenditures (Control Activities).

Key Control #2 - The fiscal manager pulls monthly expenditure reports out of AFRS using grant specific coding and enters these totals into an Excel spreadsheet to ensure the grant award amount is not over spent or exceeding designated grant periods (Control Activities, Monitoring).

1. **Key Control#3** - Finance and Budget Manager or designee reviews the JV and Approves. This ensures a separation of duty from the preparer. (Monitoring)
- 2.

Evaluation of Results: No internal control weaknesses were identified.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.8.PRG - 84.126 Rehabilitation Services Vocational Rehabilitation - DSHS

Procedure Step: J. Program Income - Controls

Prepared By: OB, 4/19/2021

Reviewed By: LSD, 4/19/2021

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Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that program income is correctly earned, recorded, and used in accordance with the program requirements.
To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Robert St. Lawrence, Policy Manager and Audit Liaison
Jamie Evans, Budget and Fiscal Manager Analyst
Patricia Emsley, Program Manager
Jessica Bell, Program Specialist

Conclusion:

Based on our understanding of internal controls over Program Income, we assessed preliminary control risk as **LOW**.

Testing Strategy.*

Program Income - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review Part 4 of the Compliance Supplement and the grant agreement to 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.

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Program Income Definition: It is gross income directly generated by the federal program's project/activity. For instance, a toll is collected for crossing a bridge constructed with federal funds. Whether revenue is considered program income may be limited to the life of a federal asset or to the award's period of performance.

Income Earned Includes: Program income revenue includes, but is not limited to income from:

1. Fees for services performed
2. The use or rental of real or personal property acquired under federal awards
3. The sale of commodities or items fabricated under federal awards
4. Principal and interest on loans made with federal award funds

Income Earned Excludes: Program income revenue does not include:

1. Interest earned on advances of federal funds (see C. Cash Management).
2. 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.
3. Taxes, special assessments, levies, fines and other such revenues raised the awardee, unless the federal award or awarding agency regulations specifically identify the revenues as program income.
4. The proceeds from the sale of equipment or real property acquired in whole or in part under the Federal award
5. Royalties (additional information in the policy tab)

Program Income Expenditures: The entity should report program income *expenditures* on the Schedule of Expenditures of Federal Awards (SEFA) rather than program income revenues (refer to the planning guide for more information on reporting program income on the SEFA). Make sure you are using the right figure for your testing.

Allowable Expenditures: The entity must use program income as if it is federal funding, therefore expenditures of program income revenue must comply with allowable cost restrictions of the program and the cost principles (*especially* time and effort documentation). It also must use program income using one of three methods: deduction, addition or matching.

Deduction Method – in brief:

- a. **Default:** This is the default method for most entities. This method must be used unless another method is pre-approved by the grantor.
- b. **Restrictions:** The entity must use Program Income to pay for program expenditures before requesting reimbursement. Often the entity will calculate the reimbursement request by:

	Total program exp. this period
-	Less Program Income revenue earned this period (may include previously unspent revenue)
=	Amount requested for reimbursement

- c. **Reduces the Federal Commitment:** Program Income reduces the total federal funding obtained through the award agreement but does not affect the

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total project budget.

Example: Program Income of \$10,000 reduces the award amount to \$90,000, thus reducing the federal and local match portions:

Original Award		Modified Award	
Total Project Cost	\$100,000	Total Project Cost	\$100,000
Federal Portion (75%)	\$75,000	Federal Portion (75%)	\$67,500
Local Match (25%)	\$25,000	Local Match (25%)	\$22,500
		Program Income Earned/Spent	\$10,000

Addition Method – in brief:

a. **Default:** This is the default method for institutions of higher education. Entities may use this method with prior written approval from the federal awarding agency.

b. **Increases the Total Project:** This method adds program income to the federal and non-Federal funds already awarded, increasing the total program budget.

Example: Program Income of \$10,000 increases the total budget to \$110,000. The federal and local match portions on the award remain the same:

Original Award		Modified Award	
Total Project Cost	\$100,000	Total Project Cost	\$110,000
Federal Portion (75%)	\$75,000	Federal Portion (75%)	\$75,000
Local Match (25%)	\$25,000	Local Match (25%)	\$25,000
		Program Income Earned/Spent	\$10,000

Matching Method: Entities may use program income revenue towards their matching requirements, if applicable. However, they *must* have prior written approval to use this method. Testing of program income expenditures as match may be completed in the G. Matching section.

Review Section 3.2 of Part 3 and Part 4 of the Compliance Supplement, the grant agreement, and program guidelines to ascertain the requirements for determining what constitutes program income and the requirements for recording and using the program income (e.g., deducted from outlays, added to the project budget, or used to meet matching requirements).

Step 3: Gain an Understanding of Internal Controls

Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation

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*means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls that ensure:

(a) Revenue: Program Income revenue is correctly identified and recorded/tracked.

(b) Expenditure: Program Income is expended in accordance with the program requirements.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “**LOW**” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.:

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Review Part 3 (Section 3.1 applies to pre-UG awards and Section 3.2 applies to awards under UG) and Part 4 of the Compliance Supplement, the grant agreement, and program guidelines to ascertain the requirements for determining what constitutes program income and the requirements for recording and using the program income (e.g., deducted from outlays, added to the project budget, or used to meet matching requirements).

DEDUCTION METHOD – DETAILS

Deduction Method (formerly called “deductive”) – This is the required method (with the exception of Institutions of Higher Education (IHE) if the federal awarding agency does not specify in its regulations or the terms and conditions of the federal award, or give prior approval for how program income is to be used. Ordinarily program income must be deducted from total allowable costs to determine the net allowable costs. Program income must be used for current costs unless the federal awarding agency authorizes otherwise. Program income that the non-federal entity did not anticipate at the time of the federal award must be used to reduce the federal award and the non-federal entity contribution rather than to increase the funds committed to the project.

Example: A county charges a fee to citizens to rent federally-funded equipment for clearing debris on private land. The fee is considered program income by the grantor. If the county received \$5,000 in rental fees, this amount reduces (is a deduction of) the amount of funds requested for reimbursement.

ADDITION METHOD – DETAILS

Addition Method (formerly called “additive”) – This is the required method for IHE 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. For this method, grantees are permitted to use the income for program/project purposes in addition to the original grant award.

Example: Using the same scenario as above, the county would track how much of the \$5,000 in program income was spent during the year and report the amount expended in the SEFA along with its original grant expenditures.

UNIFORM GUIDANCE REFERENCES

2 CFR section 200.307

(a)*General.* Non-Federal entities are encouraged to earn income to defray program costs where appropriate.

(b)*Cost of generating program income.* 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 these costs have not been charged to the Federal award.

(c)*Governmental revenues.* Taxes, special assessments, levies, fines, and other such revenues raised by a non-Federal entity are not program income unless the revenues are specifically identified in the Federal award or Federal awarding agency regulations as program income.

(d)*Property.* Proceeds from the sale of real property, equipment, or supplies are not program income; such proceeds will be handled in accordance with the requirements of Subpart D—Post Federal Award Requirements of this part, Property Standards §§200.311 Real property, 200.313 Equipment, and 200.314 Supplies, or as specifically identified in Federal statutes, regulations, or the terms and conditions of the Federal award.

(e)*Use of program income.* If the Federal awarding agency does not specify in its regulations or the terms and conditions of the Federal award, or give prior approval for how program income is to be used, paragraph (e)(1) of this section must apply. For Federal awards made to IHEs 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, paragraph (e)(2) of this section must apply. In specifying alternatives to paragraphs (e)(1) and (2) of this section, the Federal awarding agency may distinguish between income earned by the recipient and income earned by subrecipients and between the sources, kinds, or amounts of income. When the Federal awarding agency authorizes the approaches in paragraphs (e)(2) and (3) of this section, program income in excess of any amounts specified must also be deducted from expenditures.

(1)*Deduction.* Ordinarily program income must be deducted from total allowable costs to determine the net allowable costs. Program income must be used

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for current costs unless the Federal awarding agency authorizes otherwise. Program income that the non-Federal entity did not anticipate at the time of the Federal award must be used to reduce the Federal award and non-Federal entity contributions rather than to increase the funds committed to the project.

(2)*Addition.* With prior approval of the Federal awarding agency (except for IHEs and nonprofit research institutions, as described in paragraph (e) of this section) program income may be added to the Federal award by the Federal agency and the non-Federal entity. The program income must be used for the purposes and under the conditions of the Federal award.

(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.

(f)*Income after the period of performance.* There are no Federal requirements governing the disposition of income earned after the end of the period of performance for the Federal award, unless the Federal awarding agency regulations or the terms and conditions of the Federal award provide otherwise. The Federal awarding agency may negotiate agreements with recipients regarding appropriate uses of income earned after the period of performance as part of the grant closeout process. See also §200.343 Closeout.

(g) Unless the Federal statute, regulations, or terms and conditions for the Federal award provide otherwise, the non-Federal entity has no obligation to the Federal awarding agency with respect to program income earned from license fees and royalties for copyrighted material, patents, patent applications, trademarks, and inventions made under a Federal award to which 37 CFR part 401, “Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Awards, Contracts and Cooperative Agreements” is applicable.

Record of Work Done.*

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Program Income.

We learned that except as indicated below, program income, whenever earned, must be used only for the provision of VR services and the administration of the VR services portion of the Unified or Combined State Plan under the

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state VR Services program. Program income is considered earned when it is received.

The state VR agency may use program income only as an "addition" to the federal award. The state VR agency may not use program income as a "deduction" to the federal award. To the extent that program income funds are available, the grantee must disburse those funds before requesting additional funds from the Department of Education.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested DVR's procedures related to the program income. The received procedures state that DSHS performs federal revenue draws twice monthly, prior the each state pay date (see yellow highlight at [Program Income Procedures](#)).

In lieu of obtaining the Department's internal controls beforehand, we discussed them during our meeting.

To gain an understanding of the program income, on December 17, 2020 we met with:

- Robert St. Lawrence, Policy Manager
- Jamie Evans, Finance and Budget Manager
- Patricia Emsley, Program Manager
- Jessica Bell, Program Specialist

The Lead Fiscal Analyst

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- Schedules SS Revenue reports to arrive each Monday, and two days prior to draw. These are Enterprise auto-generated reports and have specific revenue coding. Jamie and a Fiscal Analyst receive them.
- Revenue received is recorded on the internal fiscal Social Security Administration (SSA) Revenue tracking spreadsheet weekly (on Mondays). All fiscal staff have access to the spreadsheet. The revenue is tracked by Federal Fiscal Year. Fiscal Department monitors running total of program income earned.
- Qualifying expenditures are verified, and a journal voucher is completed to move expenditures from Basic Support to Social Security. Expenditures to move may include:
 - STARS Client expenditures
 - Salaries and Benefits
 - Goods and Services
 - *Do not move Pre-Employment Transition Services expenditures.*
- JVs are to be completed, at a minimum, prior to each state payday when revenue is received during that period. However, they can occur up to daily, depending on the amount of program income being received.
- After the draw is made, run an Expenditure Revenue (ER) report to verify expenditures and revenue are in balance. ER reports are also run at the end of each month. Division of Vocational Rehabilitation (DVR) retains these reports.

Finance and Budget Manager (Jamie Evans)

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- Review all above reports
- Verify tracking spreadsheet is current
- Review and approve JVs
- Ensure necessary JVs are completed prior to draw
- Decline draw in proportion of expected JV when necessary

The Department has internal high level written procedures over these processes. They were updated in summer 2020.

Jeanette explained that the Program Income received during the year was from the Social Security Administration (SSA). Program Income is the only source of revenue. This income is received on a reimbursement basis for clients who meet certain criteria. When clients meet certain criteria, the Department (Jessica) will submit a claim for the costs of the case through a secured portal software called Ticket Tracker. Ticket Tracker generates these claims. Ticket Tracker is a contracted (acquired) system used by DSHS. It is a national system. The system is maintained by an independent contractor and with no competitive solicitation necessary.

The SSA reviews the cases in this system and determines which cases it will pay. The cases are not approved on a set schedule, but the SSA does issue approved reimbursements on a daily basis (as opposed to periodically). Jessica receives notifications of approved and denied claims and reviews them for accuracy. She then updates Ticket Tracker to reflect approved or denied claims. Jessica and Patricia informed us that approximately 60% of DVR clients are receiving SSA. These client's service costs become potentially reimbursable when they reach a certain SSA specified level of income (\$1,220 month (or above) in 2019) for 9 months out of a 12 month period. When this happens, the Department submits the detailed direct expenditures directly to the SSA through the Ticket-to-Work software system. Ticket Tracker confirms through a review of ESD SWIS (national wage) data. Data is updated quarterly.

SSA then determines which direct costs will be reimbursed (and adds a previously determined administrative fee

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for the Department's non-direct client service costs) and pays the Department. SSA Notification (one notification per one person) breaks down amount reimbursed, and may contain information about why amounts are lower than requested. This process causes the reimbursements the Department receives to be for expenditures in a prior year. Since the prior year expenditures cannot be offset directly, the Department applies the SSA income primarily to salary and benefit charges for the current period (other categories may be used as well, but the majority continues to be charged to salaries and benefits).

The program requirements for Program Income use are that they are "additive" to the program. Additive methodology is described in part 3.2 of the compliance supplement as: "With prior approval of the Federal awarding agency, program income may be added to the Federal award by the Federal agency and the non-Federal entity." The Vocational Rehabilitation program has a waiting list for services and fully expends their federal and state appropriations each year. Therefore this method ensures that the SSA income is "additive".

Because the Department has already served the clients it is reimbursed for by SSA, the expenditures have already been made. Prior to drawing federal funds (done on the 10th and 25th of each month) a budget analyst calculates the amount of SSA income received and reduces the federal draw amount for the Voc Rehab program by that amount. This pre-draw work must be done two days before the cash draw is made in order for the transactions to be able to all be recorded in AFRS prior to payroll. This means that program income received in the two business days prior to a DOE draw being processed will not be captured in that draw. **The Budget and Fiscal Manager (or designee) reviews the draw prior to processing and ensures the Vocational Rehabilitation grant draw was reduced by the amount of SSA income received. (Key Control #1-Control Activities)** *Note: Prior to Jamie's promotion to Budget and Fiscal Manager (January 2020) Jeannette Ogg would review draw requests and approve.* This methodology is additive because the amount of federal vocational rehabilitation expenditures are not reduced. On the expenditure side, the Department is applying program income to existing program costs that are part of the Vocational Rehabilitation program.

Key Internal Control #1: The Budget and Fiscal Manager (or designee) reviews the draw prior to processing and ensures the Vocational Rehabilitation grant draw was reduced by the amount of SSA income received.

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Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.8.PR.G - 84.126 Rehabilitation Services Vocational Rehabilitation - DSHS

Procedure Step: L. Reporting - Controls - SF-425, RSA-2

Prepared By: OB, 2/19/2021

Reviewed By: LSD, 2/24/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that reports submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Robert St. Lawrence, Policy Manager and Audit Liaison

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Jamie Evans, Budget and Fiscal Manager Analyst

Conclusion:

Based on our understanding of internal controls over Reporting, we assessed preliminary control risk as **LOW**.

Testing Strategy:

***Note:** Financial report testing populations should include all reports covering expenditures occurring during the audit period. For quarterly reports this means we must include the report covering the period ending June 30 even though it is filed after the audit period. For performance or other special types of reports the testing population should include the reports covering the audit period unless the period covered in the report extends past the end of the audit period. For example, if a performance report covers the federal fiscal year it would generally be due Dec 31. In this case we would test the report due during our audit period. If you have any questions regarding determining the scope for a particular report please consult the SWSA supervisor or AIC. For reports submitted quarterly or more frequently, use the small sample testing spreadsheet.*

Reporting - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review the following to determine the specific types of reports (financial-related reports or programmatic reports) that must be submitted to the grantor agency:

(1) Part 4 of the Compliance Supplement that applies to your audit period - If a report is included in the Compliance Supplement for the program under audit, it should be audited unless not applicable for other reasons.

(2) Grant agreement/contract - If there are reports mentioned in the grant agreement, not all are required to be audited. Limit reports to those that are mentioned in the Compliance Supplement. If the program is not listed in Part 4 of the Compliance Supplement, review the grant agreement and test those that (1) can result in material noncompliance and/or known questioned costs exceeding \$25,000 (reimbursement requests or other financial reports that determine the amount of funding received), (2) affect a large part of the program (significant dollar amounts), and (3) could cause the granting agency to seek reimbursement for the part award or reduce future awards (as stipulated in the agreement).

NOTE: The Federal Funding Accountability and Transparency Act (FFATA) report is used to capture and report subaward and executive compensation data for first-tier subawards. Entities are expected to comply with FFATA reporting as applicable, but we are not expected to audit this requirement at this time.

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Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Document all grant award numbers with expenditures during the audit period and the amount expended for each.

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

Financial Reporting - Financial reports include all activity of the reporting period, are supported by appropriate records, and fairly presented;

Performance & Special Reporting - Reports are completed, timely, and include all required elements and those elements are accurate and supported.

Evaluation of Results: Did you identify any control deficiencies? If yes, you must:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

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Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance

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requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement Voc Rehab Compliance Sup, and any available program guidelines to determine specific requirements for Reporting.

State VR agencies submit RSA-2 annually.

SF-425 has to be submitted semi-annually for the periods ending on September 30 and March 31.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We also requested Department's internal controls over reporting and received the following - see Reporting - Key Internal Controls

We requested and reviewed all of the Department's written procedures related to the compliance area as part of gaining an understanding of internal controls (see SF 425 Basic Support Grant_Updated 01.30.2020-Procedures and RSA 2 Reporting-Procedures).

Financial Reporting:

- SF-425, Federal Financial Report (30 day interim report, and 90 day full report)

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- Use the SF 425 *Preparation Tracking Sheet* to verify each step was completed and by whom. The report is completed by the Lead Fiscal Analyst or designee, and reviewed by the Finance Manager or designee. Document this process on the SF 425 *Preparation Tracking Sheet*.
 - Ensure all reports are run with the correct criteria as referenced below. Refer to prior reports and the Finance Manager for additional guidance.
 - Ensure all Enterprise reports are run with the correct criteria. Only qualified staff who understand criteria may run and/or review reports. Refer to prior reports and the Finance Manager for additional guidance.
 - After the completion and finance review of the SF-425 the Director reviews, signs and dates the report prior to Lead Fiscal Analyst submitting to RSA.
-
- RSA-2, Annual Vocational Rehabilitation Program / Cost Report (submitted annually within 90 days of FFY end)
 - The Lead Fiscal Analyst or designee drafts the report.
 - Ensure all Enterprise reports are run with the correct criteria. Only qualified staff who understand criteria may run and/or review reports. Refer to prior reports and the Finance Manager for additional guidance.
 - After the completion of the RSA-2, the Finance Manager reviews report and all supporting documentation.
 - After the review of the RSA-2, the Director reviews, signs and dates the report prior to Lead Fiscal Analyst submitting to RSA.

There was a finding issued over this area in the 2018 and 2019 audits. Finding 2019-025 stating the Department of Social and Health Services did not have adequate internal controls to ensure its federal program cost report for the Vocational Rehabilitation grant was accurately prepared (see [2019-025 Finding Cost Report](#)). In particular, processes, such

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as secondary review, were not in place that would detect errors in the RSA-2 report before the Department submitted it to the grantor. We obtained the Corrective Action Plan from the Department (see C.8.482019-024 DVR Corrective Action Plan RSA 2 Reporting). According to this CAP, the Department implemented a secondary review by the Finance and Budget Manager for the RSA-2 submitted for FY20 in December 2019.

We met with Robert St. Lawrence, Policy Manager and Audit Liaison, and Jamie Evans, Budget and Fiscal Manager Analyst, on December 15, 2020, to gain an understanding of internal controls over reporting of the SF-425 and RSA-2.

SF-425

SF-425

This report is filed semi-annually for periods ending March 31 and September 30 for each separate grant award that is open. The Department has 30 days after the end of the reporting period to complete and submit these reports.

The only exception is the final report for a grant award, in which they have 90 days after the period of performance to complete and file the report. During our audit period there were three active grant awards. We determined that the following grants would have had SF425 reports submitted during our audit period (7/1/2019-6/30/2020):

- FFY18 - 9/30/19 - semi-annual report; 12/9/19 - final report filed (closed during SFY20)
- FFY19 - 9/30/19 & 3/31/20 semi-annual reports (continued during SFY20)
- FFY20 - 3/31/20 semi-annual report (opened during SFY20)

After the end of the reporting period, the lead fiscal analyst will start gathering the reports and information that is required to submit the SF-425. She collects the following reports/data:

- Grants Management System draw screen shot from Financial Services Administration (FSA) at DSHS (to report the draw)
- Tracking sheets – new sheet created for each report, indicating report due date, report reviewed by (signature), report submitted by (signature)... attached to each PDF final copy. It is used to track level of review and separation of duties/DVR staff level approvals.

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- Expenditure Summary Flexible reports - Federal share of expenditures, state share, program income, indirect expenditure and Pre-ETS expenditures. DVR retains these “work papers” as part of the SF-425 report file as well as signed (filed) SF-425.

When the reports are completed and the other documents are gathered, the lead fiscal analyst (Brooke) enters the information into the RSA reporting module (**Information and Communication**) and the report is completed, saved and printed. Chante Riley can access RSA module too but only prepares reports for Supported Employment grant, not Basic Support VR. Chante can serve as backup if Brooke is unable to submit SF-425. The hard copy of the report and documents are forwarded to the Finance Manager (Jamie) for review and comment. The Finance Manager performs a review of the report and all supporting documentation to ensure accuracy before submitting the report. (**Control Activities**). The report is then forwarded to the director (by Brooke after Jamie’s approval) for Director’s review and signature. Once received, Brooke submits SF-425 in RSA reporting module. Note: During the COVID-19 pandemic, DVR utilized the electronic signature capabilities on PDF files of the SF-425 to indicate supervisory/management review.

Report confirmation is emailed to Brooke, and she saves the confirmation in the work papers as evidence of the date the report(s) was submitted, and acceptance. The Department has never received any communication from the Department of Education about any inaccuracies in the report.

“Final” SF-425’s (closing out federal grant) are sent to Office of Accounting Services (**OAS**), but not as part of any substantive review. Only an internal requirement from OAS for close-out of awards. No work papers are provided from DVR, just the submitted copy of the SF-425.

Key Controls Identified for SF-425 reporting

Key Internal Control #1: The SF-425 is created using underlying accounting records and supporting documentation. (Information and Communication.)

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Key Internal Control #2: The Finance Manager performs a review of the report and all supporting documentation to ensure accuracy before submitting the report. (Control Activities)

RSA-2

This report is filed once a year, due 90 days after the federal fiscal year ends. The Department has 90 days to complete and file the RSA-2 report, which means the report due during this audit period was due by December 31, 2019. The report provides details of the program expenditures, number of individuals served, staffing, and carryover funds.

To complete the RSA-2 report, the lead fiscal analyst or designee prepares the draft report using source records (**Key Control #3: Information and Communication**). Since Jamie was promoted to Finance and Budget Manager in January 2020 (after RSA-2 was submitted), moving forward, she will review, not prepare, the reports herself. The report includes three primary Schedules;

I - Agency Expenditures - Part one contains financial information and the supporting reports are ran in Enterprise Reporting.

II - Number of Individuals Served and Expenditures by Service Category - This section contains information related to number of clients served and their associated expenditures. This information comes from STARS and is provided to fiscal by IT staff. – Mike Krubsack (IT) receives data request to run from his pre-built query. Email response from IT is saved with the Excel data file, but the request to IT is not retained. STARS data shows dollars expended on CRP programs, # of clients served by service category, and dollars expended on individual service categories. Staff caseload data is also provided and is referenced in *Section III – Person years*, and DVR reviews staff, and counselor caseloads and categorizes each staff as either “Counseling” or “Support” staff.

III - Person Years - This section contains staff labor hour information. This section is completed using FTE information from Enterprise Reporting as well as caseload information from DVR IT staff. Schedules IV and V are

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higher level summary data this is also obtained from Enterprise reporting. Note: HRMS reports can be reviewed for staff labor hours. These come to DVR from HR inbox; previously DVR emailed Benjamin Hitchcock (DSHS-HRD)

After the report was filed for 2018, a new process that included separation of duties, was implemented. Now, the lead fiscal analyst prepares the report, forwards a hard copy of the report and supporting documents to the Finance Manager for review and comment. The Finance and Budget Manager then performs a review for accuracy that includes reviewing all documents, reports and criteria used (**Key Control #4: Monitoring**). The report is then provided to the director for review and signature by fiscal analyst (FA). All work paper documents are combined into a PDF file (with the signed RSA-2), and are also saved separately by the FA.

In the online RSA-2 report, there is a check-box to indicate Signature Authorized Certifying Official (“yes/no”). In addition, the Director will sign a printed pdf version of the report. ED generates a system notification to the Fiscal Analyst once the report has been submitted. Brook will save it in the report file.

RSA-2 Key Controls:

Key Control #3: The RSA-2 is created using underlying accounting records and supporting documentation. (Information and Communication)

Key Control #4: The Finance and Budget Manager conducts secondary review for accuracy. (Monitoring)

Identified key controls

SF-425 Key Controls:

Key Internal Control #1: The SF-425 is created using underlying accounting records and supporting documentation. (Information and Communication.)

Key Internal Control #2: The Finance Manager performs a review of the report and all supporting

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documentation to ensure accuracy before submitting the report. (Control Activities)

RSA-2 Key Controls:

Key Control #3: The RSA-2 is created using underlying accounting records and supporting documentation. (Information and Communication)

Key Control #4: The Finance and Budget Manager conducts secondary review for accuracy. (Monitoring)

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.8.PR.G - 84.126 Rehabilitation Services Vocational Rehabilitation - DSHS

Procedure Step: L. Reporting - Controls - RSA-911

Prepared By: OB, 3/15/2021

Reviewed By: LSD, 3/29/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that reports submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with

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program requirements.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Michael Krubsack, IT Application Developer, DVR,
Kelly Boston, Senior Manager for Planning and Program Evaluation,
Thach Tran, IT Application Specialist

Conclusion:

Based on our understanding of internal controls over Reporting, we assessed preliminary control risk as **LOW**.

Testing Strategy:

***Note:** Financial report testing populations should include all reports covering expenditures occurring during the audit period. For quarterly reports this means we must include the report covering the period ending June 30 even though it is filed after the audit period. For performance or other special types of reports the testing population should include the reports covering the audit period unless the period covered in the report extends past the end of the audit period. For example, if a performance report covers the federal fiscal year it would generally be due Dec 31. In this case we would test the report due during our audit period. If you have any questions regarding determining the scope for a particular report please consult the SWSA supervisor or AIC. For reports submitted quarterly or more frequently, use the small sample testing spreadsheet.*

Reporting - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review the following to determine the specific types of reports (financial-related reports or programmatic reports) that must be submitted to the grantor agency:

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(1) Part 4 of the Compliance Supplement that applies to your audit period - If a report is included in the Compliance Supplement for the program under audit, it should be audited unless not applicable for other reasons.

(2) Grant agreement/contract - If there are reports mentioned in the grant agreement, not all are required to be audited. Limit reports to those that are mentioned in the Compliance Supplement. If the program is not listed in Part 4 of the Compliance Supplement, review the grant agreement and test those that (1) can result in material noncompliance and/or known questioned costs exceeding \$25,000 (reimbursement requests or other financial reports that determine the amount of funding received), (2) affect a large part of the program (significant dollar amounts), and (3) could cause the granting agency to seek reimbursement for the part award or reduce future awards (as stipulated in the agreement).

NOTE: The Federal Funding Accountability and Transparency Act (FFATA) report is used to capture and report subaward and executive compensation data for first-tier subawards. Entities are expected to comply with FFATA reporting as applicable, but we are not expected to audit this requirement at this time.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Document all grant award numbers with expenditures during the audit period and the amount expended for each.

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

Financial Reporting - Financial reports include all activity of the reporting period, are supported by appropriate records, and fairly presented;

Performance & Special Reporting - Reports are completed, timely, and include all required elements and those elements are accurate and supported.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

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Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11

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260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance. In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Reporting.

Performance Reporting

- RSA-911, Case Service Record Report (submitted quarterly within 45 days after the end of each quarter)

The RSA-911 is a set of data elements that State VR agencies are required to submit to the US Department of Education (**ED**). The data elements, obtained from State VR agency service records and case management systems, document the application for and/or provision of VR services to individuals with disabilities, including program outcomes and demographic information. Key Line Items – The following data elements contain critical information:

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- Date of Application (7)
- Date of Eligibility Determination (38)
- Date of Most Recent or Amended Individualized Plan for Employment (IPE) (48)
- Start Date of Employment in Primary Occupation (350)
- Employment Outcome at Exit (356)
- Date of Exit (353)
- Hourly Wage at Exit (359)

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the Department provide us internal controls related to RSA-11. We received the following - see [Reporting - Key Internal Controls](#)

We also requested the Department's written policies and procedures. Michael Krubsack, IT Application Developer, provided us with the a policy directive from the Department of Education. He also stated that he was not aware of any "DVR-specific policy or procedure pertaining to the RSA911."

RSA-11

On 12/23/2020, we met with Michael Krubsack, IT Application Developer, DVR, Kelly Boston, Senior Manager for Planning and Program Evaluation, Thach Tran, IT Application Specialist, to discuss how the RSA-911 reports

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are created and reported to the federal government, and any checks the agency performs to check for completeness and accuracy of the report. Michael informed us DVR uses the STARS System. **STARS has been programmed to generate the RSA-911 report in Federal format through SQL. (Automated Control, Key Control 3).** Automated controls are reviewed by Team IT Audit and the review of this automated control can be seen at **G14** 4. Gain an understanding of controls over access to the SQL codes

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.9.PR.G - 84.126 Rehabilitation Services Vocational Rehabilitation - DSB

Procedure Step: A-B. Activities Allowed/Cost Principles - Controls

Prepared By: OB, 2/10/2021

Reviewed By: LSD, 3/26/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has in place to provide reasonable assurance that Federal awards are expended only for allowable activities and that expenditures charged to the Federal award are allowable and in accordance with the applicable cost principles.

To identify the key internal controls and provide a preliminary control risk assessment based upon our

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understanding of the internal controls.

Source:

Web Intelligence

Jeannie Brown, Senior Financial Officer

Lorie Christoferson, Deputy Financial Officer

Conclusion:

We identified one control deficiency. **Control Weakness** - Jeannie Brown, Senior Financial Officer, responded the Department for Services for the Blind (**DSB**) did not have any written policies or procedures but in their procedures, DSB follows general Rehabilitation Services Administration (**RSA**) guidance, CFR 34.361, and Uniform Guidance when it comes to ensuring Activities Allowed requirements are met. We will issue an exit recommendation for not having written policies and procedures, see [EI_2020_VR_DSB_Written Policies and Procedures](#). While we did identify one control deficiency, there are still sufficient key controls to conduct testing, therefore we will not increase control risk.

Based on our understanding of internal controls over Activities Allowed and Cost Principles, we assessed preliminary control risk as **LOW**.

Testing Strategy:

A-B. Activities Allowed/Cost Principles - **Post Uniform Guidance Awards**

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the ***Inherent and Internal Control Risk Guidance*** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

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Step 2: Gather Information

Review scope of work

Allowable Activities - Determine which activities and types of costs are specifically allowed or unallowed, by reviewing the following:

1. Award agreement or approved application for scope of work, terms and conditions, and approved budget.
2. Part 4 of the Compliance Supplement that applies to your audit period.
3. Available program guidelines or handbooks. (Ex. WSDOT's LAG Manual)
4. If above information is not available, look to the federal regulations (contact the single audit specialist if you need assistance with this).

Requirements for Cost Principles are found as follows:

Pre-UG: OMB Circular A-87

UG: 2 CFR 200, Subpart E.

Please be familiar with these requirements as not all are listed below; only parts emphasized in the Compliance Supplement are listed below.

Quantitatively Material

Identify the expenditure activities that are directly charged to the program and are quantitatively material (more than 5%).

Direct Costs

Payroll Expenditures: When payroll costs are selected for our single audit, our focus is on whether the portion of payroll charged to the program (allocation) is supported by appropriate time and effort and meets the cost principles. Note that awarding agencies may require specific forms of documentation to support payroll charged to its award.

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Compensated Absences (leave cash-outs or accrual): The entity may include employees' use of leave (which is included in their regular salary payments). If the entity charges any **leave cash-outs** or the **accrual of leave** to the grant, there are special rules, see extra guidance in the policy tab. There is a high risk the costs are unallowable.

Non-Payroll Expenditures: Generally, auditors should test internal controls and compliance for non-payroll expenditures when those costs are quantitatively material (5%) to the program.

Automated Controls: If you identify key internal controls that are automated, consult with the SWSA Supervisor or SWSA AIC to determine whether to request automated control work from Team IT audit.

Indirect Costs

Determine whether the agency has recovered indirect costs via an indirect cost rate or cost allocation plan and, if so, how much was expended. If indirect costs are material to the program the auditor must test the internal controls (and compliance) over them when those costs are quantitatively material (5%) to the program.

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement. These are discussed in the **policy tab** in further detail, for when indirect costs are material to the program.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

Special – Review In-process Proposals: If the entity is preparing an Indirect Cost Rate Proposal during the audit period in order to submit it to the federal cognizant agency, we are required to review the accuracy of the base data

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and calculations.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

- (a) Activities Allowed: grant funds are used only for allowable activities (this may include review of expenditures, program monitoring, preparing the reimbursement requests, establishment of programs);
- (b) Cost Principles: direct and indirect costs charged to the grant comply with the cost principles set forth in 2 CFR 200 Subpart E (this may or may not be the same control activity for (a))
- (c) Activities Allowed-Indirect Costs: if material (5%), the entity uses the proper indirect cost rate (per approved plan or rate, de minimis only when it is applicable, or another rate established by contract). Controls should also focus on how the entity properly calculates the direct cost base that the indirect rate is applied to. For instance, the controls should ensure that they are using only allowable types of costs in the MTDC or other direct base as

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applicable, that those costs are not used twice or that they occurred during the contract's period of performance. Note: These controls are likely **different** than those in (a) and possibly (b).

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as **"LOW"** when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

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Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Basic Cost Principles (2 CFR 200.402 – 409)

DEFINITIONS

Cost means an amount as determined on a cash, accrual, or other basis of accounting acceptable to the Federal awarding or cognizant agency.

Cost objective means a function, organizational subdivision, contract, grant, or other work unit for which cost data are needed and for which provision is made to accumulate and measure the cost of processes, projects, jobs and capitalized projects.

Direct costs are those that can be identified specifically with a particular final cost objective (i.e., a particular award, project, service, or other direct activity of an organization). Examples of Direct Costs: payroll costs of employees who perform work that is directly related to the grant program; the cost of supplies and materials used for the purpose of the grant; equipment and other approved capital expenditures made for the grant; or professional services contracted to accomplish specific grant/contract objectives.

Indirect costs are those costs incurred for a common or institution-wide objective that benefits more than one grant program or project. Such costs are not readily assignable to the cost objective specifically benefited. Examples of Indirect Costs: depreciation and use allowances of non-federal equipment and buildings; facility operation and maintenance (lights, heat, phone, janitorial, grounds, etc); and general administrative expenses such as accounting, payroll, legal and data processing expenses.

GENERAL COST PRINCIPLES AFFECTING ALLOWABILITY OF COSTS (2 CFR 200.403)

- (a) Be **necessary** and **reasonable** for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any **limitations** or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be **consistent** with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) 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.
- (e) 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 this part.

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(f) **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. See also §200.306 Cost sharing or matching paragraph (b).

(g) Be **adequately documented**. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

What is a Reasonable Cost (§200.404)? (cost principles)

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Other factors that must be considered in determining whether a cost is reasonable are:

whether the cost is generally considered as ordinary and necessary to the operation of the grantee or the performance of the federal award/program;

the restraints or requirements imposed by such factors as sound business practices, arms-length bargaining, federal, state and other laws and regulations, and terms and conditions of other federal awards, or sponsored agreements;

market prices for comparable goods and services;

whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the grantee, its employees, where applicable its students or membership, the public at large, and the federal government;

whether the grantee significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal awards costs.

EXAMPLES:

1. A grantee is planning to purchase computers and printers with federal funds. The purchasing agent obtained phone quotes from three contractors. One contractor has a direct family relationship with the grantee's purchasing agent. It so happens that this contractor's quote was 20% higher than the other two. The grantee should not contract with this contractor because the price is unreasonable and has a conflict of interest (regardless of the price).

2. A grantee has been permitted in its grant contract to lease a vehicle so that it can travel within its region to deliver grant-related services to clients. The grantee has obtained quotes for a standard 4-door sedan and a luxury 4-wheel drive SUV that is twice the cost of the sedan. Which vehicle should the grantee choose? This is not to say a 4-wheel drive is not necessary or reasonable, but the price may dictate the type or model.

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of vehicle.

What is an Allocable Cost (§200.405)? (cost principles)

A cost is considered allocable if the goods or services involved are chargeable or assignable to the federal award or cost objective (i.e., a specific function, project, sponsored agreement, service, or grant) in accordance with the relative benefits received.

Any cost allocable to a particular federal award may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by federal statutes, regulations, or terms and conditions of federal awards, or for other reasons.

If a grantee intends to recover the portion of its indirect costs (overhead, central administration, etc.) that relates to its grant programs, Uniform Guidance requires the grantee to develop a central service cost allocation plan and/or indirect cost rate proposal. Requirements pertaining to central service cost allocation plans and indirect cost proposals are found in Appendix III-VII to Part 200 (Uniform Guidance).

EXAMPLES:

1. An employee works on two different federal grant projects. The time spent on each project varies from day to day. This employee must keep monthly time and effort records that account for actual time spent on each project. By tracking actual effort, each grant will be charged its fair share of the costs.
2. A grantee held a training workshop for its employees. Included in the cost of the workshop was room rental, food, and travel. The workshop included a session that was specific to a federal program and a session that covered general personnel and human effectiveness training. The grantee should allocate the cost of the training among all programs/divisions that benefited from the training. Next, it should charge the allocated amount only to those awards that specifically allow for this type of cost.

Applicable Credits (§200.406) (cost principles)

A "credit" means a receipt or reduction in expenditures that offset or reduce direct or indirect cost items. Examples include:

- purchase discounts;
- rebates or allowances;
- recoveries or indemnities on losses;
- insurance refunds or rebates; and
- adjustments of overpayments or erroneous charges.

When such credits are applicable to allowable costs, they must be credited to the federal award either as a cost reduction or a cash refund. In some instances, the amounts received from the federal government to finance a grantee's activities or service operations should be treated as applicable credits.

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EXAMPLE:

A grantee paid a contractor for materials it needed for a project. It was determined later that the vendor had over-billed the grantee and was issuing a refund check. This refund should be netted against the total amount charged to the grant as a cost reduction. If the grant project had already been closed out, the refund should be remitted to the grantor agency that sponsored the project. Consult with the grantor agency in such a case.

Prior written approval (§200.407) (cost principles)

Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following sections of this part:

- (a) §200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);
- (b) §200.306 Cost sharing or matching;
- (c) §200.307 Program income;
- (d) §200.308 Revision of budget and program plans;
- (e) §200.311 Real property;
- (f) §200.313 Equipment;
- (g) §200.332 Fixed amount subawards;
- (h) §200.413 Direct costs, paragraph (c);
- (i) §200.430 Compensation—personal services, paragraph (h);
- (j) §200.431 Compensation—fringe benefits;
- (k) §200.438 Entertainment costs;
- (l) §200.439 Equipment and other capital expenditures;
- (m) §200.440 Exchange rates;
- (n) §200.441 Fines, penalties, damages and other settlements;
- (o) §200.442 Fund raising and investment management costs;
- (p) §200.445 Goods or services for personal use;
- (q) §200.447 Insurance and indemnification;
- (r) §200.454 Memberships, subscriptions, and professional activity costs, paragraph (c);
- (s) §200.455 Organization costs;
- (t) §200.456 Participant support costs;
- (u) §200.458 Pre-award costs;
- (v) §200.462 Rearrangement and reconversion costs;

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- (w) §200.467 Selling and marketing costs;
- (x) §200.470 Taxes (including Value Added Tax); and
- (y) §200.474 Travel costs.

Consistency (2 CFR §200.403(d) (cost principles)

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.

EXAMPLE:

A grantee has five departments. It allocates the cost of its basic telephone service to each department based on the number of telephones in each department. Each department should treat the telephone cost consistently for all grants it administers. That is, if a department has 3 grant programs, that department should treat this telephone cost as either a direct cost or indirect cost for all 3 grants, but not a mix of each. Next, if treated as a direct cost, a department should only request reimbursement for this type of cost if permitted under the terms of its grant agreement(s).

Grant Agreement Limitations (§200.408) (cost principles)

To be allowable, the cost being charged must conform to any limitations or exclusions set forth in the terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

EXAMPLE:

A grantee paid for a television advertisement to promote its new grant-funded health program. However, the approved grant contract limited the cost of advertising to brochures and radio ads. Therefore, the grantee should not include the cost of the television advertisement in its request for reimbursement even though "advertising" is an otherwise allowable cost according to Circular A-87.

Adequate Supporting Documentation (2 CFR §200.403(g) (cost principles)

Amounts charged to federal awards must be supported by source documentation, including:

- payroll reports
- time and attendance records
- invoice vouchers from subrecipients
- receiving reports
- original vendor invoices
- cost allocation plans

(Documentation may be in an electronic form, but make sure the integrity of the electronic documentation can be maintained for the duration of the applicable record retention period).

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EXAMPLE:

A grantee made a year-end adjustment to a federal award using a journal voucher entry. The accounting entry must be supported by adequate documentation that demonstrates both allowability and allocability.

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

ADDITIONAL TESTING SELECTION INFO & EXAMPLES

<i>Selection Options</i>		
Method	Process	Next Steps
Sampling	This is the preferred method for large populations (over 365). Use sampling tool from teammate.	Get the sample tool from Teammate. Take the sampling training if needed.
Haphazard Selection	May use for populations less than 365. Auditor haphazardly picks transactions. It feels random but only true "random" samples can be done by the computer in the sampling method.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab)

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Judgmental Selection	May use for populations less than 365. The auditor has a specific reason, associated with a risk, to pick certain or certain transactions. Explain risks in the ROWD and how transactions not selected are lower risk.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab). See examples there.
Judgmental Population	First, the auditor has a specific reason, associated with a risk, to pick certain types of transactions (judgmental population). Explain risks in the ROWD and how populations not selected are lower risk (you can refer to the testing strategy if we have done this for you already). Next, the auditor selects transaction from the judgmental population using the sampling method above.	Get sample tool from Teammate. Take training for the form if needed.
All quantitatively material transactions	Use only when a few very large transactions make up the majority of grant activity. You will test all of these material transactions.	Keep in mind: If 10% or more of the population is made up of <i>other</i> types of costs, those transactions should be tested in some way, as well.

DUAL PURPOSE TESTING EXAMPLE

For allowable costs the key control is, "The Business Manager reviews the reimbursement request, reconciling the items requested to invoices to determine they are supported and allowable." You will test it by reperforming the Business Manager's review to determine if it is effective in preventing and detecting noncompliance. You may check the requests to see if they have the Business Manager's signature of approval but that will only tell you if they consistently do it, which is important. However, you should reperform the control.

To complete compliance testing you are tracing expenditures from the requests to support to determine if they are supported and allowable per the program.

In this case, for testing both controls and compliance you are completing the same process. However, you need to document that you tested both and clearly show the conclusion of each even though they are related. Control testing should conclude whether the control was effective in preventing or detecting noncompliance and compliance testing whether the entity was in compliance.

INDIRECT COST UNDERSTANDING OF RATES/ALLOCATIONS

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method

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4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

1. Rate Provided by Grantor: The federal grantor or PTE can give the entity an indirect cost rate in the award, usually outlined in the budget section and based on the availability of funding. There is no separate or formal rate agreement and it is not considered negotiated.

2. Use PTE Negotiated Rate: The federal grantor, PTE or federal guidance can require the entity to use PTE's negotiated indirect cost rate. This requirement can be found in the Compliance Supplement and federal pass-through guidance. The PTE will place the rate in their award with the entity. This is common for school districts.

3. De Minimis Indirect Cost Rate: If the entity elects to use the de minimis rate, a flat 10% (of Modified Total Direct Costs), in their grant application, no direct or pass-through grantor can deny its use so long as the entity qualifies.

Restrictions: The entity can use the method so long as they have **never** had a negotiated indirect cost rate or allocation plan approved by the federal cognizant agency **or** the PTE.

UPDATED GUIDANCE: Federal guidance now clarifies that negotiated rates and allocation plans negotiated by **PTEs** can prevent the use of the de minimis rate.

Consistency: If used, the entity must use the de minimis method for all of their Uniform Guidance federal programs that allow indirect costs.

Rate: Indirect costs are calculated as base costs multiplied by a flat 10% rate that does not require a true-up to actual indirect expenses.

Base Used: The 10% is multiplied by the modified total direct costs (MTDC) base.

<i>MTDC Base</i>	
Includes	Excludes
Direct Salaries & Wages	Equipment & Capital Expenditures
Direct Fringe Benefits	Charges for Patient Care
Materials & Supplies	Participant Support Costs
Services	Rental Costs
Travel	Tuition remission, Scholarships & Fellowships

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Up to \$25,000 of <i>each</i> subaward (regardless of the period of performance)	The portion of each subaward in excess of \$25,000
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4. Negotiated Rates & Allocation Plans – Cognizant Agency: Only major governments are required to obtain a cognizant agency approved negotiated rate or allocation plan. Smaller governments can opt to do so. The “cognizant agency for indirect costs” is designated as:

For central service cost allocation plans: the federal agency with the largest dollar value of *total* federal awards

For indirect cost rates and cost allocation plans: the federal agency with the largest dollar value of *direct* federal awards

Once designated, the federal entity remains the cognizant agency for five years. Under this method, the entity will be awarded a formal contract for the rate/allocation. All awarding agencies must accept the rate/allocation plan when the entity elects to use it in their program application.

Various allocation plans can be approved, but there are four types of rates:

1. **Provisional:** The provisional rate is temporary and expires upon the completion of the federal award. It requires a true-up to actual expenditures by the end of the project or whenever the entity obtains a final rate. The rate is adjusted by using the final rate.
2. **Final:** The rate is permanent and is calculated after the actual costs are known (i.e. at the conclusion of the federal project). It is used to adjust the indirect costs from the provisional rate.
3. **Predetermined:** This is a permanent rate and is calculated using actual costs from previous periods. It does not require a true-up to correspond with actual current year costs. The rate is effective between two to five years.
4. **Fixed:** This is a permanent rate and is calculated using actual costs from previous periods. It requires a true-up to correspond with actual current year costs. The variance between the costs used to create the rate and the actual costs incurred during the year the rate was used is carried-forward as an adjustment to the current rate. The entity will either recover or “pay back” the variance going forward. The rate is effective for two years and then can be annually renewed.

5. Negotiated Rates & Allocation Plans – PTE: Indirect Cost Rate Proposals and Cost Allocation Plans are not required by UG to be submitted to/approved by PTE's, but the PTEs may require it. Usually a formal contract for the rate/allocation is not issued and they just review and/or approve the plan instead. Other pass-through entities are not required accept the rate/allocation plan but they can choose to accept it.

METHODS OF INDIRECT COST RATE CALCULATION

(1) The specific methods for allocating indirect costs and computing indirect cost rates are as follows:

- (a) *Simplified Method* – This method is applicable where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect cost to approximately the same degree. The allocation of indirect costs and the

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computation of an indirect cost rate may be accomplished through simplified allocation procedures described in 2 CFR part 200, Appendix VII, paragraph C.2.

Multiple Allocation Base Method – This method is applicable where a governmental unit's department or agency has several major functions that benefit from its indirect costs in varying degrees. The allocation of indirect costs may require the accumulation of such costs into separate groupings which are then allocated individually to benefiting functions by means of a base which best measures the relative degree of benefit. (For detailed information, refer to 2 CFR part 200, Appendix VII, paragraph C.3.)

(c) *Special Indirect Cost Rates* – In some instances, a single indirect cost rate for all activities of a department or agency may not be appropriate. Different factors may substantially affect the indirect costs applicable to a particular program or group of programs, e.g., the physical location of the work, the nature of the facilities, or level of administrative support required. (For the requirements for a separate indirect cost rate, refer to 2 CFR part 200, Appendix VII, paragraph C.4.)

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

Record of Work Done.*

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

Review scope of work

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and

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any available program guidelines to determine which activities and costs are allowed or unallowed. We identified the following:

Indirect Costs

DSB provided us its approved cost allocation plan C.9.25 CAP Approval 2018. We reviewed the agreement and found that the Department charges indirect costs on a straight FTE basis using salary information by position. Another \$25,000 is allowed through Pass Through Programs. Indirect costs are material and represent 13.28% and we will review them below as part of Activities Allowed.

Material Expenditures

We identified the following expenditure activities that are directly charged to the program and are quantitatively material (more than 5%) see DSB_DSHS_Exp_Combined tab at C.9.6 Revenue and Expenditure Analysis:

- A-B - Salaries and Benefits
- NB - Pymts to Prvdrs for Direct Client Srvcs

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested policies and procedures over allowable costs from the Department. **Control Weakness** - Jeannie Brown, Senior Financial Officer, responded the Department for Services for the Blind (DSB) did not have any written policies or procedures but in their procedures, DSB follows general Rehabilitation Services Administration (RSA) guidance, CFR 34.361, and Uniform Guidance when it comes to ensuring Activities Allowed requirements

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are met. We will issue an exit recommendation for not having written policies and procedures, see El_2020_VR_DSB_Written Policies and Procedures We sent the exit recommendation (see DSB_Exit_Item_Policies-Procedures) to Jeannie Brown, Senior Financial Officer at DSB, on 2/10/21.

We also requested internal controls from the agency and received the following from Jeannie Brown on August 5, 2020 - see Activities Allowed section at DSB Response to Key Control Letters received 8.5.20

We met with Jeannie Brown, Senior Financial Officer, and Lorie Christoferson, Deputy Financial Officer, on November 19, 2020 to gain an understanding over internal controls for allowable activities.

Object A and B - Salaries and Benefits

Staff are funded by the Vocational Rehabilitation (VR) grant only and no employee charges to another funding source. Staff positions are set up in HRMS and allocated to VR. **(KC#1-Information and Communication)**. Staff charging time to VR submit timesheets and certifications. Any person who works on clients from birth to eight years of age (pre-employment) has a separate column on their timesheet to record hours spent on pre-ets.

Certifications: Each pay period, Lorie reviews time charges out of HRMS and adjusts any pre-ets hourly expenditures charged to the earmarked category. Each month Lorie reviews payroll reports to ensure that charges were accurately recorded and staff paid are employed with the Department. In addition, periodically, Jeannie and Lorie review reports coding together to ensure accuracy. When review is complete, Lorie will certify a payroll report that contains all account coding. Lorie also reviews the payroll journal sent by Small Agency Financial Services (SAFS) based on time charges. Once the report is reviewed and determined to be accurate, Lorie will sign it and send it back to the Department of Enterprise Systems (DES). **(KC#2 Control Activities)** The reports are then saved to the shared drive on the DSB server.

Timesheets: Employees submit their timesheets each pay period. Supervisors review and approve timesheets **(KC#3 Control Activities)**. These approved timesheets are due to HR after every pay period ends, 15th and last day of month. DSB HR is responsible for collecting the timesheets and submitting them to DES HR by the due

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dates per the state payroll processing schedule.

SubObject NB - Payments to Providers for Direct Client Services

Provider payments are made in AWARE and are based upon the customer's Individualized Plan for Employment (IPE), which is set up after the customer has been determined eligible by the Vocational Rehabilitation Counselor. The IPE describes any services necessary to assist an individual with a disability in preparing for, securing, retaining, or regaining an employment outcome. The specific services that can be selected are limited to what has been approved by the counselor in the AWARE special services catalogue. There is no cap on services and no amounts are associated with services. In such instances as reimbursement for mileage or books, a client can be paid directly, not the provider.

To order services, a Rehabilitation Technician creates an authorization in the AWARE system. **The customer's Vocational Rehabilitation Counselor (VRC) reviews services ordered and the amount associated with these services to ensure they are accurate, allowable, necessary, and reasonable and approves the authorization – Key control #4 (Control Activities).** The AWARE system will only allow those services and vendors to be selected on the authorization that were identified on the customer's IPE. The Rehabilitation Technician sends a copy of approved authorization (this is not the IPE) to the vendor. The vendor sends an invoice to the Rehabilitation Technician upon completion of the services to the customer. The Rehabilitation technician submits a payment request in the AWARE system, scans the invoice and uploads the invoice into AWARE (amount, number). **Afterwards, fiscal reviews and determines if it's accurate and allowable to release the payment to AFRS – Key Control #5 (Control Activities (It is also a Key Control for the Period of Performance)).** Payments released for the day are picked up by AFRS.

Summary of Key Controls:

Salaries and Benefits

Key Control #1: DSB allocates positions in HRMS to VR at the beginning of the biennium and updates

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monthly based on actual time charges.(Information and Communication)

Key Control #2: DSB ensures payroll charges to the VR grant are accurate by reviewing the payroll journal sent by SAFS for errors monthly, and the Deputy Financial Officer will sign it to acknowledge it is correct. (Control Activities)

Key Control #3: DSB ensures payroll charges to the VR grant are accurate by reviewing the timesheets and approving them to acknowledge they are correct. (Control Activities)

Payments to Providers for Direct Client Services

Key Control #4: The customer's Vocational Rehabilitation Counselor reviews services ordered and the amount associated with these services to ensure they are accurate, allowable, necessary, and reasonable and approves the authorization. (Control Activities)

Key Control #5: Fiscal staff review payments to ensure they are accurate and allowable to release to AFRS and approve the rehab tech's submission of invoice. (It is also a Key Control for the Period of Performance) (Control Activities)

Evaluation of Results: We identified one control deficiency. **Control Weakness** - Jeannie Brown, Senior Financial Officer, responded the Department for Services for the Blind (DSB) did not have any written policies or procedures but in their procedures, DSB follows general Rehabilitation Services Administration (RSA) guidance, CFR 34.361, and Uniform Guidance when it comes to ensuring Activities Allowed requirements are met. We will issue an exit recommendation for not having written policies and procedures, see [EI 2020 VR DSB Written Policies and Procedures](#). While we did identify one control deficiency, there are still sufficient key controls to conduct testing, therefore we will not increase control risk.

Preliminary Control Risk Assessment

Step 4

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LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.9.PRG - 84.126 Rehabilitation Services Vocational Rehabilitation - DSB

Procedure Step: C. Cash Management - Controls
Prepared By: OB, 4/1/2021
Reviewed By: LSD, 4/23/2021

Purpose/Conclusion:

Purpose:

To gain an understanding of the internal controls the agency has established over Cash Management.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Jeannie Brown, Senior Financial Officer
Lorie Christoferson, Deputy Financial Officer

Conclusion:

Based on our understanding of internal controls over Cash Management, we assessed preliminary control risk as **LOW**.

Testing Strategy:

Reminder: Cash management is always direct and material whether the entity operates on a reimbursement or cash advance basis. (The only exception is for a

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non-cash award, e.g. federal equipment, real property, supplies or commodities received.)

Note: Entities may receive awards funded on a reimbursement basis, as well as awards funded through advance payments. For such entities, the auditor should plan the audit to address the objectives of both payment methods, i.e., the auditor should include audit procedures to separately assess and test internal control and compliance for the reimbursement and advance payment methods.

Cash Management - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the ***Inherent and Internal Control Risk Guidance*** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

CMIA Agreement

- (a) Determine whether the program is subject to the CMIA (Cash Management Improvement Act) agreement made between the U.S. Treasury and OFM (see attached pdf file in planning at **B.1.14**). This will typically only apply to larger programs over \$20 million.
- (b) If the program is subject to the OFM/Treasury CMIA agreement, obtain an understanding of funding technique prescribed for the program. Review Part 4 of Compliance Supplement for any program-specific requirements.
- (c) If the program is not subject to the CMIA, review Part 4 of Compliance Supplement for any program-specific requirements.

Awards to Subrecipients

Determine whether the agency made any awards to subrecipients.

Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and/or program regulations to determine the method of payment for the federal program (i.e., cash advance or cost reimbursement). If a grantee states that it is paid on a "cost reimbursement" basis, determine whether the grantee is permitted to request its funding from the grantor before it actually disburses its own cash to pay project/program costs.

Information for all other awards (generally):

A. CASH ADVANCE – Some programs allow the grantee to draw down funding before program expenses are incurred or paid. The requests the auditee submits to their grantor should identify it as an advance request. The entity must:

- (1) Create and maintain written policies that address how it will comply with the cash advance requirements (UG only). The auditor does not need to determine whether the written procedures are sufficient. Sufficiency is up to the interpretation of the grantee unless the awarding agency has provided guidance.
- (2) Disburses the grant funding as soon as possible after it is received;

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(3) Limits its cash advance requests to its immediate needs; and

(4) Tracks interest earned from cash advances. They must remit interest earned over \$100 for Pre-UG and over \$500 for UG.

B. COST REIMBURSEMENT – This occurs when the grantee incurs costs before the federal funds are received. Either situation could occur (even for the same program, transaction by transaction):

1. Costs are incurred but **not** paid before federal funds are received (like a cash advance): This pertains to those contracts or program regulations that **do not specifically require** the grantee to disburse its own funds before it requests reimbursement. For example, if a grantee incurs an expense (e.g., ordering supplies and receiving a vendor invoice), but does not disburse any of its own funds (paying the invoice) until after it submits a request to the grantor and receives its federal funding, the grantee is essentially receiving a cash advance. Thus, the grantee could potentially be maintaining an excess cash balance and earning interest. The same could be applied if the entity collects an improper payment or later receives a rebate, discount, refund on returned items, etc. that they keep – as an advance – rather than returning the funds to the grantor if the cost had already been reimbursed.

NOTE: The awarding agency may have regulations and/or guidance in these cases as to the specific amount of time the entity has from receipt of the funds to disburse the funds. For example, OSPI requires 3 days from receipt of funds to disburse. If the awarding agency does not have guidance on this, use auditor judgement to determine if the amount of time between receipt of funds and disbursement is reasonable and consistent with the entities disbursement policies and procedures.

2. Costs are incurred **and** paid before federal funds are received: This is a true cost reimbursement. The focus of the auditor's review is that the entity has controls to ensure they maintain a cost reimbursement basis – only requesting transactions that have been paid – and are in compliance with the requirement. The audit objective from the Compliance Supplement is, "For grants and cooperative agreements to non-Federal entities that are paid on a reimbursement basis, supporting documentation shows that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request."

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

(a) CMIA programs - Identify and document the key internal controls used by the agency to comply with the CMIA funding technique to (1) ensure cash advances are limited to its immediate cash needs, (2) minimize the time elapsing between receiving the funds and expending the funds, and (3) assure that subrecipients are minimizing the time elapsing between receipt of the funds and expenditure of the funds.

(b) non-CMIA programs - Identify and document the key internal controls used by the auditee to (1) ensure cash advances are limited to its immediate cash needs, (2) minimize the time elapsing between receiving the funds and expending the funds, and (3) assure that subrecipients are minimizing the time elapsing

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between receipt of the funds and expenditure of the funds.

Gain an understanding of the grantee's internal controls and identify the key controls over its requests for federal funding as follows.

Cash Advances - our focus is on the controls that ensure:

- (1) The grantee established written procedures to minimize the time between receipt and disbursement of funds and ensures those procedures are up-to-date with federal requirements in subsequent years.
- (2) the grantee is disbursing the funding as soon as possible after it is received,
- (3) the grantee is limiting its cash advance requests to its immediate needs
- (4) the grantee is tracking interest earned from cash advances and remitting any interest over \$500 back to the grantor.

Cost Reimbursement (incurred but not paid before reimbursed)

- (1) the grantee is disbursing the funding as soon as possible after it is received,
- (2) the grantee is limiting its cash advance requests to its immediate needs
- (3) the grantee is tracking interest earned from cash advances and remitting any interest over \$500 back to the grantor.

Cost Reimbursement (incurred and paid before reimbursed – true reimbursement)

- (1) the grantee ensures it only requests costs that have been paid.

For example, the person responsible for creating the reimbursement request includes only costs paid based upon their tracking spreadsheet, because they generate a report for only costs that have been paid, or generates detailed transaction reports and includes items based on the date paid.

***Note:** If the auditee usually maintains a true cost reimbursement but has some transactions (occasionally or as special situations) that are incurred but not paid before reimbursement, the controls of each should be addressed.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “**LOW**” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

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(Deficiencies Identified: Use the decision matrix in the “Major Federal Program” spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).)

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

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Record of Work Done:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

Not subject to the CMIA Agreement [2020 CMIA Agreement](#)

In the first part of the SFY20 DSB was following State Administrative and Accounting Manual (SAAM). SAAM Section 50.40.80 allows agencies to draw federal funds "as close as possible to when the underlying disbursement is made..."

We reviewed part 4 of the compliance supplement and found that Cash Management has a requirement to follow Cross Cutting section 4-84.000. We reviewed the cross-cutting section on PDF page 781 and found the following: "Note: This section applies only to ED programs in which the entity being audited is a grantee, i.e., the entity receives grant funds directly from ED. Auditors should refer to Part 3, Section C, "Cash Management," for any ED program in which the entity is being audited is a subrecipient (i.e., federal funds are received through a pass-through grant from a grantee).

Grantees draw funds via the G5 System. Grantees request funds by (1) creating a payment request using the G5 System through the Internet; (2) calling the Payee Hotline; or (3) if the grantee is placed on the reimbursement or cash monitoring payment method, submitting a Form 270, Request for Title IV Reimbursement or Heightened Cash Monitoring 2 (HCM2), (OMB No. 1845-0089), to an ED program or regional office.

When creating a payment request in G5, the grantee enters the drawdown amounts, by award, directly into G5. Grantees can redistribute drawn amounts between grant awards by making adjustments in G5 to reflect actual

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disbursements for each award, as long as the net amount of the adjustments is zero. When requesting funds using the other two methods, grantees provide drawdown information to the hotline operator or on the Form 270, as applicable. To assist grantees in reconciling their internal accounting records with the G5 System, using their DUNS (Data Universal Numbering System) number, grantees can obtain a G5 External Award Activity Report (<https://www.g5.gov/>) showing cumulative and detail information for each award. The External Award Activity Report can be created with date parameters (Start and End Dates) and viewed on-line. To view each draw per award, the G5 user may click on the award number to view a display of individual draws for that award."

Awards to Subrecipients

No awards to subrecipients were made for the Vocational Rehabilitation Grant. Per the compliance supplement, subrecipient monitoring is not applicable.

There was a finding issued over this area in the 2018 audit, finding 2018-020 for not having adequate internal controls to ensure cash draws were accurate and timely. In addition, the second review over the federal draw process was performed by a lower level employee. The finding was repeated in the 2019 audit, finding 2019-026 (see 2019-026 - Cash Draws). Finding 2019-026 - The Department of Services for the Blind did not have adequate internal controls over and was not compliant with requirements to ensure cash draws were accurate and made timely for the Vocational Rehabilitation program. We obtained the Corrective Actions Plan (CAP) from the Department (see CAP (2019-026) DSB VR Cash Management Final). According to this CAP, the Department adopted new cash management policies and procedures in June 2020, implemented separation of duties, put a secondary review process in place in February, and provided training to the staff. We asked Jeannie Brown, Senior Financial Officer, and Lorie Christoferson, Deputy Financial Officer, regarding the finding and corrective action plans the Department has implemented to address the audit issues. Jeannie confirmed all the corrective actions stated in the Corrective Action Plan.

Understanding of Internal Controls

Step 3

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In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step. We sent an internal controls request to the agency and this is what we received (see Cash Management section at [DSB Response to Key Control Letters received 8.5.20](#))

We requested the Department's written policies and procedures related to cash management. We received the following from Jeannie Brown, Senior Financial Officer, via email on July 30, 2020 [107.05 Cash Management](#) We reviewed the Department's newly adopted policies stating that cash draws take place bimonthly on the 10th and 25th of each month. If those dates fall on a weekend or holiday, the draws will be made on the prior or next business day (see p.1, Cash draw schedule at [107.05 Cash Management](#))

We met with Jeannie Brown, Senior Financial Officer, and Lorie Christoferson, Deputy Financial Officer, on December 3, 2020 to gain an understanding of controls over cash management.

NOTE: Although the Department has put controls in place to address the deficiencies identified in prior year findings, the controls were not in place throughout the current audit period. We met with the Department and identified the following newly implemented internal controls:

Key Control 1- To ensure timely draw down and accuracy each pay period, the Deputy Financial Officer, Lorie Christoferson runs the numbers on federal expenditures on the 10 and 25th. If the 10th or the 25th falls on a weekend or holiday, the draw will be completed on the prior or next business day. **(Control Activities)** Lorie will run an AFRS Project Management report to date for each open federal grant (identified by project number). Lorie will review the expenditures from each federal grant for mismatches and/or inaccuracies. If all okay, Lorie

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will then input the expenditures into a standardized federal Cash Draw Workbook developed by DSB which is used to track federal grant expenditures and draws to date. Lorie will send the Expenditure Report and Federal Draw Workbook to Jeannie, Senior Financial Officer, for review.

Prior to inputting any information into the federal draw system (G5); **Key Control 2- Jeannie will review the Federal Draw Workbook to ensure that all applicable projects were included and that all expenditures were recorded accurately on the federal draw Excel worksheet (Control Activities). Control put in place in February 2020.** Jeannie will then input the draw request amounts for each project/grant into the G5 system because she has draw access to the system and Lorie does not. Jeannie started entering draw requests in G5 system in March-April 2020 because the financial analyst who used to complete this step left the agency. Lorie reviews the Draw screen print from the prior months draw to ensure the total draw to date is accurate for the next draw.

Having submitted the draw request in G5, Jeannie will receive an email confirmation from the G5 system and forward a copy to the Fiscal Analyst 2, Heidi Estes. Heidi enters the revenue receipt entry in AFRS and generates an A8 Cash Journal voucher. **Key Control 3- To ensure revenue is recognized in the correct period and allocated to the correct program, the cash journal is reviewed and approved by Lorie. (Control Activities)** Heidi will then input the Cash Journal voucher into AFRS and send a copy to the Treasurer's office.

System controls in the case management system (**AWARE**) allow fiscal to manage which grants are being charged against. For example, for grants still open with balances available codes in AWARE will charge expenditures against those open grants. Once the grants have been spent down or closed, fiscal will change the coding in AWARE to the next federal fiscal year grant awarded available and open to draw against. Once a grant period is closed and system controls rolled over to next grant, for any final expenditures to a prior year grant, Lorie will prepare a journal voucher (**JV**) to adjust the year of the expenditures. Because of this, there are times where Lorie will wait until all accounting adjustments are made prior to drawing funds to ensure the draw is complete and accurate even if not timely.

During SFY20 there was no program income received. If program income was received, it would be recorded as contra-expenditure subsequently reducing future revenue, i.e., the next draw.

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Summary of Key Controls:

Key Control 1- To ensure timely draw down and accuracy each pay period, the Deputy Financial Officer, Lorie Christoferson runs the numbers on federal expenditures on the 10 and 25th. (Control Activities)

Key Control 2- Senior Financial Officer will review the Federal Draw Workbook to ensure that all applicable projects were included and that all expenditures were recorded accurately on the federal draw Excel worksheet. (Control Activities)

Key Control 3- To ensure revenue is recognized in the correct period and allocated to the correct program, the cash journal is reviewed and approved by the Deputy Financial Officer. (Control Activities)

Evaluation of Results: We did not identify any control deficiency.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.9.PR.G - 84.126 Rehabilitation Services Vocational Rehabilitation - DSB

Procedure Step: G. Matching - Controls

Prepared By: OB, 1/26/2021

Reviewed By: LSD, 2/13/2021

Purpose/Conclusion.*

Purpose:

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To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Matching requirements are met using only allowable funds or costs which are properly calculated and valued. To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Jeannie Brown, Senior Financial Officer
Lorie Christoferson, Deputy Financial Officer

Conclusion:

We identified one control deficiency. **Control Weakness** - Jeannie responded that DSB does not have any written policies specific to Matching but in its procedures it follows general Rehabilitation Services Administration (**RSA**) guidance, CFR 34.361, WIOA set aside requirements, and Uniform Guidance when it comes to ensuring it meets Matching requirements. We will issue an exit recommendation for not having written policies and procedures, see EI_2020_VR_DSB_Written Policies and Procedures While we did identify one control deficiency, there are still sufficient key controls to conduct testing, therefore we will not increase control risk.

Based on our understanding of internal controls over Matching, we assessed preliminary control risk as **LOW**.

Testing Strategy:

Matching - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the *Inherent and Internal Control Risk Guidance* that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and any available program guidelines to determine the specific requirements over matching.

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Matching or cost sharing includes requirements to provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. The match may be cash or non-cash such as:

1. Most Common Method: For each allowable program expenditure incurred, the entity only requests the federal portion to be reimbursed (for example 80%), and the remaining portion of the expenditure not reimbursed (for example 20%) is considered the entity's match.
2. In-Kind Contributions: When provided by the entity, these are usually non-cash contributions whose value is agreed upon with the grantor, such as infrastructure and other capital assets.
3. Third-Party In-Kind Contributions: Contributions from the public or other governments may be cash or non-cash and can include the value of volunteer services or employees of other agencies, donated supplies, and loaned equipment.
4. Program Income: Program income can be used as matching funds only with prior written approval from the grantor.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

- (a) Matching: the minimum amount of local contributions/matching funds were provided from an allowable source.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must**:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the

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attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." If preliminary control risk is "HIGH" a finding must be issued.

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

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.

Record of Work Done.:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement, and any available program guidelines to determine specific requirements for Matching. Thus, the Compliance Supplement states:

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1. The State share of expenditures made by the State VR Agency under the VR services portion of the Unified or Combined State Plan, including expenditures for the provision of VR services and the administration of the VR services portion of the Unified or Combined State Plan, is 21.3 percent (29 USC 705(14) and 731(a)(1)). The State, not each VR agency, if a State has two VR agencies, must satisfy the match requirement. This means that if a State has two VR agencies and one of those agencies does not provide a match of 21.3 percent, the State could still be in compliance if the other VR agency provided sufficient non-Federal expenditures to make up the difference.
2. The Federal share of expenditures made for the construction of a facility for community rehabilitation program purposes may not be more than 50 percent of the total cost of the project (29 USC 731(a)(3)(A); 34 CFR section 361.60(a)(2)). - ***Not applicable because DSB did not construct any facilities.***
3. Third-party in-kind contributions specified in 2 CFR section 200.96, may not be used to meet the non-Federal share for the VR program (34 CFR section 361.60(b)(2)).

Additionally, as stated in the grant, the State can carry over into the subsequent Federal fiscal year (FFY) any grant funds that remain available at the end of the FFY in which the funds were awarded so long as the State provided the requisite match for those funds by the end of the FFY in which the funds were awarded (year of appropriation).

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the Department's policies and procedures related to matching from Jeannie Brown, Senior Financial Officer. **Control Weakness** - Jeannie responded that DSB does not have any written policies specific to Matching but in its procedures it follows general Rehabilitation Services Administration (**RSA**) guidance, CFR 34.361,

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WIOA set aside requirements, and Uniform Guidance when it comes to ensuring it meets Matching requirements. We will issue an exit recommendation for not having written policies and procedures, see [EI_2020_VR_DSB_Written Policies and Procedures](#) We sent the exit recommendation (see [DSB_Exit_Item_Policies-Procedures](#)) to Jeannie Brown, Senior Financial Officer at DSB, on 2/10/21.

We also requested internal controls from the agency and received the following from Jeannie Brown on August 5, 2020 - see Earmarking/Level of Effort/Matching section at [DSB Response to Key Control Letters received 8.5.20](#)

We met with Jeannie Brown, Senior Financial Officer, and Lorie Christoferson, Deputy Financial Officer, on December 3, 2020 to gain an understanding of controls over matching. During the meeting, we verified with Lorie that no third-party contributions were made or claimed.

To ensure the Department meets its matching requirement, Lorie created spreadsheets for each award and year called the "Expenditure Tracking by Grant". Lorie set it up similar to a checkbook with match requirement amount and enters the monthly monthly expenditures against that amount. There is a balance which shows the match amount remaining to meet at the bottom of the VR tab of the spreadsheet. **(Key Control #1 - Monitoring/Control Activities)** Lorie runs ER Expenditure Flexible report for each month following close. The federal, non-federal and local expenditures are recorded monthly on the expenditure tracking by grant worksheet. A financial analyst, Spenser Killman, runs a project management report after the monthly close to double check the numbers on the expenditure tracking by grant worksheet.

The transfer of funds is processed through the A7-A = journal voucher, which is reviewed and approved by Jeannie. Based on DSB's spending plan, the Department ensures an appropriate amount of non-federal expenditures are recorded and the Department will meet the matching requirement when the grant closes **(Control activities)**.

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Key Controls Identified:

Key Control #1: The Deputy Financial Officer monitors the matching amounts based on the accounting records on a monthly basis and updates the tracking sheet to monitor progress to meet match and level of effort at the end of the year (**Monitoring/Control Activities**).

Evaluation of Results: We identified one control deficiency. **Control Weakness** - Jeannie responded that DSB does not have any written policies specific to Matching but in its procedures it follows general Rehabilitation Services Administration (**RSA**) guidance, CFR 34.361, WIOA set aside requirements, and Uniform Guidance when it comes to ensuring it meets Matching requirements. We will issue an exit recommendation for not having written policies and procedures, see EI 2020 VR DSB Written Policies and Procedures While we did identify one control deficiency, there are still sufficient key controls to conduct testing, therefore we will not increase control risk.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.9.PRG - 84.126 Rehabilitation Services Vocational Rehabilitation - DSB

Procedure Step: G. Level of Effort - Controls

Prepared By: OB, 2/10/2021

Reviewed By: LSD, 2/13/2021

Purpose/Conclusion.*

Purpose:

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To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Level of Effort requirements are met using only allowable funds or costs which are properly calculated and valued. To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Jeannie Brown, Senior Financial Officer
Lorie Christoferson, Deputy Financial Officer

Conclusion:

We identified one control deficiency. **Control Weakness** - Jeannie Brown, Senior Financial Officer, responded DSB did not have any written policies or procedures but in its procedures, DSB follows general Rehabilitation Services Administration (**RSA**) guidance, CFR 34.361, and Uniform Guidance when it comes to ensuring Level of Effort requirements are met. We will issue an exit recommendation for not having written policies and procedures, see [EI 2020 VR DSB Written Policies and Procedures](#) While we did identify one control deficiency, there are still sufficient key controls to conduct testing, therefore we will not increase control risk.

Based on our understanding of internal controls over Level of Effort, we assessed preliminary control risk as **LOW**.

Testing Strategy:

Level of Effort - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the ***Inherent and Internal Control Risk Guidance*** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and any available program guidelines to determine the

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specific requirements over level of effort /supplanting. Be aware that these requirements vary as to when they must be met. For example, level of effort requirements might be based on each fiscal year, the federal fiscal year, the end of the grant period, etc. If you have any question as to how or when the requirement must be met please consult with a SWSA supervisor. Refer to the Policy/Standards tab for examples of Supplanting.

Level of effort includes requirements for:

- a) Maintaining a specified level of service from period to period.
- b) Maintaining a specified level of expenditures from period to period, with emphasis on the funding source used and the activities they relate to.
- c) Using federal funds to supplement, not supplant, services provided through non-federal (state/local) funding. If the requirement relates to supplanting, refer to the policy tab for examples.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

- (a) the specified service level or expenditure levels were maintained (Level of Effort),
- (b) state/local funding (funded services) were not replaced by federal funds (Supplanting, under Level of Effort)

Evaluation of Results: Did you identify any control deficiencies? If yes, you must:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or

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2. The auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Source of Governing Requirements

The requirements for level of effort are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

WHAT IS SUPPLANTING?

The federal government wants the grantee to use its federal funds to supplement (enhance) the existing resources for the program, instead of supplanting (replacing) its local funds with the federal grant. Basically, federal funds should supplement the existing local resources and build upon the current program. The federal funds should not supplant (replace) the existing local/state funds. Below are some examples:

-

For example:

Title I Schools (CFDA 84.010)

It is presumed that supplanting has occurred if a school district used its Title I grant to provide services that it provided with non-Federal funds in the prior year. Example: A teacher's sole function at the district is to provide Title I services (a single cost objective). In years 1 and 2, the teacher's salary was paid from the following sources: 20% Basic Education; 80% Title I. In year 3, the teacher's salary was paid 100% with Title I funds. Supplanting has occurred in year 3 because Title I replaced (supplanted) the non-federal funding that had been used to provide Title I services. However, this is only one teacher and the auditor should evaluate all services of the program taken as a whole to determine the aggregate effect.

Record of Work Done:

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Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance. In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Level of Effort.

- a. The amount otherwise payable to a State for a fiscal year shall be reduced by the amount by which expenditures from non-Federal sources under the VR services portion of the Unified or Combined State Plan for any previous fiscal year are less than the total of such expenditures for the fiscal year 2 years prior to that previous fiscal year. For example, for fiscal year 2018, a State's maintenance of effort level is based on the amount of its expenditures from non-Federal sources for fiscal year 2016 (29 USC 731(a)(2)(B)).
- b. If the VR services portion of the Unified or Combined State Plan provides for the construction of a facility, or the establishment of a facility, for community rehabilitation program purposes, the amount of the State's share of expenditures for a fiscal year for VR services under the Plan must be at least equal to the State's share of those expenditures for the second prior fiscal year; however, non-Federal expenditures incurred for the construction of the facility, or the establishment of a facility, for a community rehabilitation program are not included in the calculation for determining whether a State met its maintenance of effort requirement (29 USC 721(a)(17)(C); 34 CFR section 361.62). - ***Not applicable as DSB has not constructed a facility.***

Level of Effort for Supplement Not Supplant - **Not Applicable.**

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Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested policies and procedures over level of effort from the Department. **Control Weakness** - Jeannie Brown, Senior Financial Officer, responded DSB did not have any written policies or procedures but in its procedures, DSB follows general Rehabilitation Services Administration (**RSA**) guidance, CFR 34.361, and Uniform Guidance when it comes to ensuring Level of Effort requirements are met. We will issue an exit recommendation for not having written policies and procedures, see [EI 2020 VR DSB Written Policies and Procedures](#).

We also requested internal controls from the agency and received the following from Jeannie Brown on August 5, 2020, - see Earmarking/Level of Effort/Matching section at C.9.39 [DSB Response to Key Control Letters received 8.5.20](#)

We met with Jeannie Brown, Senior Financial Officer, and Lorie Christoferson, Deputy Financial Officer, on November 19, 2020 to gain an understanding over internal controls for level of effort. For DSB, level of effort is based on nonfederal spending. The Department uses its state matching funds to satisfy its Level of Effort. The Department must spend all federal funds allocated or it will not meet the Level of Effort requirement. To ensure the level of effort requirement is met the Department must coordinate with the Department of Social and Health Services (**DSHS**) which is the other state agency administering the statewide Vocational Rehabilitation grant. The two Departments have ongoing communication to ensure together that they do not exceed the match requirements on a statewide basis. If DSB overmatches, DSHS under matches or vice versa. **Lorie Christoferson, Deputy Financial Officer maintains an "Expenditure Tracking by Grant" spreadsheet, which includes SSA (Social Security Administration) funding history to track the grant award, and match the requirement** (see the spreadsheet at [Expenditure Tracking by Grant](#)). **(Key Control #1- Monitoring)**

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Summary of Key Controls:

Lorie Christoferson, Deputy Financial Officer maintains an "Expenditure Tracking by Grant" spreadsheet, which includes SSA (Social Security Administration) funding history to track the grant award, and match the requirement. (Control Activities, Monitoring)

Evaluation of Results: We identified one control deficiency. **Control Weakness** - Jeannie Brown, Senior Financial Officer, responded DSB did not have any written policies or procedures but in its procedures, DSB follows general Rehabilitation Services Administration (RSA) guidance, CFR 34.361, and Uniform Guidance when it comes to ensuring Level of Effort requirements are met. We will issue an exit recommendation for not having written policies and procedures, see [EI 2020 VR DSB Written Policies and Procedures](#) While we did identify one control deficiency, there are still sufficient key controls to conduct testing, therefore we will not increase control risk. We sent the exit recommendation (see [DSB Exit Item Polices-Procedures](#)) to Jeannie Brown, Senior Financial Officer at DSB, on 2/10/21.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.9.PRG - 84.126 Rehabilitation Services Vocational Rehabilitation - DSB

Procedure Step: G. Earmarking - Controls

Prepared By: OB, 2/10/2021

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Reviewed By:

LSD, 2/13/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Earmarking requirements are met using only allowable funds or costs which are properly calculated and valued. To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Jeannie Brown, Senior Financial Officer

Lorie Christoferson, Deputy Financial Officer

Conclusion:

We identified one control deficiency. **Control Weakness** - Jeannie responded that DSB does not have any written policies specific to Earmarking but in its procedures it follow general RSA guidance, CFR 34.361, WIOA set aside requirements, and Uniform Guidance when it comes to ensuring they meet Earmarking requirements. We will issue an exit recommendation for not having written policies and procedures, see EI 2020_VR_DSB_Written Policies and Procedures While we did identify one control deficiency, there are still sufficient key controls to conduct testing, therefore we will not increase control risk.

Based on our understanding of internal controls over Earmarking, we assessed preliminary control risk as **LOW**.

Testing Strategy.*

Earmarking - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document

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this analysis in the Record of Work Done.

Step 2: Gather Information

Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and any available program guidelines to determine the specific requirements over earmarking.

Earmarking, a.k.a. set-asides, 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.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure the minimum or maximum limits for specified purposes or types of participants were met (Earmarking).

Evaluation of Results: Did you identify any control deficiencies? If yes, you must:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “**LOW**” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

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Otherwise, assess control risk as "high." If preliminary control risk is "HIGH" a finding must be issued.

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Source of Governing Requirements

The requirements for earmarking are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award, as well as 2 CFR section 200.306 for awards under UG **OR** A-102 Common Rule (§__.204) for pre-UG awards.

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement, and any available

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program guidelines to determine specific requirements for Earmarking.

States must reserve and expend at least 15 percent of their VR allotment under Section 110(a) of the Act for the provision of pre-employment transition services to students with disabilities who are eligible, or potentially eligible, for VR services. State VR agencies may use the reserved funds to cover the costs of all pre-employment transition services activities described in Section 113(b) through (d) of the Act (29 USC 730(d)(1) and 733)).

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the Department's policies and procedures related to earmarking from Jeannie Brown, Senior Financial Officer. **Control Weakness** - Jeannie responded that DSB does not have any written policies specific to Earmarking but in its procedures it follow general RSA guidance, CFR 34.361, WIOA set aside requirements, and Uniform Guidance when it comes to ensuring they meet Earmarking requirements. We will issue an exit recommendation for not having written policies and procedures, see [EI_2020_VR_DSB_Written Policies and Procedures](#). We sent the exit recommendation (see [DSB_Exit_Item_Polices-Procedures](#)) to Jeannie Brown, Senior Financial Officer at DSB, on 2/10/21.

We also requested internal controls from the agency and received the following from Jeannie Brown on August 5, 2020 - see Earmarking/Level of Effort/Matching section at C.9.39 [DSB Response to Key Control Letters received 8.5.20](#)

We met with Jeannie Brown, Senior Financial Officer, and Lorie Christoferson, Deputy Financial Officer, on

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December 7, 2020 to gain an understanding of controls over earmarking.

Earmarking Tracking and Monitoring

Under the Workforce Innovation and Opportunities Act, DSB must reserve at least 15% of its Vocational Rehabilitation (**VR**) allotment for pre-employment transition services (**Pre-ETS**) for participants 24 years old and younger with disabilities. Students must first be determined as eligible for the Pre-ETS services before the expenditures associated with them can be included as part of the earmarking amount. The time a counselor or specialist spends determining a participant's eligibility as well as the direct cost of services to the participant are to be recorded as pre-ETS. Pre-ETS participant's eligibility (and therefore the set aside amount for earmarking) is determined during the intake process.

Once the person is designated as pre-ETS eligible, their expenditures can be planned for use in Earmarking. Each counselor or specialist when working with the participant documents in a case note the amount of direct and indirect time worked with participant and their files.

DSB has set specific accounting and budget codes for Pre-ETS tracking in AWARE and AFRS. When staff make purchases for pre-Ets participants they use those codes. Program specialists enter purchase orders/expenditures in AWARE and those purchases and related expenditures are uploaded to AFRS through the payment process. This is how DSB knows exactly how much Pre-Ets was spent. (**Key Control #1 - Control Activities**) . Staff working directly with Pre-Ets participants charge their time directly to the Pre-Ets accounting and budget codes through the payroll process, they also send Lorie timesheets. DSB is working on replacing timesheets with staff recording their hours directly in AWARE.

Each month, Lorie runs AFRS reports to obtain Pre-ETS expenditures for the month. (**Key Control #2 – Control Activities**) The pre-ETS expenditures are entered each month on the Expenditure Tracking by Grant spreadsheet. (**Key Control #3 - Monitoring**)

Identified Key Internal Controls:

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Key Control #1: DSB staff preplan and designate eligible clients as pre-ETS for Earmarking purposes, then track the amounts based off of AFRS and AWARE reports. **(Control Activities)**.

Key Control #2: The Deputy Financial Officer will run a monthly AFRS report to monitor expenditures **(Monitoring)**.

Key Control #3: The Deputy Financial Officer utilizes a tracking spreadsheet to monitor expenditures to ensure the earmarking funds are spent. **(Monitoring)**

Evaluation of Results: We identified one control deficiency. **Control Weakness** - Jeannie responded that DSB does not have any written policies specific to Earmarking but in its procedures it follow general RSA guidance, CFR 34.361, WIOA set aside requirements, and Uniform Guidance when it comes to ensuring they meet Earmarking requirements. We will issue an exit recommendation for not having written policies and procedures, see El 2020 VR DSB Written Policies and Procedures While we did identify one control deficiency, there are still sufficient key controls to conduct testing, therefore we will not increase control risk.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing to determine if we can place reliance on the controls.

C.9.PRG - 84.126 Rehabilitation Services Vocational Rehabilitation - DSB

Procedure Step: H. Period of Performance - Controls

Prepared By: OB, 2/10/2021

Reviewed By: LSD, 2/13/2021

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Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Federal funds are used only during the authorized period of performance.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Jeannie Brown, Senior Financial Officer

Lorie Christoferson, Deputy Financial Officer

Conclusion:

We identified one control deficiency. **Control Weakness** - Jeannie said that DSB did not have a specific policy for Period of Performance but they do:

- cover internal controls, and compliance with uniform guidance and grants requirements in their general Federal Award Cost policies 107.10
- apply guidance from Rehabilitation Services Administration (RSA) in specific compliance areas such as PoP: <https://www2.ed.gov/about/offices/list/osers/rsa/formula-period-of-performance-faqs.html>.
- maintain system controls to ensure grant expenditures are reported in proper period.

We will issue an exit recommendation for not having written policies and procedures, see EI 2020 VR DSB Written Policies and Procedures While we did identify one control deficiency, there are still sufficient key controls to conduct testing, therefore we will not increase control risk.

Based on our understanding of internal controls over Period of Performance, we assessed preliminary control risk as **LOW**.

Testing Strategy.*

*Review the award documents and regulations pertaining to the program and determine if there are any award-specific requirements related to the period of performance. Document the performance period in the ROWD. If you have come this far and you determine that **NONE OF THE GRANT PERIODS FOR***

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YOUR PROGRAM BEGIN OR END DURING OUR SCOPE, then the only applicable requirement is that the expenditure occurred during the grant period. This can be tested while performing A-B. Activities Allowed/Cost Principles testing. If you choose to test with A-B testing you must ensure you identify at least one key internal control that ensures expenditures are effectively monitored for having occurred during the proper period. You can add documentation to direct the reader to A-B controls and compliance sections as well as any testing spreadsheets.

Period of Performance - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the ***Inherent and Internal Control Risk Guidance*** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

***Note:** All awards have beginning and ending dates, except perhaps for some non-cash equipment/real property awards. The requirement is direct and material if the award began or ended during the audit period.

Review the grant award notice to determine the period that grant funds are available for expenditure (the official starting and ending dates) and whether there are any provisions for carryover that allow the entity to use unspent funds in the following year. All contracts have a period of performance. If the auditor does not see the period in the agreement, refer to CFDA.gov, the grantors' manuals, handbooks, or other documents referenced in the agreement to determine the length of the award. (For example, Federal Transit Authority agreements 20.507 regularly do not provide a timeline. The beginning date is the award date. The end date is set by FTA policy, so is not stated in the contract. On CFDA.gov, it says the "length and time phasing of assistance" is a period of five years following the close of the fiscal year for which funds are apportioned.)

Funds must be obligated during the period of performance (or can be pre-award costs before the period if there is prior written approval by the grantor) and generally liquidated/paid no later than 90 calendar days after the end date of performance.

"Obligations" can vary by grant but in general it means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period (i.e funds have been committed to be spent).

Be aware that treatment of carry-over (unspent) funds by grantors will vary. Some grantors will give the grantee more time to spend the funds, thereby extending the period of performance. On the other hand, some grantors will combine the unspent amount with a new grant award and define a new period of performance.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that*

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material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

- (a) Federal funds are obligated within the period of performance (this may include review of expenditures to determine if they are within the period of the grant, or if the entity is applying for and receiving approval for carryover). *Avoid the use of “knowledge” or generic program oversight as the control. A control is likely performed during the preparation of the reimbursement request.
- (b) Obligations were liquidated within the required time period (generally, this is 90 days, but refer to the program rules).

Examples of control elements: review of expenses submitted for reimbursement to ensure they are within the period, keeping a calendar of period of performance dates; sending messages/reports to departments with performance dates and status updates; reminders to staff about submitting final claims, computer system edits that would reject claims outside of the period of performance, etc.

Evaluation of Results: Did you identify any control deficiencies? If yes, you must:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

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Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

[§200.77 Period of performance. \(definition\)](#)

Period of performance means the time during which the non-Federal entity may incur new obligations to carry out the work authorized under the Federal award. The Federal awarding agency or pass-through entity must include start and end dates of the period of performance in the Federal award (see §§200.210 Information contained in a Federal award paragraph (a)(5) and 200.331 Requirements for pass-through entities, paragraph (a)(1)(iv)).

[§200.71 Obligations. \(definition\)](#)

When used in connection with a non-Federal 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 non-Federal entity during the same or a future period.

[§200.309 Period of performance. \(requirement\)](#)

A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in §200.461 Publication and printing costs) 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.

[§200.343 Closeout.](#)

The Federal awarding agency or pass-through entity will close-out the Federal award when it determines that all applicable administrative actions and all required work of the Federal award have been completed by the non-Federal entity. This section specifies the actions the non-Federal entity and Federal awarding agency or pass-through entity must take to complete this process at the end of the period of performance...

(b) Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal 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...

Definition of obligation: an obligation is not necessarily a liability in accordance with GAAP. When an obligation occurs (is made) depends on the type of property or services that the obligation is for (34 CFR section 76.707 – see for table demonstrating obligations).

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

Record of Work Done.:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.
In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance

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requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement, and any available program guidelines to determine specific requirements for Period of Performance. According to these documents, grant funds are available from October 1 through September 30 for the corresponding federal fiscal year award. Funds remain available for obligation in the succeeding fiscal year as long as the matching requirement for those funds was met during the fiscal year for which the funds were appropriated. DSB spreads their Matching spending through the fiscal year.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

On November 16, 2020, we requested DSB's policies and procedures from Jeannie Brown, Senior Financial Officer. **Control Weakness** - Jeannie said that DSB did not have a specific policy for Period of Performance but they do:

- cover internal controls, and compliance with uniform guidance and grants requirements in their general Federal Award Cost policies 107.10
- apply guidance from Rehabilitation Services Administration (**RSA**) in specific compliance areas such as PoP: <https://www2.ed.gov/about/offices/list/osers/rsa/formula-period-of-performance-faqs.html>.
- maintain system controls to ensure grant expenditures are reported in proper period.

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We will issue an exit recommendation for not having written policies and procedures, see [EI 2020 VR DSB Written Policies and Procedures](#). We sent the exit recommendation (see [DSB Exit Item Polices-Procedures](#)) to Jeannie Brown, Senior Financial Officer at DSB, on 2/10/21.

We also requested internal controls from the agency and received the following - see Period of Performance section at [DSB Response to Key Control Letters received 8.5.20](#)

On November 17, 2020 we met with Jeannie Brown, Senior Financial Officer, and Lorie Christoferson, Deputy Financial Officer to gain an understanding of internal controls the agency has established related to the period of performance. We learned that the Department utilizes unique Project coding for each federal grant award. Coding for the FFY18, FFY19, FFY 20 awards are Projects 1118, 1119, 1120 respectively, and EAI: 920. DSB may also have charges using Projects 2518, 2519, 2520. Coding is updated at the beginning of each fiscal year. This coding is attached to expenditures when services are authorized, and verified by fiscal staff when approving payments once invoices are received. When verifying the coding, staff consider the date of service listed on the invoice to ensure the payment gets put into the appropriate period of availability.

Now, DSB has AWARE system that can drive coding. Lorie can program AWARE to charge current expenditures to the previous FFY. AWARE has system controls in place that no one can charge any expenses to a new grant before October 1. As a result, no one can charge to a wrong period. DSB uses system controls available in AWARE and AFRS to ensure grant expenditures are charged to the appropriate grants and grant periods. Lorie sets up new grants in AWARE and AFRS with unique project codes and with unique begin and end dates that correspond to the period grant funds are available to spend on these grants. The systems purchase and payment workflows include a hard stop when an authorization or payment is requested outside of the begin and end dates for each of the projects/grants. VR staff are directed to contact fiscal when they encounter the hard stop to discuss their requests so fiscal has opportunity to determine what grant and period the expenditure should be charged to.

Object A and B - Salaries and Benefits

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Staff positions are set up in HRMS and coded to VR. **(KC#1-Information and Communication)** Each employee is allocated at the beginning of the fiscal year, where an estimate of the full time amount is performed. Allotments are done by grant at the beginning of the biennium and reviewed monthly. Lorie reviews the payroll journal (that contains list of people that are currently employed at DSB) sent by SAFS and signs it indicating her review and that it is correct. She then sends it back to Department of Enterprise systems **(DES)**. **(KC#2-Control Activities)** By allocating these positions at the start of the year, and reviewing the payroll journals, the Department verifies salaries and benefits are charged within the period of performance.

Lorie also reviews payroll reports that contain all account coding. She reviews them on a monthly basis to make sure DSB charges the right grants.

Object NB - Payments to Providers

Lorie sets up the appropriate coding in the AWARE system for budget and project coding (grant). Lorie reviews the grant coding she set up in both the AWARE and the AFRS system together with Jeannie. Grant information is input into the AWARE system, DSB's case management system. Each grant is characterized by project codes. There are subcategories for Pre-ETS in the AWARE system. When a project is set up in AWARE and AFRS, period beginning and end dates are input as parameters that disallow charges outside of the period. AWARE interfaces and uploads payments to AFRS daily. When a grant period closes, the AFRS system will not allow more expenditures to be charged to the closed grant. If someone creates an expenditure and related payment request in AWARE to a closed grant, the transaction will error out in the AFRS. Fiscal Analysts review the in-process reports on a daily basis and would see the error batch in this report. They would first check with program staff to find more information about the expenditure to determine the correct grant to charge the transaction to and make the coding corrections to the AFRS batch needed to correct the error.

Provider payments are made in AWARE and are based upon the customer's Individualized Plan for Employment **(IPE)**, which is set up after the customer has been determined eligible by the Vocational Rehabilitation Counselor. The VR Counselor, and Rehab Technician assigned to the case, work together to ensure services are delivered in accordance with the IPE. If changes need to be made to the IPE, the Counselor will amend the IPE, because

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AWARE allows payments to occur when they are not on the IPE. The Rehabilitation Technician sends a copy of approved authorization to the vendor. The vendor sends an invoice to the Rehabilitation Technician upon completion of the services to the customer. The Rehabilitation technician submits a payment request in the AWARE system, scans the invoice and uploads the invoice into AWARE (amount, invoice number). Afterwards, fiscal (Spenser, Rachel, or Heidi) reviews and determines if it's accurate and allowable to release the payment to AFRS – **Key Control (Control Activities)**. Payments released for the day are picked up by AFRS. Fiscal staff verify the payments released in AWARE are processed accurately the next day by verifying the invoices against the warrant register.

Each month Lorie runs Expenditure/Revenue (E/R) reports. Lorie inputs the raw data by month into a Spend Plan. Lorie then inputs categorical (pre ets) expenditures in the "Expenditure Tracking by Grant spreadsheet". Each month a Fiscal Analyst 2, Spenser Killman, runs a project management expenditures to date report. This report will be compared to Lorie's tracking spreadsheet.

Fiscal Management (Lorie and Jeannie) review budget versus actual expenditures to identify any unexpected variances. Lorie uses an Internal Spend Plan for that. The plan is focused on budget. Lorie provides monthly expenditures to compare to this budget. If unexpected or anticipated variances or results are identified, Lorie will work with program staff to determine if variances are reasonable and can be explained. Lorie provides the spend plan together with identified variances and explanations of their causes to the Executive team monthly. Special attention is given to the carryover period to ensure proper allocation of grant expenditures based on period of performance. As DSB gets closer to the end of each federal fiscal year they spend more time reviewing the grant spending status to make sure they change the coding in AWARE at the right time to either close the grant or determine the carryover spend timeline. If the agency has met the state match requirement in the first year of the federal grant award, the agency is allowed to carryover any unspent federal grant funds on that award one more year. Any unspent funds as of 9/30/Y1 are allowed to be carried over into and spent during the following federal fiscal year by 9/30/Y2.

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Summary of Key Controls:

Salaries and Benefits

1: DSB allocates positions in HRMS to staff by VR grant at the beginning of the biennium and updates monthly (Control Activities, Information and Communication).

2: DSB ensures payroll charges to the VR grant are accurate and within the period of performance by reviewing the payroll journal sent by SAFS for errors, and signing it to acknowledge it is correct (Control Activities).

Payments to Providers

1. Fiscal staff (Spenser, Rachel, or Heidi) review payments to ensure they are accurate and allowable to release to AFRS and approve the rehab tech's submission of invoice. – **Key Control (Control Activities)**

Evaluation of Results: We identified one control deficiency. **Control Weakness** - Jeannie said that DSB did not have a specific policy for Period of Performance but they do:

- cover internal controls, and compliance with uniform guidance and grants requirements in their general Federal Award Cost policies 107.10
- apply guidance from Rehabilitation Services Administration (RSA) in specific compliance areas such as PoP: <https://www2.ed.gov/about/offices/list/osers/rsa/formula-period-of-performance-faqs.html>.
- maintain system controls to ensure grant expenditures are reported in proper period.

We will issue an exit recommendation for not having written policies and procedures, see EI 2020 VR DSB Written Policies and Procedures While we did identify one control deficiency, there are still sufficient key controls to conduct testing, therefore we will not increase control risk.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing during our audit to determine if we can place reliance on the controls.

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C.9.PR.G - 84.126 Rehabilitation Services Vocational Rehabilitation - DSB

Procedure Step: L. Reporting - Controls
Prepared By: OB, 3/12/2021
Reviewed By: LSD, 3/18/2021

Purpose/Conclusion.*

Purpose:

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

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Lorie Christoferson, Deputy Financial Officer

Jeannie Brown, Senior Financial Officer

SAO IT Contacts

Karen Wilson, IT Systems Audit Manager

Jon Howard, IT Systems Assistant Audit Manager

Angila Hjermstad, IT Auditor

Wonwoo Cho, IT Auditor

Conclusion:

Based on our understanding of internal controls over Reporting, we assessed preliminary control risk as **LOW** for

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the SF-425 Federal Financial Report due on 3/31/2020. We found the agency did not have adequate internal controls to prevent material noncompliance for the SF-425 Federal Financial Report due on 9/30/2019 and RSA 2 due by 12/31/2019. Therefore we assess **preliminary control risk as HIGH and will report a finding for a material weakness.** 2020-031 The Department of Services for the Blind did not have adequate internal controls over reporting requirements for the Vocational Rehabilitation grant.

Testing Strategy:

***Note:** Financial report testing populations should include all reports covering expenditures occurring during the audit period. For quarterly reports this means we must include the report covering the period ending June 30 even though it is filed after the audit period. For performance or other special types of reports the testing population should include the reports covering the audit period unless the period covered in the report extends past the end of the audit period. For example, if a performance report covers the federal fiscal year it would generally be due Dec 31. In this case we would test the report due during our audit period. If you have any questions regarding determining the scope for a particular report please consult the SWSA supervisor or AIC. For reports submitted quarterly or more frequently, use the small sample testing spreadsheet.*

Reporting - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review the following to determine the specific types of reports (financial-related reports or programmatic reports) that must be submitted to the grantor agency:

(1) Part 4 of the Compliance Supplement that applies to your audit period - If a report is included in the Compliance Supplement for the program under audit, it should be audited unless not applicable for other reasons.

(2) Grant agreement/contract - If there are reports mentioned in the grant agreement, not all are required to be audited. Limit reports to those that are mentioned in the Compliance Supplement. If the program is not listed in Part 4 of the Compliance Supplement, review the grant agreement and test those that (1) can result in material noncompliance and/or known questioned costs exceeding \$25,000 (reimbursement requests or other financial reports that determine the amount of funding received), (2) affect a large part of the program (significant dollar amounts), and (3) could cause the granting agency to seek reimbursement for the part award or reduce future awards (as stipulated in the agreement).

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NOTE: The Federal Funding Accountability and Transparency Act (FFATA) report is used to capture and report subaward and executive compensation data for first-tier subawards. Entities are expected to comply with FFATA reporting as applicable, but we are not expected to audit this requirement at this time.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Document all grant award numbers with expenditures during the audit period and the amount expended for each.

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

Financial Reporting - Financial reports include all activity of the reporting period, are supported by appropriate records, and fairly presented;

Performance & Special Reporting - Reports are completed, timely, and include all required elements and those elements are accurate and supported.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must**:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

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Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

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We do not believe there are any inherent risks that increase the risk of material noncompliance. In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

According to the scope of work per the grant agreement, and 2 CFR Part 200 compliance supplement for 2019, Part 4 - Department of Education, Subsection CFDA 84.126 Vocational Rehabilitation, the following applies:

Financial Reporting:

- ***SF-425*** - Federal Financial Report (Due Semi-annually, annually, and final (C.9.22, p.37)) **Auditor Note:** On March 10, 2021 we talked to Arseni Popov, Financial Management Specialist, US Department of Education. He clarified that an agency does not have to submit a semi-annual and an annual report that are due at the same time because they are identical. An agency has to submit just an annual report in this case.
- ***RSA-2*** - Annual Vocational Rehabilitation Program / Cost Report (Due annually by December 31st)

Performance Reporting

- ***RSA-911*** - Case Service Report (Due within 45 days after the end of each quarter)

The RSA-911 is a set of data elements that State VR agencies are required to submit to the US Department of Education (**ED**). The data elements, obtained from State VR agency service records and case management systems, document the application for and/or provision of VR services to individuals with disabilities, including program outcomes and demographic information. There are 7 key line items with critical information required.

Special Reporting

- Not Applicable - No further work is required.

Understanding of Internal Controls

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Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We requested the Department's written policies and procedures on Reporting and received the following from Jeannie Brown, Senior Financial Officer on 7/30/20 and Kelli Anderson on 11/17/20: 107.15 RSA-2 Reporting 107.20 SF-425 Reporting RSA 911 Internal Control Process-DSB RSA 911 Instructions (updated 6-25-20))-DSB

We also requested internal controls from the agency and received the following - see Reporting section on p.2 at C.9.39 DSB Response to Key Control Letters received 8.5.20

There was a finding issued over this area in the 2019 audit, finding 2019-027 (see 2019-027 - Reporting) stating the Department of Services for the Blind did not have adequate internal controls over reporting requirements for the Vocational Rehabilitation Grant. The cause was staff turnover in the fiscal unit that affected the level of oversight over the federal reporting process. We obtained the Corrective Actions Plan (CAP) from the department (see CAP (2019-027) DSB Voc Rehab Reporting Final). In its CAP, the Department stated in response to this audit finding that as of February 2020 it recruited a Senior Financial Officer with an understanding of grant reporting requirements. Working in tandem with the Deputy Financial Officer, a secondary review process was in place. We asked Jeannie Brown, Senior Financial Officer, and Lorie Christoferson, Deputy Financial Officer, regarding the finding and corrective action plans the Department has implemented to address the audit issues. Jeannie confirmed all the corrective actions stated in the Corrective Action Plan.

- On November 17, 2020, we met with Lorie Christoferson, Deputy Financial Officer, to gain an understanding of the SF-425 and RSA-2 Federal Financial Reporting process and of controls that might have improved in response to the the last year's finding.

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SF-425

The SF-425 Federal Financial Report is used to report expenditures under federal awards. Reports are to be completed on a semi-annual basis with period end dates for each fiscal year being 3/31 and 9/30. The reports must be submitted no later than 30 days after the end of the reporting period. The only exception is the final report for a grant award, in which they have 90 days after the period of performance to complete and file the report. The report is prepared by Lorie Christoferson who will compile the needed data from AFRS revenue and expenditure detail reports. **The Deputy Financial Officer, Lorie Christoferson, maintains and uses a standardized Excel worksheet, where each grant is separated by project number, that includes all applicable data elements and necessary formulas in accordance with SF-425 directions (Key Control #1 - Information and Communication).** This allows Lorie to view YTD expenditures, revenues, and their differences each period. **As of February 2020, after the preparation by Lorie, the report is reviewed by Jeannie Brown, Senior Financial Officer (Key Control #2 - Monitoring).** The report is then submitted electronically to the U.S. Department of Education. Jeannie informed us that in March 2020, she did not have access to the RSA system so was unable to sign off on the report in the system. She was only able to review the worksheet, backup, and verify the numbers matched with the report that was submitted. Jeannie added her signature to the Excel worksheet such as it is.

The reports due during the audit period were:

- for the FFY 2020 grant: semi-annual report for period ending 3/31/20
- for the FFY 2019 grant: annual for period ending 9/30/19; semi-annual for period ending 3/31/20
- for FFY 2018 grant: final report for period ending 9/30/19

RSA-2

The RSA-2 Program Cost Report is used to evaluate and monitor the financial performance and achievements of state VR agencies. The report is to be completed on an annual basis and is due by December 31 following the close

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of the federal fiscal year. This reports on all grant awards that are open. The report provides details of program expenditures, number of individuals served, staffing hours, and carryover funds in three Schedules; I - Agency Expenditures, II - Labor Hours, and III - Number of Individuals Served and Purchased Service Expenditures by Service Category. At DSB, this report is compiled and submitted by Lorie Christoferson through the RSA Data Entry System on the RSA Portal on the U.S. Department of Education website. Financial Data for the report is generated from AFRS, staff hours by position type is generated from HRMS, clients served is generated out of AWARE as well as Service Expenditures by Category. **The Deputy Financial Officer, Lorie Christoferson, uses a standardized Excel worksheet that includes all applicable data elements and necessary formulas in accordance with RSA-2 instructions. (Key Control #3 - Control Activities).** As of February 2020, after the preparation by Lorie, the report is reviewed by Jeannie Brown, Senior Financial Officer (Key Control #4 - Monitoring). Jeannie also backs-up reports and documentation to ensure the data in the report is accurate, current and complete. If she has any comments, Lorie has to address them. Otherwise, Jeannie approves the report in G5, and Lorie submits it in the RSA Data Entry System.

The report due during the audit period was December 31, 2019.

RSA-11

On 9/9/2020, we met with Kelli Anderson, Business Systems and Business Process Improvement Manager, DSB, to discuss how the RSA-911 reports are created and reported to the federal government, and any checks the agency performs to check for completeness and accuracy of the report. Kelli informed us DSB uses the AWARE Case Management System. Aware has the ability to generate reports and there is a "generate RSA-911 report" button in Aware. **AWARE has been programmed to generate the RSA-911 report in Federal format through SQL. (Automated Control, Key Control #5). Automated controls are reviewed by Team IT Audit and the review of this automated control can be seen at G11** 1. Identify General IT Controls with SWSA Team.

Summary of Key Controls:

SF-425

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Key Control 1 - The Deputy Financial Officer, Lorie Christoferson, maintains and uses a standardized Excel worksheet, where each grant is separated by project number, that includes all applicable data elements and necessary formulas in accordance with SF-425 directions (Key Control #1 - Information and Communication).

Key Control 2 - The Senior Financial Officer (SFO) is responsible for reviewing and approving the reports. (Key Control #2 - Monitoring)

Secondary review was not performed on two of the four reports due.

RSA-2

Key Control 3 - The Deputy Financial Officer, Lorie Christoferson, uses a standardized Excel worksheet that includes all applicable data elements and necessary formulas in accordance with RSA-2 instructions. (Key Control #3 - Control Activities).

Key Control 4 - The Senior Financial Officer (SFO) is responsible for reviewing and approving the reports. (Key Control #4 - Monitoring)

Secondary review was not performed on this report - therefore we will not rely on or test controls for RSA-2

RSA-11

Key Control 5 - AWARE has been programmed to generate the RSA-911 report in Federal format through SQL. (Key Control # 5 - Automated Control)

Evaluation of Results for SF425: We identified the following control deficiency: Four reports were due during the audit period, September 2019 and March 2020. Secondary review was not conducted for the reports due 30 days after September 2019. 2 out of 4 reports were missing a secondary review - 50 percent exception rate. We determined the corrective action for finding 2019-027 is unresolved. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment [SWSA Major Program](#). The

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likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**. We consider this to be a material weakness, the design of internal controls is not likely to prevent or detect non-compliance and we have determined risk is **HIGH**. See finding at 2020-031 The Department of Services for the Blind did not have adequate internal controls over reporting requirements for the Vocational Rehabilitation grant.

Evaluation of Results for RSA 2: We identified the following control deficiency: One report was due during the audit period, December 2019. Secondary review was not conducted on this report. 1 out of 1 reports was missing a secondary review - 100 percent exception rate. We determined the corrective action for finding 2019-027 is unresolved. We consulted the *Decision Matrix for Single Audit Internal Control deficiencies* located in the SWSA Major Program attachment SWSA Major Program. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**. We consider this to be a material weakness, the design of internal controls is not likely to prevent or detect non-compliance and we have determined risk is **HIGH**. See finding at 2020-031 The Department of Services for the Blind did not have adequate internal controls over reporting requirements for the Vocational Rehabilitation grant.

Preliminary Control Risk Assessment

Step 4

SF-425 Federal Financial Report due on 9/30/2019, the control risk is HIGH - Internal control design is not likely to be effective to prevent or detect non-compliance with grant requirements. We will report a **material weakness** in accordance with 2 CFR §200.516(1). The condition identified stands as a material weakness alone.

SF-425 Federal Financial Report due on 3/31/2020, the control risk is LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

RSA-2 Program Cost Report due by December 31, 2019, the control risk is HIGH - Internal control design is not likely to be effective to prevent or detect non-compliance with grant requirements. We will report a **material**

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weakness in accordance with 2 CFR §200.516(1). The condition identified stands as a material weakness alone.

C.29.PR.G - 64.015 Veterans State Nursing Home Care

Procedure Step: A-B. Activities Allowed/Cost Principles - Controls

Prepared By: KMR, 2/24/2021

Reviewed By: MKH, 3/31/2021

Purpose/Conclusion.

Purpose:

To gain an understanding of the internal controls the agency has in place to provide reasonable assurance that Federal awards are expended only for allowable activities and that expenditures charged to the Federal award are allowable and in accordance with the applicable cost principles.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Glenda Vick, DVA Compliance Officer

Ron Pitre, AP Manager

Conclusion:

Based on our understanding of internal controls over Activities Allowed and Cost Principles, we assessed preliminary control risk as low.

Testing Strategy.

A-B. Activities Allowed/Cost Principles - **Post Uniform Guidance Awards**

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

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Step 2: Gather Information

Review scope of work

Allowable Activities - Determine which activities and types of costs are specifically allowed or unallowed, by reviewing the following:

1. Award agreement or approved application for scope of work, terms and conditions, and approved budget.
2. Part 4 of the Compliance Supplement that applies to your audit period.
3. Available program guidelines or handbooks. (Ex. WSDOT's LAG Manual)
4. If above information is not available, look to the federal regulations (contact the single audit specialist if you need assistance with this).

Requirements for Cost Principles are found as follows:

Pre-UG: OMB Circular A-87

UG: 2 CFR 200, Subpart E.

Please be familiar with these requirements as not all are listed below; only parts emphasized in the Compliance Supplement are listed below.

Quantitatively Material

Identify the expenditure activities that are directly charged to the program and are quantitatively material (more than 5%).

Direct Costs

Payroll Expenditures: When payroll costs are selected for our single audit, our focus is on whether the portion of payroll charged to the program (allocation) is supported by appropriate time and effort and meets the cost principles. Note that awarding agencies may require specific forms of documentation to support payroll charged to its award.

Compensated Absences (leave cash-outs or accrual): The entity may include employees' use of leave (which is included in their regular salary payments). If the entity charges any **leave cash-outs** or the **accrual of leave** to the grant, there are special rules, see extra guidance in the policy tab. There is a high risk the costs are unallowable.

Non-Payroll Expenditures: Generally, auditors should test internal controls and compliance for non-payroll expenditures when those costs are quantitatively material (5%) to the program.

Automated Controls: If you identify key internal controls that are automated, consult with the SWSA Supervisor or SWSA AIC to determine whether to request automated control work from Team IT audit.

Indirect Costs

Determine whether the agency has recovered indirect costs via an indirect cost rate or cost allocation plan and, if so, how much was expended. If indirect costs are material to the program the auditor must test the internal controls (and compliance) over them when those costs are quantitatively material (5%) to the

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program.

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement. These are discussed in the **policy tab** in further detail, for when indirect costs are material to the program.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

Special – Review In-process Proposals: If the entity is preparing an Indirect Cost Rate Proposal during the audit period in order to submit it to the federal cognizant agency, we are required to review the accuracy of the base data and calculations.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

(a) Activities Allowed: grant funds are used only for allowable activities (this may include review of expenditures, program monitoring, preparing the reimbursement requests, establishment of programs);

(b) Cost Principles: direct and indirect costs charged to the grant comply with the cost principles set forth in 2 CFR 200 Subpart E (this may or may not be the same control activity for (a))

(c) Activities Allowed-Indirect Costs: if material (5%), the entity uses the proper indirect cost rate (per approved plan or rate, de minimis only when it is applicable, or another rate established by contract). Controls should also focus on how the entity properly calculates the direct cost base that the indirect rate is applied to. For instance, the controls should ensure that they are using only allowable types of costs in the MTDC or other direct base as applicable, that those costs are not used twice or that they occurred during the contract's period of performance. Note: These controls are likely **different** than those in (a) and possibly (b).

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a

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whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.

2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.7

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Basic Cost Principles (2 CFR 200.402 – 409)

DEFINITIONS

Cost means an amount as determined on a cash, accrual, or other basis of accounting acceptable to the Federal awarding or cognizant agency.

Cost objective means a function, organizational subdivision, contract, grant, or other work unit for which cost data are needed and for which provision is made to accumulate and measure the cost of processes, projects, jobs and capitalized projects.

Direct costs are those that can be identified specifically with a particular final cost objective (i.e., a particular award, project, service, or other direct activity of an organization). Examples of Direct Costs: payroll costs of employees who perform work that is directly related to the grant program; the cost of supplies and materials used for the purpose of the grant; equipment and other approved capital expenditures made for the

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grant; or professional services contracted to accomplish specific grant/contract objectives.

Indirect costs are those costs incurred for a common or institution-wide objective that benefits more than one grant program or project. Such costs are not readily assignable to the cost objective specifically benefited. Examples of Indirect Costs: depreciation and use allowances of non-federal equipment and buildings; facility operation and maintenance (lights, heat, phone, janitorial, grounds, etc);and general administrative expenses such as accounting, payroll, legal and data processing expenses.

GENERAL COST PRINCIPLES AFFECTING ALLOWABILITY OF COSTS (2 CFR 200.403)

- (a) Be **necessary** and **reasonable** for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any **limitations** or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be **consistent** with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) 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.
- (e) 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 this part.
- (f) **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. See also §200.306 Cost sharing or matching paragraph (b).
- (g) Be **adequately documented**. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

What is a Reasonable Cost (§200.404)? (cost principles)

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Other factors that must be considered in determining whether a cost is reasonable are:

whether the cost is generally considered as ordinary and necessary to the operation of the grantee or the performance of the federal award/program;

the restraints or requirements imposed by such factors as sound business practices, arms-length bargaining, federal, state and other laws and regulations, and terms and conditions of other federal awards, or sponsored agreements;

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market prices for comparable goods and services;

whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the grantee, its employees, where applicable its students or membership, the public at large, and the federal government;

whether the grantee significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal awards costs.

EXAMPLES:

1. A grantee is planning to purchase computers and printers with federal funds. The purchasing agent obtained phone quotes from three contractors. One contractor has a direct family relationship with the grantee's purchasing agent. It so happens that this contractor's quote was 20% higher than the other two. The grantee should not contract with this contractor because the price is unreasonable and has a conflict of interest (regardless of the price).

2. A grantee has been permitted in its grant contract to lease a vehicle so that it can travel within its region to deliver grant-related services to clients. The grantee has obtained quotes for a standard 4-door sedan and a luxury 4-wheel drive SUV that is twice the cost of the sedan. Which vehicle should the grantee choose? This is not to say a 4-wheel drive is not necessary or reasonable, but the price may dictate the type or model of vehicle.

What is an Allocable Cost (§200.405)? (cost principles)

A cost is considered allocable if the goods or services involved are chargeable or assignable to the federal award or cost objective (i.e., a specific function, project, sponsored agreement, service, or grant) in accordance with the relative benefits received.

Any cost allocable to a particular federal award may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by federal statutes, regulations, or terms and conditions of federal awards, or for other reasons.

If a grantee intends to recover the portion of its indirect costs (overhead, central administration, etc.) that relates to its grant programs, Uniform Guidance requires the grantee to develop a central service cost allocation plan and/or indirect cost rate proposal. Requirements pertaining to central service cost allocation plans and indirect cost proposals are found in Appendix III-VII to Part 200 (Uniform Guidance).

EXAMPLES:

1. An employee works on two different federal grant projects. The time spent on each project varies from day to day. This employee must keep monthly time and effort records that account for actual time spent on each project. By tracking actual effort, each grant will be charged its fair share of the costs.

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2. A grantee held a training workshop for its employees. Included in the cost of the workshop was room rental, food, and travel. The workshop included a session that was specific to a federal program and a session that covered general personnel and human effectiveness training. The grantee should allocate the cost of the training among all programs/divisions that benefited from the training. Next, it should charge the allocated amount only to those awards that specifically allow for this type of cost.

Applicable Credits (§200.406) (cost principles)

A "credit" means a receipt or reduction in expenditures that offset or reduce direct or indirect cost items. Examples include:

- purchase discounts;
- rebates or allowances;
- recoveries or indemnities on losses;
- insurance refunds or rebates; and
- adjustments of overpayments or erroneous charges.

When such credits are applicable to allowable costs, they must be credited to the federal award either as a cost reduction or a cash refund. In some instances, the amounts received from the federal government to finance a grantee's activities or service operations should be treated as applicable credits.

EXAMPLE:

A grantee paid a contractor for materials it needed for a project. It was determined later that the vendor had over-billed the grantee and was issuing a refund check. This refund should be netted against the total amount charged to the grant as a cost reduction. If the grant project had already been closed out, the refund should be remitted to the grantor agency that sponsored the project. Consult with the grantor agency in such a case.

Prior written approval (§200.407) (cost principles)

Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following sections of this part:

- (a) §200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);
- (b) §200.306 Cost sharing or matching;
- (c) §200.307 Program income;
- (d) §200.308 Revision of budget and program plans;

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- (e) §200.311 Real property;
- (f) §200.313 Equipment;
- (g) §200.332 Fixed amount subawards;
- (h) §200.413 Direct costs, paragraph (c);
- (i) §200.430 Compensation—personal services, paragraph (h);
- (j) §200.431 Compensation—fringe benefits;
- (k) §200.438 Entertainment costs;
- (l) §200.439 Equipment and other capital expenditures;
- (m) §200.440 Exchange rates;
- (n) §200.441 Fines, penalties, damages and other settlements;
- (o) §200.442 Fund raising and investment management costs;
- (p) §200.445 Goods or services for personal use;
- (q) §200.447 Insurance and indemnification;
- (r) §200.454 Memberships, subscriptions, and professional activity costs, paragraph (c);
- (s) §200.455 Organization costs;
- (t) §200.456 Participant support costs;
- (u) §200.458 Pre-award costs;
- (v) §200.462 Rearrangement and reconversion costs;
- (w) §200.467 Selling and marketing costs;
- (x) §200.470 Taxes (including Value Added Tax); and
- (y) §200.474 Travel costs.

Consistency (2 CFR §200.403(d) (cost principles)

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.

EXAMPLE:

A grantee has five departments. It allocates the cost of its basic telephone service to each department based on the number of telephones in each department. Each department should treat the telephone cost consistently for all grants it administers. That is, if a department has 3 grant programs, that department should treat this telephone cost as either a direct cost or indirect cost for all 3 grants, but not a mix of each. Next, if treated as a direct cost, a department should only request reimbursement for this type of cost if permitted under the terms of its grant agreement(s).

Grant Agreement Limitations (§200.408) (cost principles)

To be allowable, the cost being charged must conform to any limitations or exclusions set forth in the terms and conditions of the Federal award,

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or other governing regulations as to types or amounts of cost items.

EXAMPLE:

A grantee paid for a television advertisement to promote its new grant-funded health program. However, the approved grant contract limited the cost of advertising to brochures and radio ads. Therefore, the grantee should not include the cost of the television advertisement in its request for reimbursement even though "advertising" is an otherwise allowable cost according to Circular A-87.

Adequate Supporting Documentation (2 CFR §200.403(g) (cost principles)

Amounts charged to federal awards must be supported by source documentation, including:

- payroll reports
- time and attendance records
- invoice vouchers from subrecipients
- receiving reports
- original vendor invoices
- cost allocation plans

(Documentation may be in an electronic form, but make sure the integrity of the electronic documentation can be maintained for the duration of the applicable record retention period).

EXAMPLE:

A grantee made a year-end adjustment to a federal award using a journal voucher entry. The accounting entry must be supported by adequate documentation that demonstrates both allowability and allocability.

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5

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24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

ADDITIONAL TESTING SELECTION INFO & EXAMPLES

<i>Selection Options</i>		
Method	Process	Next Steps
Sampling	This is the preferred method for large populations (over 365). Use sampling tool from teammate.	Get the sample tool from Teammate. Take the sampling training if needed.
Haphazard Selection	May use for populations less than 365. Auditor haphazardly picks transactions. It feels random but only true "random" samples can be done by the computer in the sampling method.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab)
Judgmental Selection	May use for populations less than 365. The auditor has a specific reason, associated with a risk, to pick certain or certain transactions. Explain risks in the ROWD and how transactions not selected are lower risk.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab). See examples there.
Judgmental Population	First, the auditor has a specific reason, associated with a risk, to pick certain types of transactions (judgmental population). Explain risks in the ROWD and how populations not selected are lower risk (you can refer to the testing strategy if we have done this for you already). Next, the auditor selects transaction from the judgmental population using the sampling method above.	Get sample tool from Teammate. Take training for the form if needed.
All quantitatively material transactions	Use only when a few very large transactions make up the majority of grant activity. You will test all of these material transactions.	Keep in mind: If 10% or more of the population is made up of <i>other</i> types of costs, those transactions should be tested in some way, as well.

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DUAL PURPOSE TESTING EXAMPLE

For allowable costs the key control is, "The Business Manager reviews the reimbursement request, reconciling the items requested to invoices to determine they are supported and allowable." You will test it by reperforming the Business Manager's review to determine if it is effective in preventing and detecting noncompliance. You may check the requests to see if they have the Business Manager's signature of approval but that will only tell you if they consistently do it, which is important. However, you should reperform the control.

To complete compliance testing you are tracing expenditures from the requests to support to determine if they are supported and allowable per the program.

In this case, for testing both controls and compliance you are completing the same process. However, you need to document that you tested both and clearly show the conclusion of each even though they are related. Control testing should conclude whether the control was effective in preventing or detecting noncompliance and compliance testing whether the entity was in compliance.

INDIRECT COST UNDERSTANDING OF RATES/ALLOCATIONS

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

1. Rate Provided by Grantor: The federal grantor or PTE can give the entity an indirect cost rate in the award, usually outlined in the budget section and based on the availability of funding. There is no separate or formal rate agreement and it is not considered negotiated.

2. Use PTE Negotiated Rate: The federal grantor, PTE or federal guidance can require the entity to use PTE's negotiated indirect cost rate. This requirement can be found in the Compliance Supplement and federal pass-through guidance. The PTE will place the rate in their award with the entity. This is common for school districts.

3. De Minimis Indirect Cost Rate: If the entity elects to use the de minimis rate, a flat 10% (of Modified Total Direct Costs), in their grant application, no direct or pass-through grantor can deny its use so long as the entity qualifies.

Restrictions: The entity can use the method so long as they have **never** had a negotiated indirect cost rate or allocation plan approved by the federal cognizant agency **or** the PTE.

UPDATED GUIDANCE: Federal guidance now clarifies that negotiated rates and allocation plans negotiated by **PTEs** can prevent the use of the de minimis rate.

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Consistency: If used, the entity must use the de minimis method for all of their Uniform Guidance federal programs that allow indirect costs.

Rate: Indirect costs are calculated as base costs multiplied by a flat 10% rate that does not require a true-up to actual indirect expenses.

Base Used: The 10% is multiplied by the modified total direct costs (MTDC) base.

<i>MTDC Base</i>	
Includes	Excludes
Direct Salaries & Wages	Equipment & Capital Expenditures
Direct Fringe Benefits	Charges for Patient Care
Materials & Supplies	Participant Support Costs
Services	Rental Costs
Travel	Tuition remission, Scholarships & Fellowships
Up to \$25,000 of <i>each</i> subaward (regardless of the period of performance)	The portion of each subaward in excess of \$25,000

4. Negotiated Rates & Allocation Plans – Cognizant Agency: Only major governments are required to obtain a cognizant agency approved negotiated rate or allocation plan. Smaller governments can opt to do so. The “cognizant agency for indirect costs” is designated as:

For central service cost allocation plans: the federal agency with the largest dollar value of ***total*** federal awards

For indirect cost rates and cost allocation plans: the federal agency with the largest dollar value of ***direct*** federal awards

Once designated, the federal entity remains the cognizant agency for five years. Under this method, the entity will be awarded a formal contract for the rate/allocation. All awarding agencies must accept the rate/allocation plan when the entity elects to use it in their program application.

Various allocation plans can be approved, but there are four types of rates:

1. **Provisional:** The provisional rate is temporary and expires upon the completion of the federal award. It requires a true-up to actual expenditures by the end of the project or whenever the entity obtains a final rate. The rate is adjusted by using the final rate.

2. **Final:** The rate is permanent and is calculated after the actual costs are known (i.e. at the conclusion of the federal project). It is used to adjust the indirect costs from the provisional rate.

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3. **Predetermined:** This is a permanent rate and is calculated using actual costs from previous periods. It does not require a true-up to correspond with actual current year costs. The rate is effective between two to five years.

4. **Fixed:** This is a permanent rate and is calculated using actual costs from previous periods. It requires a true-up to correspond with actual current year costs. The variance between the costs used to create the rate and the actual costs incurred during the year the rate was used is carried-forward as an adjustment to the current rate. The entity will either recover or “pay back” the variance going forward. The rate is effective for two years and then can be annually renewed.

5. Negotiated Rates & Allocation Plans – PTE: Indirect Cost Rate Proposals and Cost Allocation Plans are not required by UG to be submitted to/approved by PTE's, but the PTEs may require it. Usually a formal contract for the rate/allocation is not issued and they just review and/or approve the plan instead. Other pass-through entities are not required accept the rate/allocation plan but they can choose to accept it.

METHODS OF INDIRECT COST RATE CALCULATION

(1) The specific methods for allocating indirect costs and computing indirect cost rates are as follows:

(a) *Simplified Method* – This method is applicable where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect cost to approximately the same degree. The allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures described in 2 CFR part 200, Appendix VII, paragraph C.2.

Multiple Allocation Base Method – This method is applicable where a governmental unit's department or agency has several major functions that benefit from its indirect costs in varying degrees. The allocation of indirect costs may require the accumulation of such costs into separate groupings which are then allocated individually to benefiting functions by means of a base which best measures the relative degree of benefit. (For detailed information, refer to 2 CFR part 200, Appendix VII, paragraph C.3.)

(c) *Special Indirect Cost Rates* – In some instances, a single indirect cost rate for all activities of a department or agency may not be appropriate. Different factors may substantially affect the indirect costs applicable to a particular program or group of programs, e.g., the physical location of the work, the nature of the facilities, or level of administrative support required. (For the requirements for a separate indirect cost rate, refer to 2 CFR part 200, Appendix VII, paragraph C.4.)

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

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Record of Work Done:

Step 1: Inherent Risk of Noncompliance

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at **LOW**.

Step 2: Gather Information

Review scope of work

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine which activities and costs are allowed or unallowed. We identified the following:

Indirect Costs

We spoke with Glenda Vick, DVA Compliance Officer, who explained the Agency receives per diem payments for services provided rather than reimbursement for actual expenditures. The per diem payments are based on a specific rate determined by the Federal DVA, and any indirect costs are imbedded in that rate, therefore the Agency does not have a cost allocation or indirect cost plan.

Material Expenditures

At [Expenditure Reports], we identified the following expenditure activities that are directly charged to the program and are quantitatively material (more than 5%):

- Salaries and Benefits
- Supplies and Materials

Step 3: Understanding of Internal Controls

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We met with Glenda Vick, DVA Compliance Officer, and Ron Pitre, AP Manager, on January 28, 2021 in order to gain an understanding of controls in place over activities allowed.

Salaries and Benefits:

Glenda Vick, DVA Compliance Officer, explained the grant does not reimburse for specific expenditures, and instead pays a per diem based on the number of eligible residents in each nursing home, therefore the state DVA does not track payroll expenditures specific to the grant.

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Glenda further explained the state DVA's budget determines the amount of grant funds to be charged for each employee. The budget is created based on historical grant revenue/census data from the homes. On a biannual basis, the budget office reviews historical revenue and census data from each of the homes, and uses this to determine the expected revenue for the upcoming biennium. The budget office then determines the percent of payroll that will be charged to the grant, and includes this information in the biannual budget which is then reviewed and approved by the Office of Financial Management (OFM). Once the budget office receives the final enacted budget, they create a spreadsheet titled "Funding Splits for the Homes". This spreadsheet details the percentages that will be charged to salaries, benefits, general supplies, travel and equipment based on revenue projections. Glenda explained the HR department then uses this spreadsheet to update the coding tied to employees salaries/benefits.

Ron Pitre, AP Manager, explained employees fill out monthly timesheets, leave slips, and overtime slips (for OT eligible employees), then submit them to their supervisor for review and approval (**Key Control 1 - Control Activities**). Once the timesheet has been approved it is routed to the timekeeper who enters the data into the payroll system. The payroll department then reviews to ensure leave and overtime slips agree to each employee's timesheet. Once payroll confirms leave and overtime slips agree to each employees timesheet, they use HRMS to process the payroll expenditures. Ron explained payroll is ran twice a month, with employees being paid on the 10th and 25th.

Supplies and Materials:

Glenda explained that expenditures related to supplies and materials are coded to the grant in the same way that salaries and benefits are. Rather than coding specific expenditures to the grant, the budget dictates a percentage of supplies and material expenditures to be coded to the grant each biennium. The "Funding Splits for the Homes" spreadsheet details the percentages that will be charged to salaries, benefits, general supplies, travel and equipment based on revenue projections. Glenda explained the HR department then uses this spreadsheet to update the coding tied to supplies and materials.

Ron explained when an employee would like to make a purchase, the process is initiated by creating an O32 (request for purchase). The O32 states the name of the vendor the purchase is to be made from, the name of the requestor, as well as the name of the item to be purchased and the price of the item. It also lists the coding/account to be used to make the purchase. The O32 is reviewed and approved by the employee's supervisor to ensure the purchase is allowable, then brought to the purchaser (**Key Control 2 - Control Activities**). Ron explained each home has a designated purchaser. Once the item is received, an employee in the department must sign the invoice stating the item was received and send it to the Accounts Payable office. The Accounts Payable office matches the O32 to the invoice from the vendor, then makes the payment.

Key Controls Identified:

Key Control 1: The budget office determines the percent of payroll that will be charged to the grant based on historical census/revenue data, and includes this information in the biannual budget. Supervisors review and approve timesheets to ensure all time charged to the grant is accurate and allowable. (Control Activities)

Key Control 2: The budget office determines the percent of payroll that will be charged to the grant based on historical census/revenue data, and includes this information in the biannual budget. HR approves exempt employees pay, documented in their personnel action form to ensure all time charged to the grant is accurate and allowable. (Control Activities)

Key Control 3: The budget office determines the percent of supplies and materials that will be charged to the grant based on historical census/revenue data, and includes this information in the biannual budget. Supervisors review and approve all purchase requests (O32's) to ensure they are reasonable and allowable. (Control Activities)

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Evaluation of Results: We **did not** identify any control deficiencies.

Step 4: Preliminary Control Risk Assessment

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.29.PR.G - 64.015 Veterans State Nursing Home Care

Procedure Step: C. Cash Management - Controls

Prepared By: KMR, 1/7/2021

Reviewed By: MKH, 1/29/2021

Purpose/Conclusion.:

Purpose:

To gain an understanding of the internal controls the agency has established over Cash Management.

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Glenda Vick, Compliance Officer

Ron Pitre, Accounts Payable Manager

Mary De Jesus, Fiscal Analyst

Conclusion:

Based on our understanding of internal controls over Cash Management, we assessed preliminary control risk as low.

Testing Strategy.:

Reminder: Cash management is always direct and material whether the entity operates on a reimbursement or cash advance basis. (The only exception is for a

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non-cash award, e.g. federal equipment, real property, supplies or commodities received.)

Note: Entities may receive awards funded on a reimbursement basis, as well as awards funded through advance payments. For such entities, the auditor should plan the audit to address the objectives of both payment methods, i.e., the auditor should include audit procedures to separately assess and test internal control and compliance for the reimbursement and advance payment methods.

Cash Management - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the ***Inherent and Internal Control Risk Guidance*** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

CMIA Agreement

- (a) Determine whether the program is subject to the CMIA (Cash Management Improvement Act) agreement made between the U.S. Treasury and OFM (see attached pdf file in planning at **B.1.14**). This will typically only apply to larger programs over \$20 million.
- (b) If the program is subject to the OFM/Treasury CMIA agreement, obtain an understanding of funding technique prescribed for the program. Review Part 4 of Compliance Supplement for any program-specific requirements.
- (c) If the program is not subject to the CMIA, review Part 4 of Compliance Supplement for any program-specific requirements.

Awards to Subrecipients

Determine whether the agency made any awards to subrecipients.

Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and/or program regulations to determine the method of payment for the federal program (i.e., cash advance or cost reimbursement). If a grantee states that it is paid on a "cost reimbursement" basis, determine whether the grantee is permitted to request its funding from the grantor before it actually disburses its own cash to pay project/program costs.

Information for all other awards (generally):

A. CASH ADVANCE – Some programs allow the grantee to draw down funding before program expenses are incurred or paid. The requests the auditee submits to their grantor should identify it as an advance request. The entity must:

- (1) Create and maintain written policies that address how it will comply with the cash advance requirements (UG only). The auditor does not need to determine whether the written procedures are sufficient. Sufficiency is up to the interpretation of the grantee unless the awarding agency has provided guidance.
- (2) Disburses the grant funding as soon as possible after it is received;

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(3) Limits its cash advance requests to its immediate needs; and

(4) Tracks interest earned from cash advances. They must remit interest earned over \$100 for Pre-UG and over \$500 for UG.

B. COST REIMBURSEMENT – This occurs when the grantee incurs costs before the federal funds are received. Either situation could occur (even for the same program, transaction by transaction):

1. Costs are incurred but **not** paid before federal funds are received (like a cash advance): This pertains to those contracts or program regulations that **do not specifically require** the grantee to disburse its own funds before it requests reimbursement. For example, if a grantee incurs an expense (e.g., ordering supplies and receiving a vendor invoice), but does not disburse any of its own funds (paying the invoice) until after it submits a request to the grantor and receives its federal funding, the grantee is essentially receiving a cash advance. Thus, the grantee could potentially be maintaining an excess cash balance and earning interest. The same could be applied if the entity collects an improper payment or later receives a rebate, discount, refund on returned items, etc. that they keep – as an advance – rather than returning the funds to the grantor if the cost had already been reimbursed.

NOTE: The awarding agency may have regulations and/or guidance in these cases as to the specific amount of time the entity has from receipt of the funds to disburse the funds. For example, OSPI requires 3 days from receipt of funds to disburse. If the awarding agency does not have guidance on this, use auditor judgement to determine if the amount of time between receipt of funds and disbursement is reasonable and consistent with the entities disbursement policies and procedures.

2. Costs are incurred **and** paid before federal funds are received: This is a true cost reimbursement. The focus of the auditor’s review is that the entity has controls to ensure they maintain a cost reimbursement basis – only requesting transactions that have been paid – and are in compliance with the requirement. The audit objective from the Compliance Supplement is, “For grants and cooperative agreements to non-Federal entities that are paid on a reimbursement basis, supporting documentation shows that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request.”

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

(a) CMIA programs - Identify and document the key internal controls used by the agency to comply with the CMIA funding technique to (1) ensure cash advances are limited to its immediate cash needs, (2) minimize the time elapsing between receiving the funds and expending the funds, and (3) assure that subrecipients are minimizing the time elapsing between receipt of the funds and expenditure of the funds.

(b) non-CMIA programs - Identify and document the key internal controls used by the auditee to (1) ensure cash advances are limited to its immediate cash needs, (2) minimize the time elapsing between receiving the funds and expending the funds, and (3) assure that subrecipients are minimizing the time elapsing

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between receipt of the funds and expenditure of the funds.

Gain an understanding of the grantee's internal controls and identify the key controls over its requests for federal funding as follows.

Cash Advances - our focus is on the controls that ensure:

- (1) The grantee established written procedures to minimize the time between receipt and disbursement of funds and ensures those procedures are up-to-date with federal requirements in subsequent years.
- (2) the grantee is disbursing the funding as soon as possible after it is received,
- (3) the grantee is limiting its cash advance requests to its immediate needs
- (4) the grantee is tracking interest earned from cash advances and remitting any interest over \$500 back to the grantor.

Cost Reimbursement (incurred but not paid before reimbursed)

- (1) the grantee is disbursing the funding as soon as possible after it is received,
- (2) the grantee is limiting its cash advance requests to its immediate needs
- (3) the grantee is tracking interest earned from cash advances and remitting any interest over \$500 back to the grantor.

Cost Reimbursement (incurred and paid before reimbursed – true reimbursement)

- (1) the grantee ensures it only requests costs that have been paid.

For example, the person responsible for creating the reimbursement request includes only costs paid based upon their tracking spreadsheet, because they generate a report for only costs that have been paid, or generates detailed transaction reports and includes items based on the date paid.

***Note:** If the auditee usually maintains a true cost reimbursement but has some transactions (occasionally or as special situations) that are incurred but not paid before reimbursement, the controls of each should be addressed.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “**LOW**” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

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(Deficiencies Identified: Use the decision matrix in the “Major Federal Program” spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).)

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

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Record of Work Done:

Step 1: Inherent Risk of Noncompliance

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at **LOW**.

Step 2: Gather Information

We determined the program is subject to the OFM/Treasury CMIA agreement noting the Agency must submit reimbursement requests on a monthly basis.

Awards to Subrecipients

We determined the agency **did not** make any awards to subrecipients.

Step 3: Understanding of Internal Controls

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We met with Glenda Vick, Compliance Officer; Ron Pitre, Accounts Payable Manager; and Mary De Jesus, Fiscal Analyst, on December 28, 2020 to gain an understanding of controls in place over cash management.

Glenda explained the Federal DVA provides financial assistance to States furnishing nursing home care to eligible veterans in State Veterans' Homes which meet the standards prescribed by the Secretary of Veterans Affairs. Once a State Veterans' home has met the standards prescribed by the Secretary of Veterans Affairs, and is recognized by the Federal DVA, they are eligible to claim grant funds.

The process begins when a new veteran wishes to enter an eligible home. At the time of admission, the State DVA performs a preliminary assessment, which includes ensuring a physician sees the veteran within 24 hours of admission. The physician makes determinations regarding whether or not the veteran has a service related disability. Once this determination is performed, the State DVA fills out the VA Form 10-10SH. This form details the veteran's contact information, health history, and a current health physical evaluation. Glenda explained the State DVA provides this document to the Federal DVA within 10 days of the new admission. The Federal DVA uses the VA form 10-10SH to determine whether the individual is eligible for services and whether they will provide either basic or enhanced per diem for the care of the individual based on 38 CFR 51. Glenda explained all eligible vets receive the basic per diem rate, unless a vet is 70% service related disabled, or has a service related disability which requires care regardless of percentage, in which case they will receive the enhanced per diem rate. Once the determination is made, the information is sent to the State DVA.

Glenda explained the nursing home is reimbursed based on a daily census of "heads in the beds" at midnight. Each nursing home maintains a daily spreadsheet, called the ETT, which tracks the amount of vets in each home at midnight of each day. The ETT maintains separate columns for basic and enhanced patients as

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well as civilians, and also tracks new vets or vets that have been released. At the end of the month, the Health Information Manager/Medical Records for each home fills out the census portion of the VA10-55-88 State Home Report and Statement of Federal Aid Claimed form based on the information compiled in the ETT spreadsheet. This document, as well as the supporting documentation, is then sent to Mary De Jesus, Fiscal Analyst, at the State DVA Headquarters.

Mary receives the reviewed ETT Spreadsheet from the homes each month. She compares the amount and types of patients reported within the ETT spreadsheet to the Point Click Care System (patient care system) to ensure the amounts reconcile. She then completes the second portion of the VA10-5588 report, which is the rate calculation and fund portion. The report has the areas of basic care, domiciliary care, enhanced care, which are part of the calculation. Basic and domiciliary care are flat rates from the Federal VA.

Mary then sends the VA10-5588 document to the home administrators at the respective nursing homes who review and approve the document as evidenced by their signature (**Control Activities, Information and Communication**). The 10-55-88 document then goes to the Fed VA Rep (or liaison) who reviews the documents to ensure they are accurate and that a 10-10-SH report was submitted within 10 days of admission for all new residents within the 10-55-88 (**Control Activities - Information and Communication**).

The Federal DVA Representative then signs off on the VA10-5588, and returns the form to Mary. Mary submits the VA10-5588 to the Federal DVA via the Tungsten secure file transfer system.

The State DVA then receives an invoice from the Federal DVA. Mary sends the invoice to each of the nursing homes for review and to keep for their records. The State DVA typically receives payment within 7 days. Once payment is received, Mary checks to ensure the payment received matches the amount they anticipated.

Key Controls Identified:

Key Control #1: The VA10-5588 is approved (as evidenced by signature) by the home administrator after it has been reviewed and compiled by home fiscal staff and headquarters fiscal staff. (Control Activities, Information and Communication)

Key Control #2: Fiscal staff communicate with the federal grantor monthly regarding information on the VA10-5588 report and get approval by the Federal agency prior to submitting the report. (Control Activities, Information and Communication)

Key Control #3: Mary De Jesus, Fiscal Analyst, performs a monthly reconciliation to ensure the State DVA submits reimbursement requests on a monthly basis as required by the CMIA agreement. (Control Activities)

Evaluation of Results: We **did not** identify any control deficiencies.

Step 4: Preliminary Control Risk Assessment

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

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C.29.PRG - 64.015 Veterans State Nursing Home Care

Procedure Step: L. Reporting - Controls

Prepared By: KMR, 1/29/2021

Reviewed By: MKH, 4/1/2021

Purpose/Conclusion:

Purpose:

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

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

- Glenda Vick, Compliance Officer
- Ron Pitre, Accounts Payable Manager
- Mary De Jesus, Fiscal Analyst

Conclusion:

Based on our understanding of internal controls over Reporting, we assessed preliminary control risk as low.

Testing Strategy:

Note: Financial report testing populations should include all reports covering expenditures occurring during the audit period. For quarterly reports this means we must include the report covering the period ending June 30 even though it is filed after the audit period. For performance or other special types of reports the testing population should include the reports covering the audit period unless the period covered in the report extends past the end of the audit period. For example, if a performance report covers the federal fiscal year it would generally be due Dec 31. In this case we would test the report due during our audit period. If you have any questions regarding determining the scope for a particular report please consult the SWSA supervisor or AIC. For reports submitted quarterly or more frequently, use the small sample testing spreadsheet.

Reporting - Post Uniform Guidance Awards

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Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the *Inherent and Internal Control Risk Guidance* that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review the following to determine the specific types of reports (financial-related reports or programmatic reports) that must be submitted to the grantor agency:

(1) Part 4 of the Compliance Supplement that applies to your audit period - If a report is included in the Compliance Supplement for the program under audit, it should be audited unless not applicable for other reasons.

(2) Grant agreement/contract - If there are reports mentioned in the grant agreement, not all are required to be audited. Limit reports to those that are mentioned in the Compliance Supplement. If the program is not listed in Part 4 of the Compliance Supplement, review the grant agreement and test those that (1) can result in material noncompliance and/or known questioned costs exceeding \$25,000 (reimbursement requests or other financial reports that determine the amount of funding received), (2) affect a large part of the program (significant dollar amounts), and (3) could cause the granting agency to seek reimbursement for the part award or reduce future awards (as stipulated in the agreement).

NOTE: The Federal Funding Accountability and Transparency Act (FFATA) report is used to capture and report subaward and executive compensation data for first-tier subawards. Entities are expected to comply with FFATA reporting as applicable, but we are not expected to audit this requirement at this time.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Document all grant award numbers with expenditures during the audit period and the amount expended for each.

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

Financial Reporting - Financial reports include all activity of the reporting period, are supported by appropriate records, and fairly presented;

Performance & Special Reporting - Reports are completed, timely, and include all required elements and those elements are accurate and supported.

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Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “**LOW**” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

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<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
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52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

Record of Work Done:

Step 1: Inherent Risk of Noncompliance

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at **LOW**.

Step 2: Gather Information

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Reporting.

Step 3: Understanding of Internal Controls

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We met with Glenda Vick, Compliance Officer; Ron Pitre, Accounts Payable Manager; and Mary De Jesus, Fiscal Analyst, on December 28, 2020 to gain an understanding of controls in place over cash management.

Glenda explained the Federal DVA provides financial assistance to States furnishing nursing home care to eligible veterans in State Veterans' Homes which meet the standards prescribed by the Secretary of Veterans Affairs. Once a State Veterans' home has met the standards prescribed by the Secretary of Veterans Affairs, and is recognized by the Federal DVA, they are eligible to claim grant funds.

The process begins when a new veteran wishes to enter an eligible home. See policy and procedure regarding admission here [\[Admission Policy And](#)

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Procedures]. At the time of admission, the State DVA performs a preliminary assessment, which includes ensuring a physician sees the veteran within 24 hours of admission. The physician makes determinations regarding whether or not the veteran has a service related disability. Once this determination is performed, the State DVA fills out the VA Form 10-10SH. This form details the veteran's contact information, health history, and a current health physical evaluation. Glenda explained the State DVA provides this document to the Federal DVA within 10 days of the new admission. The Federal DVA uses the VA form 10-10SH to determine whether the individual is eligible for services and whether they will provide either basic or enhanced per diem for the care of the individual based on 38 CFR 51. Glenda explained all eligible vets receive the basic per diem rate, unless a vet is 70% service related disabled, or has a service related disability which requires care regardless of percentage, in which case they will receive the enhanced per diem rate. Once the determination is made, the information is sent to the State DVA.

Glenda explained the nursing home is reimbursed based on a daily census of "heads in the beds" at midnight. Each nursing home maintains a daily spreadsheet, called the ETT, which tracks the amount of vets in each home at midnight of each day. The ETT maintains separate columns for basic and enhanced patients as well as civilians, and also tracks new vets or vets that have been released. At the end of the month, the Health Information Manager/Medical Records for each home reconciles the patients reported in the ETT spreadsheet to those reported within the Click Point Care System. This document, as well as the supporting documentation, is then sent to Mary De Jesus, Fiscal Analyst, at the State DVA Headquarters.

Mary receives the reviewed ETT Spreadsheet from the homes each month. She compares the bed count and types of patients reported within the ETT spreadsheet to the Point Click Care System (patient care system) to ensure the amounts reconcile (**Key Control 1 - Control Activities, Information and Communication**). She then completes the second portion of the VA10-5588 report, which is the rate calculation and fund portion. The report has the areas of basic care, domiciliary care, enhanced care, which are part of the calculation. Basic and domiciliary care are flat rates from the Federal VA.

Mary then sends the VA10-5588 document to the home administrators at the respective nursing homes who review and approve the document as evidenced by their signature (**Key Control 2 - Control Activities, Information and Communication**). The 10-55-88 document then goes to the Fed VA Rep (or liaison) who reviews the documents to ensure they are accurate and that a 10-10-SH report was submitted within 10 days of admission for all new residents within the 10-55-88 (**Key Control 3 - Control Activities**).

The Federal DVA Representative then signs off on the VA10-5588, and returns the form to Mary. Mary submits the VA10-5588 to the Federal DVA via the Tungsten secure file transfer system.

The State DVA then receives an invoice from the Federal DVA. Mary sends the invoice to each of the nursing homes for review and to keep for their records. The State DVA typically receives payment within 7 days. Once payment is received, Mary checks to ensure the payment received matches the amount they anticipated.

Key Controls Identified:

Key Control #1: Fiscal staff perform a reconciliation between the bed count information submitted in the census tracking spreadsheet, census reported in the Point Click Care System, and the census numbers reported on the VA10-5588 report to ensure census information is complete and accurate. (Control Activities, Information and Communication).

Key Control #2: Home administrators review the VA10-5588 report to ensure accuracy and completeness of data and information included in the report, then sign indicating their approval. (Control Activities, Information and Communication).

Key Control #3: The Department works with the Federal VA who reviews the reports and all supporting documentation to ensure it addresses any concerns and discrepancies.(Control Activities).

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Evaluation of Results: We **did not** identify any control deficiencies.

Step 4: Preliminary Control Risk Assessment

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.32.PRG - 10.565/568/569 Food Distribution Cluster

Procedure Step: A-B. Activities Allowed/Cost Principles - Controls

Prepared By: AWW, 3/26/2021

Reviewed By: LSD, 4/22/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has in place to provide reasonable assurance that Federal awards are expended only for allowable activities and that expenditures charged to the Federal award are allowable and in accordance with the applicable cost principles.

To provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Gene Emmans - CFO

Kim Eads - FAP Program Manager

Lisa White - FAP Management Analyst

Natasha Roberts - Budget Manager

Dustin Goodman - Financial Services Federal Grant Manager

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Bill Pattison - Accounts Payable Manager

Conclusion:

Based on our understanding of Activities Allowed / Cost Principles, we assessed preliminary control risk as low.

Testing Strategy:

A-B. Activities Allowed/Cost Principles - **Post Uniform Guidance Awards**

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review scope of work

Allowable Activities - Determine which activities and types of costs are specifically allowed or unallowed, by reviewing the following:

1. Award agreement or approved application for scope of work, terms and conditions, and approved budget.
2. Part 4 of the Compliance Supplement that applies to your audit period.
3. Available program guidelines or handbooks. (Ex. WSDOT's LAG Manual)
4. If above information is not available, look to the federal regulations (contact the single audit specialist if you need assistance with this).

Requirements for Cost Principles are found as follows:

Pre-UG: OMB Circular A-87

UG: 2 CFR 200, Subpart E.

Please be familiar with these requirements as not all are listed below; only parts emphasized in the Compliance Supplement are listed below.

Quantitatively Material

Identify the expenditure activities that are directly charged to the program and are quantitatively material (more than 5%).

Direct Costs

Payroll Expenditures: When payroll costs are selected for our single audit, our focus is on whether the portion of payroll charged to the program (allocation) is

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supported by appropriate time and effort and meets the cost principles. Note that awarding agencies may require specific forms of documentation to support payroll charged to its award.

Compensated Absences (leave cash-outs or accrual): The entity may include employees' use of leave (which is included in their regular salary payments). If the entity charges any **leave cash-outs** or the **accrual of leave** to the grant, there are special rules, see extra guidance in the policy tab. There is a high risk the costs are unallowable.

Non-Payroll Expenditures: Generally, auditors should test internal controls and compliance for non-payroll expenditures when those costs are quantitatively material (5%) to the program.

Automated Controls: If you identify key internal controls that are automated, consult with the SWSA Supervisor or SWSA AIC to determine whether to request automated control work from Team IT audit.

Indirect Costs

Determine whether the agency has recovered indirect costs via an indirect cost rate or cost allocation plan and, if so, how much was expended. If indirect costs are material to the program the auditor must test the internal controls (and compliance) over them when those costs are quantitatively material (5%) to the program.

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement. These are discussed in the **policy tab** in further detail, for when indirect costs are material to the program.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

Special – Review In-process Proposals: If the entity is preparing an Indirect Cost Rate Proposal during the audit period in order to submit it to the federal cognizant agency, we are required to review the accuracy of the base data and calculations.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

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Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

(a) Activities Allowed: grant funds are used only for allowable activities (this may include review of expenditures, program monitoring, preparing the reimbursement requests, establishment of programs);

(b) Cost Principles: direct and indirect costs charged to the grant comply with the cost principles set forth in 2 CFR 200 Subpart E (this may or may not be the same control activity for (a))

(c) Activities Allowed-Indirect Costs: if material (5%), the entity uses the proper indirect cost rate (per approved plan or rate, de minimis only when it is applicable, or another rate established by contract). Controls should also focus on how the entity properly calculates the direct cost base that the indirect rate is applied to. For instance, the controls should ensure that they are using only allowable types of costs in the MTDC or other direct base as applicable, that those costs are not used twice or that they occurred during the contract's period of performance. Note: These controls are likely **different** than those in (a) and possibly (b).

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must**:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

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Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Basic Cost Principles (2 CFR 200.402 – 409)

DEFINITIONS

Cost means an amount as determined on a cash, accrual, or other basis of accounting acceptable to the Federal awarding or cognizant agency.

Cost objective means a function, organizational subdivision, contract, grant, or other work unit for which cost data are needed and for which provision is made to accumulate and measure the cost of processes, projects, jobs and capitalized projects.

Direct costs are those that can be identified specifically with a particular final cost objective (i.e., a particular award, project, service, or other direct activity of an organization). Examples of Direct Costs: payroll costs of employees who perform work that is directly related to the grant program; the cost of supplies and materials used for the purpose of the grant; equipment and other approved capital expenditures made for the grant; or professional services contracted to accomplish specific grant/contract objectives.

Indirect costs are those costs incurred for a common or institution-wide objective that benefits more than one grant program or project. Such costs are not readily assignable to the cost objective specifically benefited. Examples of Indirect Costs: depreciation and use allowances of non-federal equipment and buildings; facility operation and maintenance (lights, heat, phone, janitorial, grounds, etc); and general administrative expenses such as accounting, payroll, legal and data processing expenses.

GENERAL COST PRINCIPLES AFFECTING ALLOWABILITY OF COSTS (2 CFR 200.403)

- (a) Be **necessary** and **reasonable** for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any **limitations** or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be **consistent** with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) 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.
- (e) 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 this part.

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(f) **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. See also §200.306 Cost sharing or matching paragraph (b).

(g) Be **adequately documented**. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

What is a Reasonable Cost (§200.404)? (cost principles)

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Other factors that must be considered in determining whether a cost is reasonable are:

whether the cost is generally considered as ordinary and necessary to the operation of the grantee or the performance of the federal award/program;

the restraints or requirements imposed by such factors as sound business practices, arms-length bargaining, federal, state and other laws and regulations, and terms and conditions of other federal awards, or sponsored agreements;

market prices for comparable goods and services;

whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the grantee, its employees, where applicable its students or membership, the public at large, and the federal government;

whether the grantee significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal awards costs.

EXAMPLES:

1. A grantee is planning to purchase computers and printers with federal funds. The purchasing agent obtained phone quotes from three contractors. One contractor has a direct family relationship with the grantee's purchasing agent. It so happens that this contractor's quote was 20% higher than the other two. The grantee should not contract with this contractor because the price is unreasonable and has a conflict of interest (regardless of the price).

2. A grantee has been permitted in its grant contract to lease a vehicle so that it can travel within its region to deliver grant-related services to clients. The grantee has obtained quotes for a standard 4-door sedan and a luxury 4-wheel drive SUV that is twice the cost of the sedan. Which vehicle should the grantee choose? This is not to say a 4-wheel drive is not necessary or reasonable, but the price may dictate the type or model.

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of vehicle.

What is an Allocable Cost (§200.405)? (cost principles)

A cost is considered allocable if the goods or services involved are chargeable or assignable to the federal award or cost objective (i.e., a specific function, project, sponsored agreement, service, or grant) in accordance with the relative benefits received.

Any cost allocable to a particular federal award may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by federal statutes, regulations, or terms and conditions of federal awards, or for other reasons.

If a grantee intends to recover the portion of its indirect costs (overhead, central administration, etc.) that relates to its grant programs, Uniform Guidance requires the grantee to develop a central service cost allocation plan and/or indirect cost rate proposal. Requirements pertaining to central service cost allocation plans and indirect cost proposals are found in Appendix III-VII to Part 200 (Uniform Guidance).

EXAMPLES:

1. An employee works on two different federal grant projects. The time spent on each project varies from day to day. This employee must keep monthly time and effort records that account for actual time spent on each project. By tracking actual effort, each grant will be charged its fair share of the costs.
2. A grantee held a training workshop for its employees. Included in the cost of the workshop was room rental, food, and travel. The workshop included a session that was specific to a federal program and a session that covered general personnel and human effectiveness training. The grantee should allocate the cost of the training among all programs/divisions that benefited from the training. Next, it should charge the allocated amount only to those awards that specifically allow for this type of cost.

Applicable Credits (§200.406) (cost principles)

A "credit" means a receipt or reduction in expenditures that offset or reduce direct or indirect cost items. Examples include:

- purchase discounts;
- rebates or allowances;
- recoveries or indemnities on losses;
- insurance refunds or rebates; and
- adjustments of overpayments or erroneous charges.

When such credits are applicable to allowable costs, they must be credited to the federal award either as a cost reduction or a cash refund. In some instances, the amounts received from the federal government to finance a grantee's activities or service operations should be treated as applicable credits.

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EXAMPLE:

A grantee paid a contractor for materials it needed for a project. It was determined later that the vendor had over-billed the grantee and was issuing a refund check. This refund should be netted against the total amount charged to the grant as a cost reduction. If the grant project had already been closed out, the refund should be remitted to the grantor agency that sponsored the project. Consult with the grantor agency in such a case.

Prior written approval (§200.407) (cost principles)

Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following sections of this part:

- (a) §200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);
- (b) §200.306 Cost sharing or matching;
- (c) §200.307 Program income;
- (d) §200.308 Revision of budget and program plans;
- (e) §200.311 Real property;
- (f) §200.313 Equipment;
- (g) §200.332 Fixed amount subawards;
- (h) §200.413 Direct costs, paragraph (c);
- (i) §200.430 Compensation—personal services, paragraph (h);
- (j) §200.431 Compensation—fringe benefits;
- (k) §200.438 Entertainment costs;
- (l) §200.439 Equipment and other capital expenditures;
- (m) §200.440 Exchange rates;
- (n) §200.441 Fines, penalties, damages and other settlements;
- (o) §200.442 Fund raising and investment management costs;
- (p) §200.445 Goods or services for personal use;
- (q) §200.447 Insurance and indemnification;
- (r) §200.454 Memberships, subscriptions, and professional activity costs, paragraph (c);
- (s) §200.455 Organization costs;
- (t) §200.456 Participant support costs;
- (u) §200.458 Pre-award costs;
- (v) §200.462 Rearrangement and reconversion costs;

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- (w) §200.467 Selling and marketing costs;
- (x) §200.470 Taxes (including Value Added Tax); and
- (y) §200.474 Travel costs.

Consistency (2 CFR §200.403(d) (cost principles)

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.

EXAMPLE:

A grantee has five departments. It allocates the cost of its basic telephone service to each department based on the number of telephones in each department. Each department should treat the telephone cost consistently for all grants it administers. That is, if a department has 3 grant programs, that department should treat this telephone cost as either a direct cost or indirect cost for all 3 grants, but not a mix of each. Next, if treated as a direct cost, a department should only request reimbursement for this type of cost if permitted under the terms of its grant agreement(s).

Grant Agreement Limitations (§200.408) (cost principles)

To be allowable, the cost being charged must conform to any limitations or exclusions set forth in the terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

EXAMPLE:

A grantee paid for a television advertisement to promote its new grant-funded health program. However, the approved grant contract limited the cost of advertising to brochures and radio ads. Therefore, the grantee should not include the cost of the television advertisement in its request for reimbursement even though "advertising" is an otherwise allowable cost according to Circular A-87.

Adequate Supporting Documentation (2 CFR §200.403(g) (cost principles)

Amounts charged to federal awards must be supported by source documentation, including:

- payroll reports
- time and attendance records
- invoice vouchers from subrecipients
- receiving reports
- original vendor invoices
- cost allocation plans

(Documentation may be in an electronic form, but make sure the integrity of the electronic documentation can be maintained for the duration of the applicable record retention period).

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EXAMPLE:

A grantee made a year-end adjustment to a federal award using a journal voucher entry. The accounting entry must be supported by adequate documentation that demonstrates both allowability and allocability.

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

ADDITIONAL TESTING SELECTION INFO & EXAMPLES

<i>Selection Options</i>		
Method	Process	Next Steps
Sampling	This is the preferred method for large populations (over 365). Use sampling tool from teammate.	Get the sample tool from Teammate. Take the sampling training if needed.
Haphazard Selection	May use for populations less than 365. Auditor haphazardly picks transactions. It feels random but only true "random" samples can be done by the computer in the sampling method.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab)

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Judgmental Selection	May use for populations less than 365. The auditor has a specific reason, associated with a risk, to pick certain or certain transactions. Explain risks in the ROWD and how transactions not selected are lower risk.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab). See examples there.
Judgmental Population	First, the auditor has a specific reason, associated with a risk, to pick certain types of transactions (judgmental population). Explain risks in the ROWD and how populations not selected are lower risk (you can refer to the testing strategy if we have done this for you already). Next, the auditor selects transaction from the judgmental population using the sampling method above.	Get sample tool from Teammate. Take training for the form if needed.
All quantitatively material transactions	Use only when a few very large transactions make up the majority of grant activity. You will test all of these material transactions.	Keep in mind: If 10% or more of the population is made up of <i>other</i> types of costs, those transactions should be tested in some way, as well.

DUAL PURPOSE TESTING EXAMPLE

For allowable costs the key control is, "The Business Manager reviews the reimbursement request, reconciling the items requested to invoices to determine they are supported and allowable." You will test it by reperforming the Business Manager's review to determine if it is effective in preventing and detecting noncompliance. You may check the requests to see if they have the Business Manager's signature of approval but that will only tell you if they consistently do it, which is important. However, you should reperform the control.

To complete compliance testing you are tracing expenditures from the requests to support to determine if they are supported and allowable per the program.

In this case, for testing both controls and compliance you are completing the same process. However, you need to document that you tested both and clearly show the conclusion of each even though they are related. Control testing should conclude whether the control was effective in preventing or detecting noncompliance and compliance testing whether the entity was in compliance.

INDIRECT COST UNDERSTANDING OF RATES/ALLOCATIONS

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method

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4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

1. Rate Provided by Grantor: The federal grantor or PTE can give the entity an indirect cost rate in the award, usually outlined in the budget section and based on the availability of funding. There is no separate or formal rate agreement and it is not considered negotiated.

2. Use PTE Negotiated Rate: The federal grantor, PTE or federal guidance can require the entity to use PTE's negotiated indirect cost rate. This requirement can be found in the Compliance Supplement and federal pass-through guidance. The PTE will place the rate in their award with the entity. This is common for school districts.

3. De Minimis Indirect Cost Rate: If the entity elects to use the de minimis rate, a flat 10% (of Modified Total Direct Costs), in their grant application, no direct or pass-through grantor can deny its use so long as the entity qualifies.

Restrictions: The entity can use the method so long as they have **never** had a negotiated indirect cost rate or allocation plan approved by the federal cognizant agency **or** the PTE.

UPDATED GUIDANCE: Federal guidance now clarifies that negotiated rates and allocation plans negotiated by **PTEs** can prevent the use of the de minimis rate.

Consistency: If used, the entity must use the de minimis method for all of their Uniform Guidance federal programs that allow indirect costs.

Rate: Indirect costs are calculated as base costs multiplied by a flat 10% rate that does not require a true-up to actual indirect expenses.

Base Used: The 10% is multiplied by the modified total direct costs (MTDC) base.

<i>MTDC Base</i>	
Includes	Excludes
Direct Salaries & Wages	Equipment & Capital Expenditures
Direct Fringe Benefits	Charges for Patient Care
Materials & Supplies	Participant Support Costs
Services	Rental Costs
Travel	Tuition remission, Scholarships & Fellowships

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Up to \$25,000 of <i>each</i> subaward (regardless of the period of performance)	The portion of each subaward in excess of \$25,000
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4. Negotiated Rates & Allocation Plans – Cognizant Agency: Only major governments are required to obtain a cognizant agency approved negotiated rate or allocation plan. Smaller governments can opt to do so. The “cognizant agency for indirect costs” is designated as:

For central service cost allocation plans: the federal agency with the largest dollar value of ***total*** federal awards

For indirect cost rates and cost allocation plans: the federal agency with the largest dollar value of ***direct*** federal awards

Once designated, the federal entity remains the cognizant agency for five years. Under this method, the entity will be awarded a formal contract for the rate/allocation. All awarding agencies must accept the rate/allocation plan when the entity elects to use it in their program application.

Various allocation plans can be approved, but there are four types of rates:

1. **Provisional:** The provisional rate is temporary and expires upon the completion of the federal award. It requires a true-up to actual expenditures by the end of the project or whenever the entity obtains a final rate. The rate is adjusted by using the final rate.
2. **Final:** The rate is permanent and is calculated after the actual costs are known (i.e. at the conclusion of the federal project). It is used to adjust the indirect costs from the provisional rate.
3. **Predetermined:** This is a permanent rate and is calculated using actual costs from previous periods. It does not require a true-up to correspond with actual current year costs. The rate is effective between two to five years.
4. **Fixed:** This is a permanent rate and is calculated using actual costs from previous periods. It requires a true-up to correspond with actual current year costs. The variance between the costs used to create the rate and the actual costs incurred during the year the rate was used is carried-forward as an adjustment to the current rate. The entity will either recover or “pay back” the variance going forward. The rate is effective for two years and then can be annually renewed.

5. Negotiated Rates & Allocation Plans – PTE: Indirect Cost Rate Proposals and Cost Allocation Plans are not required by UG to be submitted to/approved by PTE's, but the PTEs may require it. Usually a formal contract for the rate/allocation is not issued and they just review and/or approve the plan instead. Other pass-through entities are not required accept the rate/allocation plan but they can choose to accept it.

METHODS OF INDIRECT COST RATE CALCULATION

(1) The specific methods for allocating indirect costs and computing indirect cost rates are as follows:

- (a) **Simplified Method** – This method is applicable where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect cost to approximately the same degree. The allocation of indirect costs and the

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computation of an indirect cost rate may be accomplished through simplified allocation procedures described in 2 CFR part 200, Appendix VII, paragraph C.2.

Multiple Allocation Base Method – This method is applicable where a governmental unit's department or agency has several major functions that benefit from its indirect costs in varying degrees. The allocation of indirect costs may require the accumulation of such costs into separate groupings which are then allocated individually to benefiting functions by means of a base which best measures the relative degree of benefit. (For detailed information, refer to 2 CFR part 200, Appendix VII, paragraph C.3.)

(c) *Special Indirect Cost Rates* – In some instances, a single indirect cost rate for all activities of a department or agency may not be appropriate. Different factors may substantially affect the indirect costs applicable to a particular program or group of programs, e.g., the physical location of the work, the nature of the facilities, or level of administrative support required. (For the requirements for a separate indirect cost rate, refer to 2 CFR part 200, Appendix VII, paragraph C.4.)

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

Record of Work Done.

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

Review scope of work

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and

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any available program guidelines to determine which activities and costs are allowed or unallowed. We identified the following:

A. Activities Allowed or Unallowed

Administrative Activities – For both Commodity Supplemental Food Program (**CSFP**) and The Emergency Food Assistance Program (**TEFAP**), a state agency or recipient agency must use its administrative funds for activities for the administration of the programs. Such activities include but are not limited to transporting and storing USDA Foods within the state or within a recipient agency's service area, determining the eligibility of program applicants, publishing the times and locations of food distribution, and issuing USDA Foods to eligible persons (7 CFR sections 247.25 and 251.8(e)).

1. *CSFP* – In addition to the activities listed above, examples of activities for which CSFP administrative funds can be used include nutrition education, program outreach, and monitoring and review of program operations (7 CFR section 247.25(a)).
2. *TEFAP* – In addition to the activities listed above, allowable activities include processing USDA Foods. Under certain circumstances, a state agency may also use these funds for transporting USDA Foods to other states and transporting non-USDA Foods in from other states (7 CFR section 251.8(e)(1)).

An Eligible Recipient Agency (**ERA**) that receives USDA Foods from programs other than TEFAP may not use its administrative funds for the distribution of these foods, unless these foods were re-donated to TEFAP (see Food Distribution National Policy Memorandum FD-095, which is available at <http://www.fns.usda.gov/use-tefap-administrative-funds-expenses-associated-foods-secured-other-sources-0>). In addition, a state agency or ERA may use its administrative funds for certain activities associated with the distribution of non-USDA Foods donated by private individuals and organizations (7 CFR section

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251.8(e)(1)).

Indirect Costs

WSDA uses an 18.30% indirect cost rate (see Signed Indirect Cost Rate Agreement 2018-21) approved May 15, 2018, for the period from July 1, 2018 through June 30, 2021. Indirect costs represent .5% and are not material to the program. Therefore, we will not perform additional procedures related to indirect costs.

Material Expenditures

(Expenditure Analysis- Final) We identified the following expenditure activities that are directly charged to the program and are quantitatively material (more than 5%):

- Subobject NZ:
- Other Grants and Benefits - \$4,420,998.02 – 10.26% of total grant expenditures
- Food Commodities – AGRI OSPI - \$38,325,159.00 - 89.92% of total grant expenditures. This will be reviewed as part of Special Test 1 at: N. Special Tests and Provisions - Controls.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

On December 28, 2020, a written request for an understanding of WSDA's internal controls in regards to Activities Allowed/ Unallowed and Cost Principals was sent to WSDA. On January 5, 2021 Gene Emmans, CFO, provided an internal controls write up response letter (see Internal Control Letters WSDA Response 01-05-21 (006)).

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On December 29, 2020, we met with the Washington State Department of Agriculture (**WSDA**) to get an overview and understanding of its key internal controls as they relate to the Food Distribution Cluster. The information was provided by the following WSDA Food Assistance Program (**FAP**) and financial services staff which attended the meeting:

Gene Emmans - CFO

Kim Eads - FAP Program Manager

Lisa White - FAP Management Analyst

Natasha Roberts - Budget Manager

Dustin Goodman - Financial Services Federal Grant Manager

Bill Pattison - Accounts Payable Manager

The WSDA Financial Services team explained that the majority of federal award money is handled via pass through grants to subrecipients and vendors. WSDA's administrative expenses as they relate to the Food Distribution cluster are less than material and will not be included in our testing.

Kim Eads explained the funds distribution process starts with the FAP team. FAP has regional representatives (Representative) that work directly with the subrecipients. The Representative is the principal point of contact for the subrecipients and works to ensure they provide proper documentation and adherence to federal and state requirements. FAP uses A-19 invoices templates for subrecipients that include total amount awarded, amount expended for billing period, adjustments for the billing period, and current balance.

The subrecipient submits invoices to the Representative along with either a general ledger or actual back-up. Once the invoice is validated and questioned items are cleared up the Representative enters the data into a financial tracking Excel spreadsheet sorted by subrecipient name and program. Once the Representative approves and logs the invoice they send the information to FAP's Management Analyst (Analyst). **Key Control 1- To ensure the**

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expenditures were for an allowable activity and met cost principals; the Regional Representative reviews expenditure reimbursement documentation (A-19 invoices submitted by the subrecipients), works with the subrecipient to resolve any question costs or activities before approval, and records it via a tracking spreadsheet on the Food Assistance Program (FAP) shared drive. (Control Activities)

To ensure the expenditures were characterized properly and did not exceed budget, the Management Analyst, Lisa White rechecks the invoice for questioned items and if approved enters the invoice information into a payment tracking Excel spreadsheet. The invoice is then forwarded to Kim Eads, FAP's Program Manager for final approval. **Key Control 2- To ensure the expenditures were for an allowable activity, were characterized properly, met cost principals, and did not exceed budget, the FAP's Program Manager, Kim Eads will review and sign for final approval. (Control Activities)** Once the Program Manager approves the invoice it is sent to the Financial Services team, CC'ing the Analyst.

After Financial Services processes and remits the payment to the subrecipient, the Analyst uses the payment tracking spreadsheet to cross track and reconcile the payment for final documentation. The Analyst checks for processed payments on a monthly basis.

Fiscal Monitoring

WSDA is required to perform monitorings of TEFAP subrecipients every four years and every two years for CSFP. During these monitorings FAP performs a comprehensive fiscal review of invoice back-up documentation if it was not previously provided. If a subrecipient desires to submit all back-up documentation during the invoice request (One subrecipient submits the full back-ups during the initial request at present). During fiscal review one month will be selected at random and reconciled against past fiscal data.

Summary of key controls:

Key Control 1- To ensure the expenditures were for an allowable activity and met cost principals; the Regional

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Representative reviews expenditure reimbursement documentation (A-19 invoices submitted by the subrecipients), works with the subrecipient to resolve any question costs or activities before approval, and records it via a tracking spreadsheet on the Food Assistance Program (FAP) shared drive. (Control Activities)

Key Control 2 - To ensure the expenditures were for an allowable activity, were characterized properly, met cost principals, and did not exceed budget, the FAP's Program Manager, Kim Eads will review and sign for final approval. (Control Activities)

Evaluation of results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.32.PRG - 10.565/568/569 Food Distribution Cluster

Procedure Step: C. Cash Management - Controls

Prepared By: AWW, 2/9/2021

Reviewed By: LSD, 2/10/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established over Cash Management.

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To provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Gene Emmans - CFO

Kim Eads - Food Assistance Program (FAP) Program Manager

Lisa White - FAP Management Analyst

Natasha Roberts - Budget Manager

Dustin Goodman - Financial Services Federal Grant Manager

Bill Pattison - Accounts Payable Manager

Conclusion:

Based on our understanding of internal controls over Cash Management, we assessed preliminary control risk as low.

Testing Strategy:

Reminder: Cash management is always direct and material whether the entity operates on a reimbursement or cash advance basis. (The only exception is for a non-cash award, e.g. federal equipment, real property, supplies or commodities received.)

Note: Entities may receive awards funded on a reimbursement basis, as well as awards funded through advance payments. For such entities, the auditor should plan the audit to address the objectives of both payment methods, i.e., the auditor should include audit procedures to separately assess and test internal control and compliance for the reimbursement and advance payment methods.

Cash Management - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

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Step 2: Gather Information

CMIA Agreement

- (a) Determine whether the program is subject to the CMIA (Cash Management Improvement Act) agreement made between the U.S. Treasury and OFM (see attached pdf file in planning at **B.1.14**). This will typically only apply to larger programs over \$20 million.
- (b) If the program is subject to the OFM/Treasury CMIA agreement, obtain an understanding of funding technique prescribed for the program. Review Part 4 of Compliance Supplement for any program-specific requirements.
- (c) If the program is not subject to the CMIA, review Part 4 of Compliance Supplement for any program-specific requirements.

Awards to Subrecipients

Determine whether the agency made any awards to subrecipients.

Review Part 4 of the Compliance Supplement that applies to your audit period, the grant agreement, and/or program regulations to determine the method of payment for the federal program (i.e., cash advance or cost reimbursement). If a grantee states that it is paid on a "cost reimbursement" basis, determine whether the grantee is permitted to request its funding from the grantor before it actually disburses its own cash to pay project/program costs.

Information for all other awards (generally):

A. CASH ADVANCE – Some programs allow the grantee to draw down funding before program expenses are incurred or paid. The requests the auditee submits to their grantor should identify it as an advance request. The entity must:

- (1) Create and maintain written policies that address how it will comply with the cash advance requirements (UG only). The auditor does not need to determine whether the written procedures are sufficient. Sufficiency is up to the interpretation of the grantee unless the awarding agency has provided guidance.
- (2) Disburses the grant funding as soon as possible after it is received;
- (3) Limits its cash advance requests to its immediate needs; and
- (4) Tracks interest earned from cash advances. They must remit interest earned over \$100 for Pre-UG and over \$500 for UG.

B. COST REIMBURSEMENT – This occurs when the grantee incurs costs before the federal funds are received. Either situation could occur (even for the same program, transaction by transaction):

- 1. Costs are incurred but **not** paid before federal funds are received (like a cash advance): This pertains to those contracts or program regulations that **do not specifically require** the grantee to disburse its own funds before it requests reimbursement. For example, if a grantee incurs an expense (e.g., ordering supplies and receiving a vendor invoice), but does not disburse any of its own funds (paying the invoice) until after it submits a request to the grantor and receives its federal funding, the grantee is essentially receiving a cash advance. Thus, the grantee could potentially be maintaining an excess cash balance and earning interest. The same could be applied if the entity collects an improper payment or later receives a rebate, discount, refund on returned items, etc. that they keep – as an advance – rather than returning the funds to the grantor if the cost had already been reimbursed.

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NOTE: The awarding agency may have regulations and/or guidance in these cases as to the specific amount of time the entity has from receipt of the funds to disburse the funds. For example, OSPI requires 3 days from receipt of funds to disburse. If the awarding agency does not have guidance on this, use auditor judgement to determine if the amount of time between receipt of funds and disbursement is reasonable and consistent with the entities disbursement policies and procedures.

2. Costs are incurred and paid before federal funds are received: This is a true cost reimbursement. The focus of the auditor's review is that the entity has controls to ensure they maintain a cost reimbursement basis – only requesting transactions that have been paid – and are in compliance with the requirement. The audit objective from the Compliance Supplement is, “For grants and cooperative agreements to non-Federal entities that are paid on a reimbursement basis, supporting documentation shows that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request.”

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

(a) CMIA programs - Identify and document the key internal controls used by the agency to comply with the CMIA funding technique to (1) ensure cash advances are limited to its immediate cash needs, (2) minimize the time elapsing between receiving the funds and expending the funds, and (3) assure that subrecipients are minimizing the time elapsing between receipt of the funds and expenditure of the funds.

(b) non-CMIA programs - Identify and document the key internal controls used by the auditee to (1) ensure cash advances are limited to its immediate cash needs, (2) minimize the time elapsing between receiving the funds and expending the funds, and (3) assure that subrecipients are minimizing the time elapsing between receipt of the funds and expenditure of the funds.

Gain an understanding of the grantee's internal controls and identify the key controls over its requests for federal funding as follows.

Cash Advances - our focus is on the controls that ensure:

- (1) The grantee established written procedures to minimize the time between receipt and disbursement of funds and ensures those procedures are up-to-date with federal requirements in subsequent years.
- (2) the grantee is disbursing the funding as soon as possible after it is received,
- (3) the grantee is limiting its cash advance requests to its immediate needs
- (4) the grantee is tracking interest earned from cash advances and remitting any interest over \$500 back to the grantor.

Cost Reimbursement (incurred but not paid before reimbursed)

- (1) the grantee is disbursing the funding as soon as possible after it is received,
- (2) the grantee is limiting its cash advance requests to its immediate needs

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(3) the grantee is tracking interest earned from cash advances and remitting any interest over \$500 back to the grantor.

Cost Reimbursement (incurred and paid before reimbursed – true reimbursement)

(1) the grantee ensures it only requests costs that have been paid.

For example, the person responsible for creating the reimbursement request includes only costs paid based upon their tracking spreadsheet, because they generate a report for only costs that have been paid, or generates detailed transaction reports and includes items based on the date paid.

***Note:** If the auditee usually maintains a true cost reimbursement but has some transactions (occasionally or as special situations) that are incurred but not paid before reimbursement, the controls of each should be addressed.

Evaluation of Results: Did you identify any control deficiencies? If yes, you must:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

(Deficiencies Identified: Use the decision matrix in the “Major Federal Program” spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).)

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

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Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	
52 (weekly)	5	11	
260 (business days)	17	24	
13	20	28	

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance

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requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

Not subject to the CMIA Agreement

This program cluster is not subject to the CMIA, therefore, we reviewed Part 4 of Compliance Supplement for any program-specific requirements. We found no such requirements.

There are no cash advances for this program.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

On December 30, 2020, a written request for an understanding of Washington State Department of Agriculture's (**WSDA**) internal controls in regards to Cash Management was sent to WSDA (see [Internal Control letter - Cash Management](#)). On January 5, 2021 Gene Emmans, CFO, provided an internal controls write up response letter (see [Internal Control Letters_WSDA Response_01-05-21 \(006\)](#)).

On January 5, 2021, we met with the Washington State Department of Agriculture (**WSDA**) to get an overview and understanding of its key internal controls as they relate to the Food Distribution Cluster. The information was provided by the following WSDA Food Assistance Program (**FAP**) and financial services staff which attended the meeting:

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Gene Emmans - Chief Financial Officer (CFO)

Kim Eads - FAP Program Manager

Lisa White - FAP Management Analyst

Natasha Roberts - Budget Manager

Dustin Goodman - Financial Services Federal Grant Manager

Bill Pattison - Accounts Payable Manager

Dustin Goodman, Financial Services Federal Grant Manager, explained that the draw down requests for The Emergency Food Assistance Program (TEFAP) and Commodity Supplemental Food Program (CSFP) funds are submitted quarterly. He receives the subrecipient invoices report from FAP and creates a draw request based on the quarterly subrecipient expenditures. Lisa White, FAP Management Analyst reviews Dustin's report for accuracy and approves the report for submission if correct. **Key Control 1- To ensure the accuracy of the federal draw request, Lisa White, FAP Management Analyst, reviews and approves Financial Services's consolidated quarterly reimbursement request. (Control Activities / Monitoring)**

Dustin then uses either an emailed request or the federal online portal for Automated Standard Application for Payments (ASAP), ezFed Grants, and the Payment Management System to submit the draw request for remaining federal funds. After he submits the reimbursement request Dustin uses the Food Programs Reporting System (FPRS) to submit required quarterly federal financial reports. He creates PDF copies of the reports and submits them to Lisa for WSDA record keeping. Once the payment is received via ACH, typically the following day, the Department cashier notifies Dustin.

Dustin also performs an accrual in the State Agency Wide Accounts Receivables System. Additionally he performs a monthly GL 1351 account reconciliation to ensure the federal payments are received on a timely basis and no funds from the previous reimbursement period are still outstanding. **Key Control 2- To ensure the timeliness and completeness of federal reimbursement requests, Dustin Goodman, Financial Services Federal Grant**

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Manager, conducts a monthly GL account reconciliation to ensure federal funds are disbursed timely and in full to WSDA. (Control Activities / Monitoring) Dustin also creates a monthly tracking report for the federal funds, which is posted to agency share drive for review by the FAP team.

Summary of Key Controls:

Key Control 1- To ensure the accuracy of the federal draw request, Lisa White, FAP Management Analyst, reviews and approves Financial Services's consolidated quarterly reimbursement request. (Control Activities / Monitoring)

Key Control 2- To ensure the timeliness and completeness of federal reimbursement requests, Dustin Goodman, Financial Services Federal Grant Manager, conducts a monthly GL account reconciliation to ensure federal funds are disbursed timely and in full to WSDA. (Control Activities / Monitoring)

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.32.PRG - 10.565/568/569 Food Distribution Cluster

Procedure Step: E. Eligibility - Controls

Prepared By: AWW, 2/9/2021

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Reviewed By:

LSD, 2/10/2021

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that only eligible individuals and organizations receive assistance under Federal award programs, that subawards are made only to eligible subrecipients, and that amounts provided to or on behalf of eligible participants were calculated in accordance with program requirements.

To provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Gene Emmans - CFO

Kim Eads - FAP Program Manager

Lisa White - FAP Management Analyst

Natasha Roberts - Budget Manager

Dustin Goodman - Financial Services Federal Grant Manager

Bill Pattison - Accounts Payable Manager

Conclusion:

Based on our understanding of internal controls over Eligibility, we assessed preliminary control risk as **LOW**.

Testing Strategy.*

Eligibility - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document

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this analysis in the Record of Work Done.

Step 2: Gather Information

Eligibility requirements apply when funds are provided to individuals/participants **and/or** when funds are awarded/passed-through to a subrecipient.

NOTE: Follow the steps below if the state agency determines the eligibility of the client. Similarly, follow these steps if a subrecipient determines eligibility, but the state maintains the computer system supporting eligibility determinations and actually pays the benefits to the participant. Otherwise, if a subrecipient determines the eligibility of the client, refer to the procedures under M-Subrecipient Monitoring.

Determine whether there are any specific eligibility requirements in order for individuals to receive financial assistance or services under the program. If the grantee makes awards to subrecipients, determine if there are eligibility requirements the subrecipient must meet to receive the funding. Review the following that apply to the audit period:

- Part 4 of the Compliance Supplement
- the grant agreement or contract, and
- any available program guidelines or handbooks.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

(1) Participant Eligibility:

(a) Status: recipients receiving services/benefits are eligible for such assistance in accordance with the program/grant contract.

(b) Service level: amounts paid to the recipient have been properly calculated in accordance with program requirements.

(c) Discontinued: services/benefits are discontinued after recipients are deemed ineligible.

(2) Quality Control: Some programs require quality control processes (such as independent double-checks) to obtain assurances about eligibility. If applicable, gain an understanding of controls to ensure the process is completed in accordance with program requirements.

(3) Subrecipient Eligibility: subawards were made only to eligible subrecipients.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than**

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material/material>.

2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." If preliminary control risk is "HIGH" a finding must be issued.

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Record of Work Done.:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance.

In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

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Step 2

Determine whether there are any specific eligibility requirements in order for individuals to receive financial assistance or services under the program. If the grantee makes awards to subrecipients, determine if there are eligibility requirements the subrecipient must meet to receive the funding. We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine which requirements apply to eligibility. We identified the following:

E. Eligibility

1. Eligibility for Individuals

a. CSFP (Commodity Supplemental Food Program)

Receipt of USDA Foods for Household Use – A local agency certifies households as eligible to receive a CSFP food package by applying categorical and income eligibility criteria as follows:

1. Categorical Eligibility. Eligibility is limited to the elderly (persons at least 60 years of age) and to women, infants, and children who were certified and receiving CSFP benefits on February 6, 2014, and whose enrollment has continued without interruption (7 CFR section 247.9(a)).
2. Income Eligibility. State agencies determine income eligibility guidelines for program participants, within the parameters of the income eligibility guidelines provided in program regulations: 7 CFR section 247.9(b) for women, infants, and children who were receiving benefits as of February 6, 2014, and 7 CFR section 247.9(c) for the elderly. They must be approved in advance by FNS as part of the state agency's state plan.

Criteria for women, infants, and children – The eligibility requirements in this section apply only to

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women, infants, and children who were certified and receiving CSFP benefits on February 6, 2014, and whose enrollment has continued without interruption. Effective February 7, 2014, no new applications from women, infants, or children may be approved. The state agency must set income eligibility limits that are at or below 185 percent of the Department of Health and Human Services Poverty Guidelines (see <http://aspe.hhs.gov/poverty/index.cfm>), but not below 100 percent of these guidelines. Women, infants, and children are also considered income eligible based on their participation in the Temporary Assistance for Needy Families (**TANF**) program (CFDA 93.558), the Supplemental Nutrition Assistance Program (**SNAP**) (CFDA 10.551), or Medicaid (CFDA 93.778). States may also choose to make these applicants automatically income eligible if they participate in one or more federal, state, or local food, health, or welfare programs that have income eligible criteria equal to or lower than the established CSFP limits (7 CFR sections 247.9(b), (d), and (e)).

Criteria for elderly persons – The state agency must set income eligibility limits that are at or below 130 percent of the federal poverty income guidelines (7 CFR sections 247.9(c) through (e)).

3. Eligibility Criteria at State's Discretion – In addition to categorical and income eligibility, the state agency may also require that applicants (a) be at nutritional risk, as determined by a physician or by local agency health staff; and/or (b) reside within the service area of a local agency when applying for benefits (7 CFR section 247.9(f)).

*b. **TEFAP** (The Emergency Food Assistance Program)*

1. Receipt of USDA Foods for Household Use – An ERA certifies households eligible to receive USDA Foods for household consumption by applying income eligibility criteria established by the state agency (7 CFR section 251.5(b)). These criteria are approved in advance by FNS as part of the state agency's distribution plan (7 CFR section 251.6(a)).

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2. Receipt of Prepared Meals – There is no means test for eligibility of persons receiving prepared meals. Their eligibility is derived from the ERA's eligibility to receive USDA Foods from TEFAP and use them in prepared meals (7 CFR section 251.5(a)(2)).

2. Eligibility for Group of Individuals or Area of Service Delivery

Not Applicable

3. Eligibility for Subrecipients

1. A recipient agency must be either a public agency or a private entity possessing tax-exempt status under the Internal Revenue Code and must enter into a written agreement with the state agency, or with another recipient agency where permitted, binding it to perform the duties of a recipient agency (7 CFR sections 247.4, 247.7(a), 251.3(d), and 251.5(a)).
2. For TEFAP, the state agency's distribution plan identifies the classes of organizations with which it will enter into such agreements (7 CFR section 251.6).
3. For TEFAP, recipient agencies providing prepared meals must have demonstrated, to the satisfaction of the state agency, or ERA to which they have applied for USDA Foods or administrative funds, that they serve predominantly needy persons (7 CFR section 251.5(a)(2)).

Understanding of Internal Controls

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Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

On December 30, 2020 a written request for an understanding of WSDA's internal controls in regards to Eligibility was sent to WSDA (see [Internal Control letter - Eligibility](#)). On January 5, 2021 Gene Emmans, CFO, provided an internal controls write up response letter (see [Internal Control Letters_WSDA Response_01-05-21 \(006\)](#)).

On January 6, 2021 we met with the Washington State Department of Agriculture (**WSDA**) to get an overview and understanding of its key internal controls as they relate to the Food Distribution Cluster. The information was provided by the following WSDA Food Assistance Program (**FAP**) and financial services staff which attended the meeting:

Gene Emmans - Chief Financial Officer (**CFO**)

Kim Eads - FAP Program Manager

Lisa White - FAP Management Analyst

Natasha Roberts - Budget Manager

Dustin Goodman - Financial Services Federal Grant Manager

Bill Pattison - Accounts Payable Manager

Individual Eligibility

WSDA allows the cluster subrecipients determine eligibility for individual consumers using state and federal regulations that vary based on the program and is detailed in the procedures manuals for CSFP (see [486-CSFPProceduresManual \(start Ch. 4\)](#)) and TEFAP (see [485-TEFAPProceduresManual \(start Ch. 4 - PDF pg. 54\)](#)) that WSDA provides to the subrecipients. WSDA provides for the program. For both CSFP and TEFAP, WSDA is required to detail individual

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income eligibility requirements as part of the state plans. The income eligibility guidelines are updated annually by Kim Eads in response to federal updates. **Key Control 1- To ensure subrecipient screening requirements reflect current federal standards, Kim Eads, FAP Program Manager, performs a yearly update of TEFAP and CSFP program income eligibility requirements via the state plans. (Information and Communication)** For CSFP this is currently set at 130% of the federal poverty level for seniors (see [797-CSFPStatePlan](#)). For TEFAP Kim Eads, FAP Program Manager, explained that the state plan currently lists 185% of the federal poverty level (see [798-TEFAPStatePlan](#)), however as of July 1, 2020, the eligibility requirement was changed to 400% and is listed via WSDA online documentation (see [445-TEFAPIncomeGuidelines](#)). Kim further explained the 400% requirement is a temporary change that related to Covid-19 and was communicated to subrecipients via email and bimonthly check-in meetings.

Subrecipient Eligibility

Kim Eads explained that the subrecipient requirements are set by WSDA to be the same for both CSFP and TEFAP, and are outlined in the subrecipient contracts and State's procedure manuals, and are verified by Lisa White before the subrecipient signs the contract. Lisa White tracks the subrecipient requirements in a spreadsheet and logs the date when validation of the requirement is received from the subrecipient or Lisa checks the information herself, such as a secretary of state check to see if the entity is private or public. **Key Control 2- To ensure subrecipients meet eligibility requirements, Lisa White, FAP Management Analyst, checks WSDA subrecipient eligibility requirements and records them in a tracking spreadsheet and through screen captures. (Control Activities / Information and Communication / Monitoring)**

Kim Eads also explained that per 7 CFR 251.5(2) WSDA determines organizations fulfill the requirement to demonstrate service to the predominately needy via individual automatic self-attestation, as persons seeking meals at a TEFAP approved site are presumed to be needy. This is defined in the TEFAP state plan as a "TEFAP Food Pantry Client." WSDA also uses a priority system to distribute funds and food based on provider type, with subrecipients who serve the neediest being a higher priority to receive resources, which is also defined in the

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procedures manual. **Key Control 3-** To ensure TEFAP-related USDA foods and administrative funds serve the predominately needy, USDA resources are provided to subrecipients through a tiered priority system. This is published by Kim Eads, FAP Program Manager, through the TEFAP state plan. (Control Activities / Information and Communication)

Summary of Key Controls

Key Control 1- To ensure subrecipient screening requirements reflect current federal standards, Kim Eads, FAP Program Manager, performs a yearly update of TEFAP and CSFP program income eligibility requirements via the state plans. (Information and Communication)

Key Control 2- To ensure subrecipients meet eligibility requirements, Lisa White, FAP Management Analyst, checks WSDA subrecipient eligibility requirements and records them in a tracking spreadsheet and through screen captures. (Control Activities / Information and Communication / Monitoring)

Key Control 3- To ensure TEFAP-related USDA foods and administrative funds serve the predominately needy, USDA resources are provided to subrecipients through a tiered priority system. This is published by Kim Eads, FAP Program Manager, through the TEFAP state plan. (Control Activities / Information and Communication)

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

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Procedure Step: I. Suspension and Debarment - Controls

Prepared By: AWW, 2/9/2021

Reviewed By: LSD, 2/10/2021

Purpose/Conclusion:

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that covered transactions are not made with a debarred or suspended party.

To provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Gene Emmans - CFO

Kim Eads - Food Assistance Program (FAP) Program Manager

Lisa White - FAP Management Analyst

Conclusion:

Based on our understanding of internal controls over Suspension and Debarment, we assessed preliminary control risk as **LOW**.

Testing Strategy:

Procurement/Suspension and Debarment - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document

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this analysis in the Record of Work Done.

Step 2: Gather Information

Written Procurement Policies and Procedures

When procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds. The state will comply with § 200.322 Procurement of recovered materials and ensure that every purchase order or other contract includes any clauses required by section § 200.326 Contract provisions.

Aggregate vs. Per-unit Cost to Determine Threshold

Contracts Must Include All Required Provisions

In addition to other provisions required by the Federal agency or non-Federal entity, all contracts made by the non-Federal entity under the Federal award must contain provisions as applicable (see Policies/Standards tab for list of required provisions).

Interlocal Agreements: Transactions between governments are exempt

When one government uses federal grant funds to pay for professional services provided by another government, it is not expected to obtain quotes or seek competition. If the grantee purchases equipment or other goods directly from another local government, these transactions are exempt from competitive procurement (does not apply to piggy-backing purchases). This is because federal procurement standards (2 CFR section 200.318(e)) encourages governmental entities to enter into interlocal agreements to maximize economy and efficiency. It assumes the economic benefit and efficiency has or will be achieved. RCW 39.34.030 sets forth the standards for interlocal agreements – the form of the agreement or contract may vary so long as it contains the necessary information. This exemption does not include purchases made from a third party vendor, such as a purchasing co-op, or piggy-backing off another government's bid for equipment, materials or services.

Purchasing from a Master Contract - DES has performed the procurement process

State agencies make purchases from contracts that are procured by the WA Dept. of Enterprise Services (DES). In this situation, the DES performs all the bidding requirements and the participating agency can rely on the bid process and make purchases from the contract. The DES retains all the bid documentation. If the master contract(s) is material to the grant, the procurement process may need to be tested at DES. For controls, the auditor should document how the auditee uses the DES contracts. They should ensure they are paying the same rates as in the DES contract. **Note: DES does not check for suspension or debarment.**

SUSPENSION AND DEBARMENT (S&D)

Applies To: The entity must complete the requirement for:

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All *new* subrecipient contracts (no threshold)

All *new* contracts (purchases) of \$25,000 or more.

Requirement: The entity must complete at least one of the following to verify the other party is not prohibited (excluded) from receiving federal funds during the procurement process or at the time the contract is made:

1. Check their status on the online search engine SAM.gov (and print support)
2. Put a clause in the contract, whereby the signer attests they are not suspended or debarred.
3. Obtain a signed certificate, whereby the signer attests they are not suspended or debarred.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

(1) The agency followed State law and procedures and that the policies and procedures were the same as for non-Federal funds.

(2) Suspension & Debarment: vendors with contracts exceeding \$25,000 and all subrecipients are not suspended or debarred from participating in federal programs. *NOTE TO AUDITOR: When identifying internal controls for suspension and debarment, focus on the auditee's awareness of the requirement and the process it follows to ensure compliance. If a certificate or clause is in the contract or bid document, the control should focus on a person putting it in the documents or reviewing the documents to ensure it is included. **Avoid a control that relies on the fact that "the clause is included in the contract."***

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

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Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “**LOW**” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Procurement

States shall use the same State policies and procedures used for procurements from non-Federal funds (2 CFR section 200.317). The policies are established in RCW 39 and also the Department of Enterprise Services and located on their website at <https://des.wa.gov/about/projects-initiatives/procurement-reform/current-policies>

Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

AGGREGATE VS. PER-UNIT COST TO DETERMINE THRESHOLD

Note that the cost thresholds are not limited to each individual item purchased. The cost threshold will also apply to many like-kind items. For instance, an entity may purchase 500 tablets over 70 transactions during the year. Each tablet or transaction may be less than the lowest competitive threshold, but the aggregate purchase of tablets should be the dollar value used to determine which threshold applies. For example, if the 500 tablets cost \$200,000, the grantee should complete the procurement procedures required by this aggregate amount.

Contracts Must Include All Required Provisions

In addition to other provisions required by the Federal agency or non-Federal entity, all contracts made by the non-Federal entity under the Federal award must contain provisions covering the following, as applicable.

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(A) Contracts for more than the simplified acquisition threshold currently set at \$150,000, which is the inflation adjusted amount determined by the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council (Councils) as authorized by 41 U.S.C. 1908, must address administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as appropriate.

(B) All contracts in excess of \$10,000 must address termination for cause and for convenience by the non-Federal entity including the manner by which it will be effected and the basis for settlement.

(C) Equal Employment Opportunity. Except as otherwise provided under 41 CFR Part 60, all contracts that meet the definition of “federally assisted construction contract” in 41 CFR Part 60-1.3 must include the equal opportunity clause provided under 41 CFR 60-1.4(b), in accordance with Executive Order 11246, “Equal Employment Opportunity” (30 FR 12319, 12935, 3 CFR Part, 1964-1965 Comp., p. 339), as amended by Executive Order 11375, “Amending Executive Order 11246 Relating to Equal Employment Opportunity,” and implementing regulations at 41 CFR part 60, “Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor.”

(D) Davis-Bacon Act, as amended (40 U.S.C. 3141-3148). When required by Federal program legislation, all prime construction contracts in excess of \$2,000 awarded by non-Federal entities must include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 3141-3144, and 3146-3148) as supplemented by Department of Labor regulations (29 CFR Part 5, “Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction”). In accordance with the statute, contractors must be required to pay wages to laborers and mechanics at a rate not less than the prevailing wages specified in a wage determination made by the Secretary of Labor. In addition, contractors must be required to pay wages not less than once a week. The non-Federal entity must place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation. The decision to award a contract or subcontract must be conditioned upon the acceptance of the wage determination. The non-Federal entity must report all suspected or reported violations to the Federal awarding agency. The contracts must also include a provision for compliance with the Copeland “Anti-Kickback” Act (40 U.S.C. 3145), as supplemented by Department of Labor regulations (29 CFR Part 3, “Contractors and Subcontractors on Public Building or Public Work Financed in Whole or in Part by Loans or Grants from the United States”). The Act provides that each contractor or subrecipient must be prohibited from inducing, by any means, any person employed in the construction, completion, or repair of public work, to give up any part of the compensation to which he or she is otherwise entitled. The non-Federal entity must report all suspected or reported violations to the Federal awarding agency.

(E) Contract Work Hours and Safety Standards Act (40 U.S.C. 3701-3708). Where applicable, all contracts awarded by the non-Federal entity in excess of \$100,000 that involve the employment of mechanics or laborers must include a provision for compliance with 40 U.S.C. 3702 and 3704, as supplemented by Department of Labor regulations (29 CFR Part 5). Under 40 U.S.C. 3702 of the Act, each contractor must be required to compute the wages of every mechanic and laborer on the basis of a standard work week of 40 hours. Work in excess of the standard work week is permissible provided that the worker is compensated at a rate of not less than one and a half times the basic rate of pay for all hours worked in excess of 40 hours in the work week. The requirements of 40 U.S.C. 3704 are applicable to construction work and provide that no laborer or mechanic must be required to work in surroundings or under working conditions which are unsanitary, hazardous or dangerous. These requirements do not apply to the purchases of supplies or materials or articles ordinarily available on the open market, or contracts for transportation or transmission of intelligence.

(F) Rights to Inventions Made Under a Contract or Agreement. If the Federal award meets the definition of “funding agreement” under 37 CFR §401.2 (a) and

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the recipient or subrecipient wishes to enter into a contract with a small business firm or nonprofit organization regarding the substitution of parties, assignment or performance of experimental, developmental, or research work under that “funding agreement,” the recipient or subrecipient must comply with the requirements of 37 CFR Part 401, “Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Grants, Contracts and Cooperative Agreements,” and any implementing regulations issued by the awarding agency.

(G) Clean Air Act (42 U.S.C. 7401-7671q.) and the Federal Water Pollution Control Act (33 U.S.C. 1251-1387), as amended—Contracts and subgrants of amounts in excess of \$150,000 must contain a provision that requires the non-Federal award to agree to comply with all applicable standards, orders or regulations issued pursuant to the Clean Air Act (42 U.S.C. 7401-7671q) and the Federal Water Pollution Control Act as amended (33 U.S.C. 1251-1387). Violations must be reported to the Federal awarding agency and the Regional Office of the Environmental Protection Agency (EPA).

(H) Debarment and Suspension (Executive Orders 12549 and 12689)—A contract award (see 2 CFR 180.220) must not be made to parties listed on the governmentwide exclusions in the System for Award Management (SAM), in accordance with the OMB guidelines at 2 CFR 180 that implement Executive Orders 12549 (3 CFR part 1986 Comp., p. 189) and 12689 (3 CFR part 1989 Comp., p. 235), “Debarment and Suspension.” SAM Exclusions contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority other than Executive Order 12549.

(I) Byrd Anti-Lobbying Amendment (31 U.S.C. 1352)—Contractors that apply or bid for an award exceeding \$100,000 must file the required certification. Each tier certifies to the tier above that it will not and has not used Federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any Federal contract, grant or any other award covered by 31 U.S.C. 1352. Each tier must also disclose any lobbying with non-Federal funds that takes place in connection with obtaining any Federal award. Such disclosures are forwarded from tier to tier up to the non-Federal award.

(J) See §200.322 Procurement of recovered materials.

Suspension and Debarment

Entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. “Covered transactions” include contracts for goods and services equal to or in excess of \$25,000 and all non-procurement transactions (e.g., awards to subrecipients), irrespective of award amount unless exempt as provided in 2 CFR section 180.215..

Record of Work Done.

Inherent Risk of Noncompliance

Step 1

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We do not believe there are any inherent risks that increase the risk of material noncompliance. In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Gather Information

Step 2

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Suspension and Debarment. We found no program specific requirements for Procurement or Suspension and Debarment.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

On December 30, 2020, a written request for an understanding of WSDA's internal controls in regards to Suspension and Debarment was sent to WSDA (see [Internal Control letter - Suspension & Debarment](#)). On January 5, 2021 Gene Emmans, CFO, provided an internal controls write up response letter (see [Internal Control Letters_WSDA Response_01-05-21 \(006\)](#)).

On January 6, 2021 we met with the Washington State Department of Agriculture (**WSDA**) to get an overview and understanding of its key internal controls as they relate to the Food Distribution Cluster. The information was provided by the following WSDA Food Assistance Program (**FAP**) and financial services staff which attended the meeting:

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Gene Emmans - Chief Financial Officer (CFO)

Kim Eads - FAP Program Manager

Lisa White - FAP Management Analyst

Natasha Roberts - Budget Manager

Dustin Goodman - Financial Services Federal Grant Manager

Bill Pattison - Accounts Payable Manager

Kim Eads and Lisa White explained that WSDA maintains permanent contracts with subrecipients that receive periodic amendments. These amendments occur when subrecipient funding changes occur, and occur at least once a year in October when new federal grant funds are made available. Lisa White prepares the contract to go out to the subrecipient and logs the date sent in a contractor requirement tracking spreadsheet. Lisa additionally logs the date the contract is received back from the subrecipient, and when Kim Eads signs the contract for WSDA. At each of these occurrences Lisa White checks the System for Award Management (SAM) to verify the subrecipient is not suspended or debarred. Lisa logs the SAM check dates in the tracking spreadsheet, and saves SAM screen captures of the searches. **Key Control 1- To ensure a subrecipient is not actively or pending suspension or debarment, Lisa White, Management Analyst, checks the suspension and debarment status of the subrecipient prior to the contract being signed, which includes a logged dates and screen captures. (Control Activities / Monitoring)**

WSDA additionally includes a clause in The Emergency Food Assistance Program (TEFAP) state plan (see [798-TEFAPStatePlan](#) page 15), TEFAP procedures manual (see [485-TEFAPProceduresManual](#) (start Ch. 4 - PDF pg. 54) page 24), and Commodity Supplemental Food Program (CSFP) procedures manual (see [486-CSFPProceduresManual](#) (start Ch. 4)page 37) in which the subrecipient and the next lower tier certifies they are “not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded in any Federal or State department or agency from participating in transactions.” Subrecipients are required to adhere to the procedures manuals as part of their

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contracts. The state plans and procedures manuals are updated by Kim Eads, FAP Program Manager, on as needed basis. **Key Control 2- To ensure an entity at the next lower tier is not suspended or debarred, subrecipients, as part their contract, are covered by a next lower tier clause in the TEFAP and CSFP procedures manuals. The procedures manuals' content is maintained and approved by Kim Eads, FAP Program Manager.**

Summary of Key Controls

Key Control 1- To ensure a subrecipient is not actively or pending suspension or debarment, Lisa White, Management Analyst, checks the suspension and debarment status of the subrecipient prior to the contract being signed, which includes a logged dates and screen captures. (Control Activities / Monitoring)

Key Control 2- To ensure an entity at the next lower tier is not suspended or debarred, subrecipients, as part their contract, are covered by a next lower tier clause in the TEFAP and CSFP procedures manuals. The procedures manuals' content is maintained and approved by Kim Eads, FAP Program Manager.

Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.

C.32.PRG - 10.565/568/569 Food Distribution Cluster

Procedure Step: N. Special Tests and Provisions - Controls

Prepared By: AWW, 4/12/2021

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Reviewed By:

LSD, 4/14/2021

Purpose/Conclusion:

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance of compliance with Special Test and Provision: Accountability for USDA Foods.

To provide a preliminary control risk assessment based upon our understanding of the internal controls for Special Test and Provision: Accountability for USDA Foods.

Source:

Gene Emmans - CFO

Kim Eads - FAP Program Manager

Lisa White - FAP Management Analyst

Natasha Roberts - Budget Manager

Dustin Goodman - Financial Services Federal Grant Manager

Bill Pattison - Accounts Payable Manager

Conclusion:

Based on our understanding of internal controls over Special Tests and Provision, we assessed preliminary control risk as **LOW**.

Testing Strategy:

Special Tests and Provisions - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance

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requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

Review Part 4 of the Compliance Supplement (or Part 5 for Program Clusters) that applies to your audit period to determine if there are any special tests and provisions for the program. Also, review the grant agreement/contract, any available program guidelines or handbooks, and inquire with the entity (including the grant program manager, audit liaison, or entity management) to identify any material special provisions.

Once all applicable special requirements for the program have been identified, determine which are material and should be audited. These types of activities are material:

- (1) Mentioned in the Compliance Supplement, Part 4 or 5
- (2) Can result in material non-compliance (quantitatively or qualitatively)
- (4) Affect a large part of the program (significant dollar amounts)
- (5) Non-compliance could cause the awarding agency to seek repayment for part of the award or reduce future awards (as stipulated in the contract)

Exclude special requirements that do not meet these criteria from your review.

Note: If a program is not in part 4 of the compliance supplement, consult with the SWSA supervisor or AIC after making a preliminary identification of Special Tests and Provisions to test.

There may be special elements that apply to other compliance requirements, such as additional reporting, procurement, or subrecipient monitoring requirements. For efficiency, these special provisions can be addressed in those other compliance sections. The audit documentation should clearly identify where the special provisions are being addressed.

Step 3: Gain an Understanding of Internal Controls

*Obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented. Implementation means the control exists and the grantee is using it. The key controls you identify should be those that are **effective** in providing reasonable assurance that material noncompliance will be prevented or detected and corrected timely. The identification of key controls should include reviewing all of the Department's written policies and procedures related to the compliance area. If there is not a key control designed to address the compliance requirement, a significant deficiency or material weakness likely exists. When identifying key controls, consider whether inherent risks identified above are reasonably addressed and if automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

Gain an understanding of the grantee's internal controls and identify the key controls to ensure:

- (a) compliance with the Special Provisions contained in Part 4 (or Part 5) of the Compliance Supplement and/or the grant agreement.

Evaluation of Results: Did you identify any control deficiencies? If yes, **you must:**

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1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. (Include this wording) We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **<remote/more than remote>** and the magnitude of potential noncompliance is **<less than material/material>**.
2. Document the rationale for a LOW or HIGH risk assessment.]

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as “LOW” when:

1. There is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
2. The auditee’s internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Otherwise, assess control risk as "high." **If preliminary control risk is "HIGH" a finding must be issued.**

Once you've signed off on this procedure step, wait for supervisor review before proceeding with control/compliance testing. If necessary, schedule a meeting with Supervisor to discuss the identified internal controls, and ask questions about how to conduct testing including necessary data, sampling methodology, and coordination with IT Audit. If work from the IT audit is expected, please inform the SWSA AIC.

Guidance/Criteria.:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Record of Work Done.:

Inherent Risk of Noncompliance

Step 1

We do not believe there are any inherent risks that increase the risk of material noncompliance. In accordance with AU-C Sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

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Gather Information

Step 2

Review the scope of work per the grant agreement, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine specific requirements for Special Tests and Provisions.

N. Special Tests and Provisions

Accountability for USDA Foods

Compliance Requirements - Accurate and complete records must be maintained with respect to the receipt, distribution/use, and inventory of USDA foods, including end products processed from USDA Foods in TEFAP. Failure to maintain records required by 7 CFR section 250.19 is considered prima facie evidence of improper distribution or loss of USDA Foods, and the agency processor or entity is liable for the value of the food or replacement of the food in kind (7 CFR sections 250.16 and 250.19(a)).

State distributing agencies must conduct an annual physical inventory of all storage facilities used by the distributing agency or by a subdistributing agency. Such inventory must be reconciled annually with the storage facility's inventory records and maintained on file by the agency which contracted with or maintained the storage facility. Corrective action must be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR section 250.12(b)). In CSFP, a physical inventory also must be conducted annually at all storage and distribution sites where USDA Foods are stored (7 CFR section 247.28).

Audit objectives - Determine whether an appropriate accounting was maintained for USDA Foods, an annual

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physical inventory was taken, and the physical inventory was reconciled with inventory records.

Understanding of Internal Controls

Step 3

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

On December 30, 2020 a written request for an understanding of WSDA's internal controls in regards to Accountability for USDA Foods was sent to WSDA (see [Internal Control letter - Special Tests and Provisions](#)). On January 5, 2021 Gene Emmans, CFO, provided an internal controls write up response letter (see [Internal Control Letters_WSDA Response_01-05-21 \(006\)](#)).

On January 8, 2021 we met with the Washington State Department of Agriculture (**WSDA**) to get an overview and understanding of its key internal controls as they relate to the Food Distribution Cluster. The information was provided by the following WSDA Food Assistance Program (**FAP**) and financial services staff which attended the meeting:

Gene Emmans - Chief Financial Officer (**CFO**)
Kim Eads - FAP Program Manager
Lisa White - FAP Management Analyst
Natasha Roberts - Budget Manager
Dustin Goodman - Financial Services Federal Grant Manager
Bill Pattison - Accounts Payable Manager

WSDA uses three contractors who operate as warehousing and subdistribution contractors. The agents store the

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foods and subdistribute to the other subcontractors. Northwest Harvest is WSDA's primary warehouse and distribution contractor agent as it handles the storage and subdistribution of all dry goods and some refrigerated or frozen foods. Per Kim Eads Northwest Harvest has a specific contract for this roll which dictates it is an agent of WSDA. The other two contractors, Food Lifeline and Second Harvest, handle the remaining refrigerated or frozen foods and are directed by their subrecipient contract in adhering to the commodity management rules contained within the The Emergency Food Assistance Program (TEFAP) procedures manual, chapter 5.

USDA delivers the food directly to the contractors. Once the contractors receive the food the contractors record the receipt through USDA's Web Based Supply Chain Management (WEBSCM) system. **Key Control #1- To confirm the receipt of USDA foods, WSDA's subdistribution contractors record delivery receipt via the WEBSCM system. (Control Activities / Monitoring)**

The contractors provide a monthly inventory report indicating that product was received, distributed, and ending balances for book and physical inventory are sent by contractors' warehouse managers via email to FAP. The contractors also conduct an annual physical inventory of the USDA foods they have received. This report is again emailed by the contractors' warehouse managers to FAP. **Key Control #2- To ensure accurate tracking of subrecipient inventory records, the subdistribution vendors' warehouse management emails monthly inventory reports and an annual physical inventory report to Kim Eads, FAP Program Manager. (Control Activities / Monitoring)**

James Scovel, Food Assistance Specialist, reconciles the monthly inventory reports against WSDA records, and reconciles the annual physical inventory report to the monthly reports and saves it to FAP's "Inventory" shared folder. Kim Eads emails the reviewed report to fiscal for further approval and submittal. When WSDA performs on-site monitoring for Commodity Supplemental Food Program (CSFP), every two years, or TEFAP, every four years, it conducts its own physical inventory. **Key Control #3- To ensure an accurate inventory of USDA foods James Scovel, Food Assistance Specialist, performs an annual reconciliation of contractor**

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monthly inventory reports to their annual inventory reports. He emails the completed reconciliation to Bill Pattison, Accounts Payable Manager. (Control Activities / Monitoring)

If USDA food product are subject to damage, loss, or are stolen the contractor also includes this in the monthly report. The contractor also fills out and sends a lost or stolen goods form which WSDA uses to determine the value of the loss, responsible party, whether WSDA needs to pursue a claim, and the date the investigation was completed. FAP staff enter the form data into an internal commodity tracking system that records the reimbursement type (in-kind or cash) and if USDA notification was performed.

If WSDA detects a discrepancy or deficiency with the inventory reports the FAP regional representative or James Scovel will immediately work with the contractor on the issue. As part of this corrective process the representative will review past corrective actions to verify continued compliance. Kim Eads stated the contractors communicate the results of the corrective action verbally or via writing depending on if it was noted as part of the review process or depending on the severity of the issue.

Summary of key internal controls:

Key Control #1- To confirm the receipt of USDA foods, WSDA's subdistribution contractors record delivery receipt via the WEBSCM system. (Control Activities / Monitoring)

Key Control #2- To ensure accurate tracking of subrecipient inventory records, the subdistribution vendors' warehouse management emails monthly inventory reports and an annual physical inventory report to Kim Eads, FAP Program Manager. (Control Activities / Monitoring)

Key Control #3- To ensure an accurate inventory of USDA foods James Scovel, Food Assistance Specialist, performs an annual reconciliation of contractor monthly inventory reports to their annual inventory reports. He emails the completed reconciliation to Bill Pattison, Accounts Payable Manager. (Control Activities / Monitoring)

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Evaluation of Results: We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will perform testing below to determine if we can place reliance on the controls.