

# State of Washington

## ***General***

***Code:*** S1Washington-SA22  
***Name:*** State of Washington  
***Group:*** Single Audit  
***Type:*** S1-Agency, Commission, or Board  
***Location:*** State  
***Scope:***

## ***Team***

***Lead:*** Andrew Schmitz  
***Manager:*** Michael Hutchinson

## **Procedures**

### **C.4.PRГ - 17.225-Unemployment Insurance (UI) - ESD**

***Procedure Step:*** A-B. Activities Allowed/Cost Principles - Controls  
***Prepared By:*** EWS, 3/8/2023  
***Reviewed By:*** ACS, 4/19/2023

|                      |
|----------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

## **Source:**

Web Intelligence Query

Linh Nguyen, System Reports 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.

## **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

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**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.

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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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



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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).

## **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.

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- (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;

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

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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 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;

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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;
- (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;

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- (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.

#### **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

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- 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)<br/>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

|                   |  |  |
|-------------------|--|--|
| Selection Options |  |  |
|-------------------|--|--|

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| 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 <b>types</b> 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 <b>only</b> 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

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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.

**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 |



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|  |  |
|--|--|
| 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.
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

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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**

#### **Step 1**

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 risks when designing our tests of compliance.

- **Risk:** Internal Control Environment - *There is a risk that internal controls are being overridden or not followed due to a lack of supervision.* See [Control Environment and Risk Assessment (COSO)] for more detail on this risk.
- **Risk:** UTAB Supervisory Reports - *There is a risk UTAB reporting weaknesses created greater opportunity for employee fraud.*
- **Risk:** Internal Control Training - *There is a risk that employees and supervisors do not understand internal controls to prevent fraud.*

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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 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:

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

##### 1. Activities Allowed

- Administrative grant funds may be used only for the purposes and in the amounts necessary for proper and efficient administration of the UI program (20 CFR part 601; 20 CFR sections 609.14(d); and 614.15(d); 20CFR section 617.59 (TRA/ATAA); 44 CFR section 206.8 (DUA)). **This requirement is applicable, see compliance step at [A-B. Activities Allowed/Cost Principles - Tests of Controls](#).**

##### 2. TRA and ATAA/RTAA

- TRA – Allowable activities include payment of weekly TRA benefits to eligible participants (20 CFR sections 617.10 through 617.19).
- ATAA/RTAA – Allowable activities include payment of ATAA wage subsidies to eligible participants (Section 246 of Pub. L. No. 107-210, Pub. L. No. 111-5, and Pub. L. No. 112-40).

TRA/ATAA/RTAA totaled **\$17,089,145.13** which is **0.60%** of the total grant expenditures and **not material**, see [\[Overview\]](#). **No additional testwork is required.**

##### 3. DUA

- Funds may be used only for the payment of DUA benefits and for DUA-related state administrative costs.

The Department expended **\$338,562.33** in DUA benefits which is **0.01%** of the total grant expenditures and **not material**, see [\[Overview\]](#). **No additional testwork is required.**

##### 4. FPUC

- FPUC payments may be payable either as (1) as an increase of the weekly benefit payment to the individual, or (2) as a separate supplemental payment made, on the same schedule as regular UC, to the individual (Section 2004 (b)(2), CARES).
- FPUC is not payable to individuals receiving state additional compensation.

The Department expended **\$878,852,898.48** in FPUC benefits which is **30.95%** of the total grant expenditures and **is material**, see [\[Overview\]](#).

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## 5. Indirect Costs (not included in the Compliance Supplement):

- The Employment Security Department recovers indirect costs for the Unemployment Insurance grant (17.225) through a Cost Allocation Plan that is approved by the Department of Labor [[Approved Cost Allocation Plan FY 22-23](#)].
- The Department uses batch type CA for all cost allocations. To identify cost allocated expenditures, we ran an Enterprise Web Intelligence report using batch type "CA" and expenditure authority index (060, 180, 198, 225, 229, 231, 239, 240, 294, 298, 340, 360, 728, 730) with Expenditure Authority Types (2, 6, 8, N), see Cost Allocation workpaper [[17.225 FY22 Cost Allocation](#)].

There is a total of \$26,082,247.73 in cost allocated expenditures for the program which is 0.919% of total grant expenditures (\$2,839,326,703.84) for the UI program. This is less than our 5% materiality threshold. **No additional testwork is required.**

## Material Expenditures

During our expenditure analysis at [[FY22 Expenditure Report](#)], 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) - \$2,662,226,757.09 - 93.77% 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 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.

For SFY22, benefit payments (direct payments to clients) made up \$2,662,226,757.09, or 93.77% of total expenditures, see [[FY22 Expenditure Report](#)].

Controls and compliance for activities allowed/cost principles is determined during eligibility testing by ensuring the claimant was eligible and received the proper weekly benefit amount. We will document our understanding of internal controls under Eligibility, see [[E. Eligibility - Controls](#)].

## Key Internal Controls Identified:

**Employer wage data is automatically populated into UTAB from NGTS which is used as a component within UTAB to calculate the amount of premiums and claims to be paid to those claiming unemployment benefits. Once a day an automated process runs that compares wage records in NGTS to UTAB. Any records that were not received in UTAB are sent back through the regular update process until it is accepted (Key Control 1 - Automated - Control Activities).**

UTAB automatically uses the data from NGTS to determine if the claimant meets the eligibility requirements before calculating benefit amounts. The UTAB system determines if claimants meet the hourly eligibility requirements (at least 680 hours) to receive UI benefits (*note: we noted this as a key internal control over Eligibility at [E. Eligibility - Controls](#)*)

**Through UTAB and their Fraud Unit, ESD runs initial and weekly claims through the discovery process before payment goes out. The discovery**

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process is when claims are run through a variety of cross matches and queries, both internal and with other agencies and partners to identify and flag suspicious claims for identity verification (Key Control 2 - Automated - Control Activities).

UTAB sends a Request for Separation Information (RSI) form when a claim is filed to the last employer (only covered employment), and any employer that has a separation issue and does not meet purge requirements (*note: we noted this as a key internal control over Eligibility at E. Eligibility - Controls*)

The UTAB system properly assesses claimant's eligibility based on claimant's responses to the questions asked during weekly filing (*note: we noted this as a key internal control over Eligibility*).

Also, the UTAB system automatically and accurately calculates the unemployment benefit payment amounts (Key Control 3 – Automated - Control Activities).

On a monthly basis, the Treasury Department preforms a reconciliation of UTAB to WEBI reports and the trial balance from AFRS. This is when adjustments will be posted to ensure AFRS data is accurate and complete. After this is complete, the banking desk performs a reconciliation of AFRS to Key Bank. Once the reconciliation is complete Tai or Shelly Peterson, Assistant Treasury Manager, reviews the reconciliation to ensure the AFRS data is accurate and complete.

**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 to determine if we can place reliance on the controls.

### C.4.PRG - 17.225-Unemployment Insurance (UI) - ESD

**Procedure Step:** E. Eligibility - Controls

**Prepared By:** EWS, 2/16/2023

**Reviewed By:** ACS, 4/19/2023

Purpose/Conclusion.

**Purpose:**

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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 identify key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to eligibility of participants.

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

## **Source:**

- Deb Calcote, IT Systems Manager
- Amanda Rouse, System Business Analyst
- Jay Summers, External Audit Liaison
- Understanding of UTAB automated controls taken from the FY22 ACFR (*SI Washington-FS22*)

## **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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

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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).

Record of Work Done:

## **Inherent Risk of Noncompliance**

### **Step 1**

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 risks when designing our tests of compliance.

- **Risk:** Internal Control Environment - *There is a risk that internal controls are being overridden or not followed due to a lack of supervision.*
- **Risk:** UTAB Supervisory Reports - *There is a risk UTAB reporting weaknesses created greater opportunity for employee fraud.*
- **Risk:** Internal Control Training - *There is a risk that employees and supervisors do not understand internal controls to prevent fraud.*
- 

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**

We documented the following background information using 2 CFR Part 200 compliance supplement for 2022, Part 4 - Department of Labor, Subsection CFDA 17.225 Unemployment Insurance, Revised Code of Washington and the ESD website. The Employment Security Department determines eligibility for Unemployment Insurance. Requirements are outlined in RCW 50.20.



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## **1. Background**

### **Monetary**

To establish monetary eligibility in Washington, a claimant must have worked a minimum of 680 hours during the base year in employment on which an employer is required to pay the state UI tax or to reimburse the agency for any benefits paid. The base year consists of the first four of the last five completed calendar quarters before the week in which the claimant filed the claim. If the claimant did not work the required 680 hours during the regular base year, an alternate base year can be used. The alternate base year is the last four completed calendar quarters prior to the filing date of the application. Some employment, such as real estate or outside commission sales, may not be covered employment.

The claim is established for a "benefit year," which is 52 weeks beginning with the week the application is filed. An individual cannot file a new claim with Washington as the paying state until the benefit year is over, even though the claimant may have collected the maximum benefit payable (MBP). If the full amount of benefits is claimed, the maximum length of time benefits would last is 26 weeks.

The total amount of maximum benefits payable on the claim is found by taking the smaller of 1/3 of the total gross wages in all four quarters of the base year or 26 times the weekly benefit amount (WBA) determined, per RCW 50.20.120. Claims that have an effective date after April 22, 2005 have a WBA equal to three and eighty-five one-hundredths percent of the average quarterly wages of the individual's total wages during the two quarters of the individual's base year in which such total wages were highest.

If the claimant has an opportunity for part-time work and the "earnings deduction" is less than the weekly benefit amount, the claimant could receive partial benefits to extend the period of time that benefits could be drawn. Per RCW 50.20.130, "Each eligible individual who is unemployed in any week shall be paid with respect to such week a benefit in an amount equal to his weekly benefit amount less seventy-five percent of that part of the remuneration (if any) payable to him with respect to such week which is in excess of five dollars. The benefits in this section, if not a multiple of one dollar, shall be reduced to the next lower multiple of one dollar." Additional earnings may also help the claimant qualify for a new claim when the benefit year ends.

Since the MBP defines the total regular benefits (excluding extensions) that can be paid to the claimant during a benefit year and it is never more than 30 times the WBA, the claimant may receive the total of the MBP before the benefit year expires. Another benefit year cannot be established until the year expires on the first claim. Also, no benefits can be paid for weeks after the benefit year expires. The claimant is entitled to benefits only until the benefit year expires or the MBP is paid out, whichever comes first.

In addition, claimants who file another claim immediately after a benefit year expires must meet an additional requirement to qualify for the second claim: In addition to having worked 680 hours in the new base year, the claimant must have also worked and earned an amount equal to six times the new WBA after the start of the first claim. This prevents claimants from establishing monetary eligibility for a second claim based entirely on work performed before the first claim was filed.

### **Non-Monetary**

UI benefits are payable only to individuals unemployed through no fault of their own. A claimant establishing monetary eligibility for benefits must also meet other requirements; these are called "non-monetary eligibility" requirements. Non-monetary eligibility requirements fall into two categories: separation and non-separation issues. Non-monetary eligibility issues are resolved by making "non-monetary determinations" to allow or deny benefits. Separation issues involve the

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reasons an individual is unemployed from a specific employer. Non-separation issues are generally week-to-week questions about eligibility and include whether an individual is making an active work search, is able and available for work, and is reporting as required by the Department.

When a claimant files an application for benefits, ESD looks at all job separations from the beginning of the base year through the most recent job. When an existing claim is reopened, ESD looks at all job separations since the claimant last submitted a weekly claim. A quit or discharge from the claimant's last employer raises a job separation issue. A quit or discharge from other than the last employer will not be addressed if it has been at least 7 weeks since the separation and the claimant has worked and earned at least seven times the weekly benefit amount since that separation. (Exception: separations due to a felony or gross misdemeanor connected with the work.)

Claimants quitting work must establish "good cause" to be eligible for benefits. When a claimant is fired, the employer must establish the claimant was fired for misconduct connected with the work for the claimant to be denied benefits. After relevant facts have been gathered on a job separation issue, the department issues a written non-monetary determination to the claimant and employer, explaining why benefits are allowed or denied. A claimant or employer disagreeing with this written determination can file an appeal.

Claimants quitting work without good cause or discharged for misconduct connected with work are denied benefits beginning Sunday of the week of the quit or discharge and for an additional seven weeks, AND until they return to work and earn seven times their weekly benefit amount. Each week claimants certify as to whether they were able, available and actively seeking work, refused any work, worked or received certain types of income or payment during the previous week. Answers to these questions may cause the department to question a claimant's non-monetary eligibility.

Whenever a claimant's non-monetary eligibility is questioned, the claimant is provided adequate notice of the issue and an opportunity to be heard before an eligibility decision is made. When benefits are denied, it is in the form of a written determination that explains the reason and affords appeal rights.

This program has numerous different subprograms within it. Because of this we performed an expenditure analysis by project. See [\[FY22 Expenditure Report\]](#) and the table below for decisions on materiality of different programs. We listed eligibility requirements for only the material programs below.

| <b>Program Specific Expenditures</b> | <b>-</b>            | <b>-</b> | <b>Materiality</b> |
|--------------------------------------|---------------------|----------|--------------------|
| Regular UI (Includes administration) | \$ 1,195,377,564.38 | 42.10%   | <b>Material</b>    |
| EB                                   | \$ 1,465,102.85     | 0.05%    | Not-material       |
| Emergency UC (Recoupment)            | \$ (309,941.38)     | -0.01%   | Not-material       |
| UCFE                                 | \$ 9,701,436.16     | 0.34%    | Not-material       |
| UCX                                  | \$ 10,474,345.62    | 0.37%    | Not-material       |
| DUA-FEMA                             | \$ 338,562.33       | 0.01%    | Not-material       |
| TRA / RTAA                           | \$ 17,089,145.13    | 0.60%    | Not-material       |
| PEUC                                 | \$ 366,184,347.89   | 12.90%   | <b>Material</b>    |
| FPUC                                 | \$ 878,852,898.48   | 30.95%   | <b>Material</b>    |
| PUA                                  | \$ 294,982,975.72   | 10.39%   | <b>Material</b>    |

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|  |                            |                |              |
|--|----------------------------|----------------|--------------|
| MEUC   | \$ 61,720.00               | 0.00%          | Not-material |
| RESEA  | \$ 8,688,660.10            | 0.31%          | Not-material |
| Shared Work  | \$ 9,603,168.32            | 0.34%          | Not-material |
| Other Pandemic (Recoupment, Waiting Week, 50% Reimb, ARPA Admin) | \$ 46,219,581.40           | 1.63%          | Not-material |
| State Directed Projects  | \$ 597,136.84              | 0.02%          | Not-material |
| <b>Total</b>   | <b>\$ 2,839,326,703.84</b> | <b>100.00%</b> |              |

### **2. Federal Eligibility for Individuals (2 CFR 200, Appendix XI, Compliance Supplement)**

A note on temporary emergency flexibilities. Section 4102(b), EUISAA, provides states with the ability to modify or waive certain aspects of their UC law as needed to respond to the spread of COVID-19. These provisions include work search, waiting week, good cause, and employer experience rating. If exercised, the state's regular eligibility requirements described below regarding work search, waiting week, good cause, and employer experience rating may be modified or waived for a temporary period of time in response to the spread of COVID-19. A state should have supporting documentation (e.g., statutory changes, emergency rules, or executive orders) if these temporary flexibilities were exercised for the time period in question (see Section 5 of UIPL No. 13-20 for emergency flexibilities).

#### **Regular Unemployment Compensation Program**

Under state UC laws, a worker's benefit rights depend on the amount of the worker's wages and/or weeks of work in covered employment in a "base period." While most states define the base period as the first four of the last five completed calendar quarters prior to the filing of the claim, other base periods may be used. To qualify for benefits, a claimant must have earned a certain amount of wages or have worked a certain number of weeks or calendar quarters within the base period or meet some combination of wage and employment requirements. Some states require a waiting period of one week of total or partial unemployment before UC is payable. A "waiting period" is a non-compensable period of unemployment in which the worker is otherwise eligible for benefits. To be eligible to receive UC, all states provide that a claimant must have been separated from suitable work for non-disqualifying reasons under state law (i.e., not because of such acts as leaving voluntarily without good cause or discharge for misconduct connected with work). After separation, he or she must be able and available for work, actively seeking work, legally authorized to work in the United States and must not have refused an offer of suitable work.

Aliens must show proof that they are authorized to work by the US Citizenship and Immigration Services (USCIS) in order to be eligible to receive a federal public benefit (42 USC 1302b-7(d) and (e)).

#### **PUA**

PUA provides benefits to covered individuals, who are those individuals not eligible for regular unemployment compensation (UC or extended benefits under state or federal law or Pandemic Emergency Unemployment Compensation (PEUC), including those who have exhausted all rights to such benefits. Covered individuals also include self-employed, those seeking part-time employment, individuals lacking sufficient work history, and those who otherwise do not qualify for regular unemployment compensation or extended benefits under state or federal law or PEUC.

PUA is payable to individuals who are ineligible for regular UC, and are unemployed, partially unemployed, or unable or unavailable to work due to one of the COVID-19 related reasons identified Attachment I to UIPL No. 16-20, Change 5. Section 2102(a)(3)(A)(ii)(I) of the CARES Act included 10 specific COVID-19 related reasons. The Department, under the authority provided by Section 2102(a)(3)(A)(ii)(I)(kk) of the CARES Act, has added additional COVID-19 related reasons; these are discussed in more detail in Section 4.a. of UIPL No. 16-20, Change 5. While three of these new COVID-19 related reasons were introduced to

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states with the publication of UIPL No. 16-20, Change 5 on February 25, 2021, all COVID-19 related reasons apply retroactively to the beginning of the PUA program.

## **PEUC**

To be eligible for PEUC, a claimant must have exhausted all rights to regular compensation under state law or federal law with respect to a benefit year that ended on or after July 1, 2019; have no rights to regular compensation with respect to a week under any other state UC law or federal UC law, or to compensation under any other federal law; are not receiving compensation with respect to a week under the UC law of Canada; and are able to work, available to work, and actively seeking work, while recognizing that states must provide flexibility in meeting the “actively seeking work” requirement if individuals are unable to search for work because of COVID-19, including because of illness, quarantine, or movement restriction.

## **FPUC**

To be eligible for FPUC during the program dates described in Section 8 above, individuals must be eligible to receive at least \$1 of underlying benefits for the week in question (including regular UC, UCFE, UCX, PEUC, PUA, EB, STC, TRA, DUA, and SEA). FPUC does not require the individual to submit a separate initial application or continued claim.

## **Scope of Work:**

We reviewed the scope of work per the grant agreement and Part 4 of the Compliance Supplement\ We also reviewed the Enterprise Web Intelligence expenditure reports run through the end of the audit period [[FY22 Expenditure Report](#)] to determine where funds were expended. Of the \$2,839,326,703.84 in expenditures for the UI program \$2,662,226,757.09 (93.77% ) were from benefit payments (NA). The following programs met the materiality threshold for testing:

- **Regular UI: \$1,195,377,564.39 or 42.10% of total expenditures**
- **PUA: \$294,982,975.72 or 10.39% of total expenditures**
- **PEUC: \$366,184,347.89 or 12.90% of total expenditures**
- **FPUC: \$878,852,898.48 or 30.95% 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 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.

## **Gain an Understanding of Internal Controls:**

### **Benefit Calculations and Recordings**

We met with the following people on 6/2/2022 to update our understanding over premiums and claims (benefit calculations and recordings):

- Deb Calcote, IT Systems Manager
- Amanda Rouse, System Business Analyst

Employers file quarterly wage reports that identify the employee name, social security number, the number of hours worked, and the amount paid. This information is entered into the Next Generation Tax System (NGTS). Employer wage data is automatically populated into UTAB from NGTS which is used as a

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component within UTAB to calculate the amount of premiums and claims to be paid to those claiming unemployment benefits. Once a day an automated process runs that compares wage records in NGTS to UTAB. Any records that were not received in UTAB are sent back through the regular update process until it is accepted (**Key Control 1 - Automated**). Individuals can file for unemployment benefits either through an agent, online, or by using an automated phone system. The claim, including name and social security number, is automatically populated into UTAB. If there is a problem with the information received, or if information is missing, the application will be completed by phone between the claimant and a TeleCenter employee. UTAB automatically uses the data from NGTS to determine if the claimant meets the eligibility requirements before calculating benefit amounts. The UTAB system determines if claimants meet the hourly eligibility requirements (at least 680 hours) to receive UI benefits (**Key Control 2 – Automated**). After an individual files for unemployment benefits, the claimant must file a weekly claim at the beginning of the next week in order to begin receiving benefits.

Weekly claims are normally paid the following day. However, as of 7/18/2020 there is a 2 day hold on all benefit payments (excluding claims filed through the Interactive Voice Response phone system) before payment goes out. Through UTAB and their Fraud Unit, the ESD run initial and weekly claims through the discovery process before payment goes out. The discovery process is when claims are run through a variety of cross matches and queries, both internal and with other agencies and partners to identify and flag suspicious claims for identity verification (**Key Control 3 - Automated**). Payments are paused on flagged claims until the identity case is resolved. Payment is paused on flagged claims until the identity case is resolved. Claims with no responses or insufficient information to verify a claimant's identity will be denied, preventing payment. See more details about the 48 hour review process for detecting fraud based off UTAB data patterns and analytics at: [\[48 Hour Fraud Detection Process\]](#).

UTAB sends a Request for Separation Information (RSI) form when a claim is filed to the last employer (only covered employment), and any employer that has a separation issue and does not meet purge requirements (**Key Control 4 - Automated**). Also, per the [Unemployment Worker Handbook](#) the ESD verifies the information that the claimant provides with the employer. Claimants do not receive benefits if they have been disqualified due to a job separation, a job refusal, unavailability for work, or other issues.

Note: The ESD does not send a RSI form for PUA claims. The ESD has been retroactively verifying self or partial employment wages through documentation provided by the claimant. This is because there was no federal requirement for verifying wages until December 2020. As of December 2020 ESD has been retroactively verifying wages for claimants who are self or partially employed.

When a claimant is being approved they are classified under the one (or many) of the following unemployment programs:

- Regular Unemployment Compensation (UC - State Trust Fund Funded)
- Unemployment Compensation for Federal Employees (UCFE - Federally Funded)
- Unemployment Compensation for Ex-Service Members (UCX - Federally Funded)
- Pandemic Emergency Unemployment Compensation (PEUC)
- Extended Benefits (EB)
- Pandemic Unemployment Assistance (PUA)
- Federal Pandemic Unemployment Compensation (FPUC)
- Lost Wages Assistance (LWA)
- Pandemic Relief Payments (PRP)

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- Disaster Unemployment Assistance (DUA)
- Mixed Earners Unemployment Compensation (MEUC)
- Shared Work
- Trade Readjustment Allowances (TRA)
- Reemployment Trade Adjustment Assistance (RTAA)

Note: Several programs have ended, however we left information for the programs due to the Department still paying out benefits retroactively.

ESD's [COVID-19 Information](#) web page provides details about eligibility requirements and changes in regards to federal UI programs.

Also, UTAB maintains the eligibility determination (the [Unemployment Worker Handbook](#) describes eligibility requirements). Then, the claimant must file a claim each week until they want the benefit to stop. The UTAB system properly assesses claimant's eligibility based on claimant's responses to the questions asked during weekly filing (**Key Control 5 - Automated**). If an answer requires follow up a questionnaire is sent to the claimant, a code is recorded in UTAB, and benefit is paid. If no reply is received, ESD assumes claimant is not eligible and claimant will be asked to repay benefit.

### **Job Search Review - Continued Eligibility**

As a condition of receiving benefits, unemployment insurance claimants are required to be able and available for work, in the labor force, and not have refused an offer of suitable work. While receiving benefits, State law requires claimants to document attempts to find work ([WAC 192-180-010](#)). It also requires the Department to monitor job search activity to ensure claimants document at least three job search efforts each week ([RCW 50.20.240](#)). The Job Search Review Center (JSRC) helps ensure claimants are able and available for work, in the labor force, and conducting the required job searches. State law establishes penalties for claimants who do not comply with job search requirements, including the loss of benefits for weeks in which fewer than three job contacts are made. Claimants who are found to have been out of compliance after benefits had been paid are liable for repayment of those benefits.

In 2020, due to COVID-19, the Governor ordered the cessation of certain activities. This included the Job Search Requirements under the Washington State Governor's Proclamation 20-05, [<https://www.governor.wa.gov/sites/default/files/proclamations/20-05%20Coronavirus%20%28final%29.pdf>] and subsequent proclamations. [The governor ended Proclamation 20-05 on October 28, 2022](#). Job Search functions were suspended with the issuance of CR-103E, March 24th, with an effective date of March 8th, 2020. The Department of Labor had authorized the suspension of certain requirement, under UIPL 13-20 which states: *Existing federal UC law requires that claimants be able to work, available for work, and actively seeking work. [...] Building on the flexibility described in UIPL No. 10-20, the passage of EUISAA allows for states to provide for an emergency temporary modification or suspension of the "actively seeking work" requirements as needed to respond to the spread of COVID-19. States may consider applying this emergency temporary flexibility to all individuals collecting UC and not just those recently separated. This allows individuals to more effectively comply with the social distancing recommendations of federal, state, and local government officials to mitigate the spread of COVID-19. States can also continue using the flexibilities for able-and-available requirements set out in UIPL No. 10-20.*

Scott Michael provided the federal authority and guidance for waiving job search requirements as part of pandemic response:

- <https://www.congress.gov/bill/116th-congress/house-bill/6201/text> (FFCRA, § 4102)
- [https://wdr.doleta.gov/directives/corr\\_doc.cfm?DOCN=8634](https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=8634) (Unemployment Insurance Program Letter No. 13-20)

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- [https://wdr.doleta.gov/directives/corr\\_doc.cfm?DOCN=5374](https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=5374) (Unemployment Insurance Program Letter No. 13-20, Change 1)

The Department issued an amendment to WAC 192-170-010 that suspended the search requirement through from March 8, 2020, to July 4, 2021 under the Governor's Proclamation [20-30.12](#). [Job Search Requirement Controls will be considered from July 5, 2021 through June 30, 2022, and no substantive requirement exists for this period of time.](#)

The employee information for unemployment compensation for UCFE and UCX is manually input into UTAB based on the information provided to ESD from the Federal Claims Control Center. The Federal Claims Control Center is responsible for receiving the wage reports from other states and the Military. The calculation for the unemployment benefits is determined by the same process as described below.

The weekly benefit amounts are determined by the Labor Market and Performance Analysis (LMPA) division of ESD for the fiscal year based on the prior calendar year wage information then provided to UTAB programmers to input into the system. The total amount of maximum benefits payable on the claim is found by taking the lesser of 1/3 of the total gross wages in all four quarters of the base year or 26 times the weekly benefit amount (WBA) determined, per [RCW 50.20.120](#) and [Unemployment Worker Handbook](#). Claims that have an effective date after April 22, 2005 have a WBA equal to three and eighty-five one-hundredths percent of the average quarterly wages of the individual's total wages during the two quarters of the individual's base year in which such total wages were highest. Based on reported employment records, the UTAB system automatically and accurately calculates the unemployment benefit payment amounts (**Key Control 6 – Automated**). ESD employees cannot modify the benefit payment amount but can affect the benefit amount by modifying the wage data in NGTS. This can only be done by staff who work with employer tax data and employers are informed of any changes made to past data.

The UTAB system makes systematic decisions regarding claimant eligibility based on claimant inputs or inputs by staff on behalf of claimants. UTAB follows rules defined by ESD to ensure all eligible claimants receive benefits. Denied claims are eligible for a redetermination decision and a formal appeal process is in place to ensure claimants are not incorrectly denied benefits. A redetermination is performed by an adjudicator to determine if the denial needs to be changed. If an adjudicator decides to still deny the claim then the claimant has the option to go through a formal appeal. A non-monetary decision has to go through a manual process, however a monetary decision is automatic since it's an automatic system calculation in UTAB.

Note: If it's a non-monetary reasoning (able/available and separation) for the denial then the claimant can go straight to the appeal. If the reasoning is monetary then the claim has to go through a re-determination before an appeal may be filed.

## Key controls are as follows:

- **Key Control 1 (Automated):** UTAB wage and hour data, which is used to calculate the benefits paid to claimants is automatically populated by NGTS. Once a day an automated process runs that compares wage records in NGTS to UTAB. Any records that were not received in UTAB are sent back through the regular update process until it is accepted. (Control Activities)
- **Key Control 2 (Automated):** The UTAB system determines if claimants meet the hourly eligibility requirements (at least 680 hours) to receive UI benefits. (Control Activities)

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- **Key Control 3 (Automated):** Through UTAB and their Fraud Unit, the ESD run initial and weekly claims through the discovery process before payment goes out. The discovery process is when claims are run through a variety of cross matches and queries, both internal and with other agencies and partners to identify and flag suspicious claims for identity verification. (Control Activities, Monitoring)
- **Key Control 4 (Automated):** When a claim is filed, UTAB sends a Request for Separation Information form to the last employer (only covered employment), and any employer that has a separation issue and does not meet purge requirements. (Information and Communication)
- **Key Control 5 (Automated):** The UTAB system properly assesses claimant's eligibility based on claimant's responses to the questions asked during weekly filing, including job search requirements. (Control Activities)
- **Key Control 6 (Automated):** The UTAB system automatically and accurately calculates the unemployment benefit payment amounts. (Control Activities)

**Evaluation of results:** We did not identify any control deficiencies. We determined that we will not test the PUA claimant eligibility requirement related to submitting documentation substantiating employment or self-employment. We also determined that we will not test Job Search Requirement Controls as no requirement exists during the audited period due to the Governor waiving job search requirements.

### 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.

### 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.4.PR.G - 17.225-Unemployment Insurance (UI) - ESD

*Procedure Step:* H. Period of Performance - Controls  
*Prepared By:* EWS, 3/8/2023  
*Reviewed By:* ACS, 4/20/2023



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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 key internal controls the agency has established to prevent or detect noncompliance with period of performance requirements.

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

**Source:**

Jay Summers, External Audit Manager

Mario Wells, Grants and Payables Manager

Tai Ralston, Treasury Accounting Manager

Shelly Peterson, Assistant Treasury Manager

**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**

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\*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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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).

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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.***

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

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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).

| 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 | On the date on which the State or subgrantee makes a binding written                                     |

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|  |   |
|--|---|
| or subgrantee.   | 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:

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

The compliance supplement for 2022, Part 4, states the following about the Period of Performance compliance requirement:

1. *TRA/ATAA/RTAA* – Funds allotted to a state for any fiscal year are available for expenditure by the state during the year of award and the two succeeding fiscal years (Section 130 of Pub. L. No. 107-210, 116 Stat. 942; 19 USC 2317).

- TRA/ATAA/RTAA totaled **\$17,089,145.13**, which is **0.60%** of the total grant expenditures and **not material**. Funds for ATAA and RTAA fall under TRA expenditures.

2. *DUA* – Funding for each disaster is provided separately for administrative costs and benefits. States must report the cost of each disaster separately by

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administrative cost and benefits. The funding period for disasters generally covers a 26-week period after the declaration has been declared. Within 60 days after all payment activity has been concluded for a particular disaster, which may be less than 26 weeks after declaration, the DUA program should be closed out by the state.

- **DUA** totaled \$338,562.33, which is **0.01%** of the total grant expenditures and **not material**.

3. *Extended Benefits* – Extended Benefits are paid based on statutory triggers.

- **EB** totaled \$1,465,102.85, which is **0.05%** of the total grant expenditures and **not material**.

4. *Temporary Federal Extension and Supplemental Payments* – For the period of performance for Pandemic Unemployment Assistance (PUA), PEUC, Federal Pandemic Unemployment Compensation (FPUC), and Mixed Earners Unemployment Compensation (MEUC), refer to Attachment II of UIPL No. 14-21 for the most recent start and end dates for these temporary federal extensions. [States may continue to report activity on these programs beyond the ending of the program. Currently, the period of performance for these programs is 6/30/2022. This date may be extended if activity is expected to continue beyond this date.](#)

### 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 2/17/2023, we met with Jay Summers, External Audit Manager, Mario Wells, Grants and Payables Manager, Shelly Peterson, Assistant Treasury Manager, and Tai Ralston, Treasury Manager, to discuss the controls related to the period of performance.

The period of performance for the Unemployment Insurance Administration grants begins with the receipt of the Notice of Obligation (NOO) from the Department of Labor. The UI Admin grant must be obligated within 15 months of the start of the period of performance. The first quarterly report is the quarter when the period of performance is first active. Quarterly reports continue to be submitted quarterly until the period of performance has ended or the grant is fully spent and no further expenditures will be charged to the grant (whichever is sooner), as recorded in ETA 9131 reporting. When a grant is fully spent or the period of performance has ended, the project codes are closed in the Chart of Accounts to prevent further charges to the grant. A closeout report is prepared for each grant which is due to USDOL within 90 days after the period of performance ends. Grants are closed on October 10th to fall in line with federal expenditures. [Mario and Shelly mentioned that the year end close out may be extended to 120 days based on guidance from USDOL in 2020.](#)

The amount of the award is provided in the original NOO; however, the grant amount is subject to change. Amendments to the grant are communicated through a grant modification letter. It is the Department's practice to expend the oldest grants first (FIFO) to ensure federal funds are not lost to the period of performance. When a new grant is awarded, the Department (Linh Nguyen in conjunction with Grant accounting) sets up new project codes in the Chart of Accounts. This allows them to distinguish between the grants that are still open and ensure the period of performance requirements are met (**Key Control #1 - Control Activities**).

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To ensure the grant projects are billed to correctly and that obligations are not being billed to after the close-out of the grant, Sophal's team runs a report by project once a month (around the 20th of the month). [Mario's team will be responsible for this process in FY 2023 but Sophal's team did this in FY 2022.](#) The report form she runs is the Project Management report in Enterprise reporting. This report pulls AFRS expenditure and revenue data by project. They enter expenditure and revenue data on a grant budget sheet in Excel that they maintain for every grant. Budget sheets track expenditures by month and compare monthly and cumulative expenditures against the total grant amount to identify trends and monitor over spending. Sophal also reviews the period of performance to ensure that the recorded expenditures fall within the period of performance. She reviews these reports to ensure the correct project codes are being billed to and grant awards are not being billed to after their period of performance. Each report is by department rather than by EAI or project and uses budgeted / projected values to monitor spending.

At the end of the federal fiscal year (September 30th), Sophal's team prepares a summary of expenditures across all ESD grants for all projects / EAI's to determine if a grant is over or underspent. They document the summary on an excel file that outlines the grant, period of performance for each grant, expenditures to date, and remaining funds (if any). If a grant is overspent, budgeting staff prepare a JV to adjust expenditures from the old grant to a new grant (provided the grant is renewed from year to year). If the grant is underspent, she prepares a memo for the director outlining the amount of funds available and why they should continue spending on the old grant before switching to the new one. **(Key Control #2 - Monitoring).**

Brenda Halbert, Grant Accounting unit, runs an Enterprise project management report for every grant each quarter if the period of performance is open (unless they previously fully spent the grant and marked a previous quarterly 9130 report final). Expenditure and revenue data are entered on the ETA 9130 that is sent to DOL. She verifies that the grant has not been over expended. When the period of performance of a grant ends, Brenda prepares a closeout report within 90 days of the end date. [There is an ETA 9130 report every 30-45 days and the close out is 90 days.](#)

We confirmed that the spreadsheets track the administrative charges to the grants. Tai Ralston indicated that project codes with 4 numbers (such as 2100, 2101, 2340, etc). The actual benefits paid from the grants reside in UTAB.

The benefits are drawn by the Treasury Department daily and reconciled as part of the Treasury Department's monthly reconciliation process, as follows:

Each day, Son Pham, Fiscal Analyst 4, enters the daily total into the Excel spreadsheet "Monthly AFRS JV". Monthly, UTAB data is automatically imported into AFRS on the 6th business day of the following month at a summary level. UTAB imports are reconciled each month by comparing the monthly activity WEBI report to the "Monthly AFRS JV" (daily entry). If needed, she also uses additional UTAB reports to support reconciling items. Manual JVs are done to make any adjustments to AFRS.

Monthly, Son prepares the JV from the "Monthly AFRS JV" Excel workbook. While Son prepares the JV, Tai Ralston, Treasury Manager, simultaneously reviews and posts the JV. The Treasury Department then performs a reconciliation of UTAB to WEBI reports and the trial balance from AFRS. **(Key Control #3 - Monitoring).** This is when adjustments will be posted to ensure AFRS data is accurate and complete. After this is complete, the banking desk performs a reconciliation of AFRS to Key Bank. While these reconciliations are performed for every month it is often not completed until 30-60 days after month end. This is because any discrepancies are investigated and corrected until the differences for the month are within a "tolerable" level of variance. Once the reconciliation is complete, Tai or Shelly Peterson, Assistant Treasury Manager, reviews the reconciliation to ensure the AFRS data is accurate and complete.

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Son also generates daily and monthly reports from UTAB (see list below). If errors are found, the accounting department prepares a JV to correct the activity in the following month's activity. The Treasury Manager reviews and signs the bank reconciliation, indicating reconciling items are accurate with tickmarks.

Monthly UTAB Reports used in Benefit Account Reconciliation:

- Issued Funds (Benefit Payments & Refunds) filtered by payment channel (standard paper checks) (bank reconciliation)
- Intercepted Money filtered for the month (benefits issued to claimant paid to another source for back taxes or child support)
- UTAB Repayments (Details) filtered by source (KeyBank Electronic Bill) and reason (returned payment)
- UTAB Repayments (Details) filtered by source (lockbox) and reason (returned payment)
- Legacy Un-Validated Payment Offset and Reversal Summary (no FTI) FTI = Federal tax information
- General Ledger Posting filtered for cash draws related the end of the month and posted in the following month (dates depended on the month and business days)
- General Ledger Posting filtered for book transfers related to the end of the month and posted in the following month (dates depended on the month and business days)

Daily UTAB Reports used in Benefit Account Reconciliation - daily reconciliation used to verify the monthly reconciliation:

- Issued Funds (Benefit Payments & Refunds) filtered by date (dates depended on the month and business days)

## Identified Key Controls:

**Key Control #1 – The Department establishes new project codes with each new grant award to help track expenditures and ensure the period of performance requirements are met (Control Activities).**

**Key Control #2 – Budgeting reviews expenditures in a summarized excel sheet at the end of the federal fiscal year for each grant held by ESD (including UI) and determines if the grant is under or overspent. If a grant is overspent, they prepare a JV to adjust funds to the new grant. If the grant is underspent, they prepare a memo to the director recording the amount underspent and plan to expend remaining funds while the period of performance is still open. (Monitoring)**

**Key Control #3 – Each month, a fiscal analyst in the Treasury Department pulls general ledger activity reports and reconciles the activity into the “Monthly AFRS JV” Excel file to ensure grant awards are not being billed to after their period of performance, which is then reviewed by the Manager in the Treasury Department. (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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## C.4.PR.G - 17.225-Unemployment Insurance (UI) - ESD

*Procedure Step:* L. Reporting - Controls

*Prepared By:* SBG, 10/27/2022

*Reviewed By:* ACS, 1/20/2023

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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

### **Source:**

#### **ETA 9130**

Mary Merrill, Grants/Vendor Pay Manager

#### **ETA 2208A**

Sophal Espiritu, Funds Manager

#### **ETA 2112 & 191**

Shelly Peterson, Fiscal Analyst 5

#### **ETA 9050, 9052, 9055**

Samuel Havens, Management Analyst

Karen Gibeau, Data Consultant

### **Conclusion:**

#### **ETA 9130, ETA 2208A, ETA 2112, ETA 191, ETA 9050, ETA 9052:**

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

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## ETA 9055:

Based on our understanding of internal controls over Reporting, we found the agency does not have adequate internal controls to prevent material noncompliance, and there are no key internal controls over this report. Therefore we assess **preliminary control risk as high and will report a finding**. No internal control testing is necessary in this instance. See issue at 2022-005 The Employment Security Department did not have adequate internal controls to ensure it submitted accurate monthly reports for the Unemployment Insurance program.

### 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.*

#### **AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

##### **Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282)**

**(Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

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**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

**(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).

### **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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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**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.*

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**

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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)<br/>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**

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 Reporting.

**L. Reporting**

**1. Financial Reporting**

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- a. *SF-270, Request for Advance or Reimbursement* – Not Applicable
- b. *SF-271, Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- c. *SF-425, Federal Financial Report* – Not Applicable
- d. *ETA 9130, Financial Status Report, UI Programs* – This report is used to report program and administrative expenditures. All ETA grantees are required to submit quarterly financial reports for each grant award which they operate, including standard program and pilot, demonstration, and evaluation projects. Financial data is required to be reported cumulatively from grant inception through the end of each reporting period. Additional information on *OMB Number 1205-0461* can be accessed at <http://www.doleta.gov/grants/> and scroll down to the section on Financial Reporting. A separate ETA 9130 is submitted for each of the following: UI, PEUC, and PUA Administration, DUA, TRA/RTAA, and UA Projects (administration and benefits). See TEGL No. 02-16 for specific and clarifying instructions about the ETA 9130 [https://wdr.doleta.gov/directives/corr\\_doc.cfm?DOCN=5156](https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=5156).
- e. *ETA 2112, UI Financial Transaction Summary (OMB No. 1205-0154)* – A monthly summary of transactions, which account for all funds received in, passed through, or paid out of the state unemployment fund (ET Handbook 401).
- f. *ETA 191, Financial Status of UCFE/UCX (OMB No. 1205-0162)* – Quarterly report on UCFE and UCX expenditures and the total amount of benefits paid to claimants of specific federal agencies (ET Handbook 401).

### 2. Performance Reporting

States are required to submit periodic reporting to evaluate the performance of the states' UI programs. The auditor should test the information included in the key reports included below that ensure the timeliness of benefits paid. Detailed information on these reports can be accessed under: [https://wdr.doleta.gov/directives/attach/ETAH/ETHand401\\_5th.pdf](https://wdr.doleta.gov/directives/attach/ETAH/ETHand401_5th.pdf).

| Report Name  | Frequency of Submission | Reference Core Measure   | Sections for Test                   |
|--|-------------------------|--|-------------------------------------|
| ETA 9050 – Time Lapse of All First Payments except | Monthly                 | First Payment Time Lapse 14/21 days, Interstate and Intrastate | Section A. Do not include Workshare |

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|   |         |   |  |
|---|---------|---|--|
| Workshare   |         | UI, UCFE, and UCX, full and partial weeks                       |  |
| ETA 9052 –<br>Nonmonetary<br>Determination Time<br>Lapse Detection          | Monthly | Nonmonetary<br>Determinations 21-Day<br>Timeliness              | Sections A, B, and C   |
| ETA 9055 –<br>Appeals Case Aging<br>– Lower and Higher<br>Authority Appeals | Monthly | Average Age of Pending<br>Lower and Higher<br>Authority Appeals | Section A. Exclude the<br>test for states that do not<br>have Higher Authority<br>Appeals. |

### 3. Special Reporting

*ETA 22084, Quarterly UI Above-Base Report (OMB No. 1205-0132)* – Quarterly report of staff years worked and paid by program category. Key line items are one through seven of Section A. The auditor is not expected to test sections B through E.

### 4. Special Reporting for Federal Funding Accountability and Transparency Act

See Part 3.L for audit guidance.

**Not Applicable** - *Per the SEFA and a search of the FFATA reporting system (USASpending.gov), we determined that there are no subawards (subrecipients) for this program. In addition, on 8/23/22, confirmed with Sophal Espiritu, Funds Manager, that no funds passed through the subrecipients for the UI program (CFDA 17.225).*

See all grant award numbers with expenditures during the audit period at [FY22 Expenditure Report](#).

## Financial Reporting

### a. ETA 9130, Financial Status Report, UI Programs

#### 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

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environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

A separate ETA 9130 is submitted each quarter for each fiscal year of funds until a final ETA 9130 is submitted. The State submits a final ETA 9130 when all financial activity has ceased and the unobligated balance is zero, or the project period is closed. Additionally, a separate ETA 9130 is submitted for each of the following: UI Administration, CARES Act funding (PUA, PEUC, FPUC, MEUC), RESEA, UI Integrity Grants, Emergency Unemployment Compensation, TRA Benefits, and ATAA Program.

On 8/23/22, we met with Mary Merrill, Grants/Vendor Pay Manager; and Brenda Halbert, Fiscal Analyst, to discuss the processes in place over the ETA 9130 reports. When speaking with Mary and Brenda, we found them to be knowledgeable about the process of preparing and submitting the ETA 9130 (**Control Environment**). Mary files the ETA 9130 – Financial Report on a quarterly basis for each grant that is active during that quarter, even if there are no expenditures associated with a particular grant award. To do this, an analyst must first log into the DOL - Grantee Reporting System. The most current reports will populate for each grant about 15 days after the quarter ends. At this point, the analyst must collect some data reports to ensure that they are filling in the report accurately. Mary stated that the department uses reports that are run out of Enterprise on a monthly and quarterly basis. The report that is normally used is the "project management flexible by project" for each of the grant awards, one by cash and accrual, and one by accrual only. Revenue drawn in DOL's records automatically populates on the 9130. The analyst uses an internal report that shows Payment Management System revenue draws and balances to ensure the records match the revenue shown by USDOL. (**Key Control #1 - Control Activities**).

Once everything is entered, the analyst will save their work as PDFs and save it in the shared drive. The report will say "awaiting certification as of" and the date. The analyst notifies Mary that it is ready for her to check and approve. She compares all supporting documents to the report to verify that it is correct. She will then log in to the DOL system as a certifier and she will certify the current report. (**Key Control #2 - Control Activities/Monitoring**) The certified report will say "is certified as of" and the date at the top. The certified report is then saved as a PDF and is filed in the shared drive. Once this has happened, it is up to DOL to accept the report. Once the San Francisco DOL Regional Office has finally accepted the report, an analyst will save the report as a PDF on the shared drive. The report will say "accepted by" with the DOL employee name. The Department keeps an electronic file of all 9130 Financial Reports on the shared drive for each grant year along with all supporting documentation. Once the grant term is up, the Department will file a final close out 9130. They are allowed 90 days to do this close out before submitting the report. Once the report is submitted to the main office of DOL, they will open a final close out report for the analyst to complete and resubmit.

### Identified Internal Controls:

**Key Control #1 - The Fiscal Analyst uses records and system reports as the basis for the ETA 9130 (Control Activities).**

**Key Control #2 - The Grants/Vendor Pay Manager compares the amounts entered within the ETA 9130 to supporting documents to ensure that the amounts are accurate and then certifies that the report is correct in the Grantee Reporting System (Control Activities/Monitoring).**

**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 at , to determine if we can place reliance on the controls.

## b. ETA 2112, UI Financial Transaction Summary

### 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.

The ETA 2112 report is a monthly summary of transactions, which account for all funds received in, passed through, or paid out of the State unemployment fund.

On 8/22/22, we met with Shelly Peterson, Fiscal Analyst 5; and Tai Ralston, Treasury Manager, to discuss the process in place over the preparation and submittal of the ETA 2112 report (UI Financial Transaction Summary). We were informed that Shelly completes the report and Tai reviews it. Shelly started by showing us the written procedures that she follows to complete this report monthly (**Key Control #1 - Control Environment**). We noted that there were procedures utilizing the UTAB system.

When preparing the report, Shelly must first collect specific source reports (**Key Control #2 - Control Activities**). These reports are journals that show data from AFRS. Information is uploaded into AFRS once a month before fiscal month close (**Information and Communication**). During the month, information is pulled from UTAB and NGTS to populate an internal spreadsheet. After the UTAB file is sent to AFRS, a reconciliation is done between AFRS and the internal spreadsheet. The spreadsheet populates the ETA 2112 report embedded in the internal spreadsheet. Shelly uses the internal journals to verify that the information in the ETA 2112 is correct. The following journals are used to complete the report:

- Month UC Clearance Journal
- UC State Benefits Journal
- Federal Benefit Journal
- UC Trust fund Journal
- UTAB - State Agency Billing and Receipts
- UTAB - Computation of Fed OP/Interest/Penalties/and State OP Portion
- UTAB - UI Financial Transaction Summary

Shelly will then use specific totals from each journal to populate a spreadsheet that is utilized to complete the final ETA 2112. She stated that each tab on the spreadsheet coincides to one of the journals. The final tab "ETA 2112" contains the exact fields that are need to complete the report. She also informed us that the "ETA 2112" tab is pre-populated from the other tabs on the spreadsheet (**Control Activities**). This helps to eliminate errors.

Tai then traces the bottom line totals (line 49 on the report) for the three columns Clearing Account (column D), Unemployment Trust Fund Account (column E),

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and Benefit Payment Account (column F) to the supporting documents. These documents are then reconciled to the UC Clearance Journal (column D), the trust fund balance as reported on the US Treasury Departments public debt web site (column E), and the reconciled Benefit Payments Journal. If the amounts on the report match the supporting documentation she will sign and date the report as having been reviewed and approved (**Key Control #3 - Control Activities/Monitoring**). If a discrepancy is noted she will direct Shelly to research it and determine where the error is prior to approval.

## Identified Internal Controls:

**Key Control #1- The Department has written policies and procedures instructing staff on how to accurately report the ETA 2112 (Control Environment)**

**Key Control #2 - The Fiscal Analyst uses records and reports as the basis for the ETA 2112 (Control Activities).**

**Key Control #3 - The ESD Treasurer compares the amounts entered within the ETA 2112 to supporting documents to ensure that the amounts are accurate and then certifies that the report is correct (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 at , to determine if we can place reliance on the controls.

## c. ETA 191, Financial Status of UCFE/UCX

### 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.

This is a quarterly report on UCFE and UCX expenditures and the total amount of benefits paid to claimants of specific Federal agencies.

On 8/22/22, we met with Shelly Peterson, Fiscal Analyst 5; and Tai Ralston, Treasury Manager, to discuss the process in place over the preparation and submittal of the ETA 191 report (Financial Status of UCFE/UCX). We were informed that Shelly is responsible for completing the report and Tai reviews it. Shelly started by showing us the written procedures that she follows to complete this report (**Key Control #1 - Control Environment**). We noted that there were procedures utilizing the UTAB system. We were informed that the ETA 191 is reported quarterly to the U.S. Department of Labor.

Shelly uses a report titled ETA 191 generated from UTAB (**Key Control #2 - Control Activities**). To ensure the figures documented on this report are accurate, Shelly will compare them to the totals in NGTS. She enters the employers that are reported as having UI benefits paid into an excel spreadsheet and then logs into NGTS. She enters the benefits paid amount in NGTS onto the spreadsheet and does a comparison. If the numbers match, she can use the final figures on the report. If they do not, she will need to investigate. Any variances were documented and the support is kept with the coinciding report.

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Tai reviews the ETA 191 report and supporting documentation prior to transmittal of the report to the U.S. Department of Labor. She will ensure the number reported ties back to NGTS. She then signs the report to indicate approval after which Shelly proceeds to key the data into the Federal Reporting System (**Key Control #3 - Control Activities/Monitoring**). The report is then transmitted to the U.S. Department of Labor.

### Identified Key Internal Controls

**Key Control #1- The Department has written policies and procedures instructing staff on how to accurately report the ETA 191 (Control Environment).**  
**Key Control #2 - The Fiscal Analyst will use records and reports out of UTAB/NGTS as the basis for the ETA 191 (Control Activities).**  
**Key Control #3 - The ESD Treasurer compares the amounts entered within the ETA 191 to supporting documents to ensure that the amounts are accurate and then certifies that the report is correct (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 at , to determine if we can place reliance on the controls.

## Performance Reporting

### ETA 9050 - Time Lapse of All First Payments except Workshare

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.

This is a monthly report, with the Reference Core Measure: First Payment Time Lapse 14/21 days, Interstate and Intrastate UI, UCFE, and UCX, full and partial weeks. Sections for testing: Section A. Do not include Workshare.

On 8/31/22, we met with Samuel Havens, Management Analyst and Karen Gibeau, Data Consultant, to discuss the process in place over the preparation and submittal of the ETA 9050 report. After speaking with ESD staff, we found them to be knowledgeable about the process of preparing and submitting the ETA 9050 (**Control Environment**).

Karen Gibeau is responsible for submitting the ETA 9050 report through the DOL Sun System. She explained to us that the report is due by the 20th of the following month, and is automatically populated in UTAB. (**Key Control #1 - Control Activities**)(**Automated Control**). Karen G. explained to us how UTAB populates the required fields and showed us how you can drill down on the data that generates the report. We also discussed the UI Reporting Handbook No. 401,

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regarding all the fields and definitions for information going into the report. The Sun System has built-in warnings and even a fatal error, if something is really wrong with the report and it will not submit. If an error occurs, Karen G. will look into the issue and work with IT, or appropriate staff to correct the error.

## Identified Key Internal Controls

**Key Control #1- The Data Consultant prepares the report, based on data populated from UTAB (Control Activities) (Automated Control)**

*Note: IT Audit will test this automated control at ESD - Unemployment Insurance.*

**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 at , to determine if we can place reliance on the controls.

## ETA 9052 - Nonmonetary Determination Time Lapse Detection

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.

This is a monthly report, with the Reference Core Measure: Nonmonetary Determinations 21 - Day Timelines. Sections for testing: Section A, B, and C.

A - Separation Issues

B - No separation Issues

C - Multi Claimant Issues

On 8/31/22, we met with Samuel Havens, Management Analyst and Karen Gibeau, Data Consultant, to discuss the process in place over the preparation and submittal of the ETA 9052 report. When speaking with ESD staff, we found them to be knowledgeable about the process of preparing and submitting the ETA 9052 (**Control Environment**).

Karen Gibeau is responsible for submitting the ETA 9052 report through the DOL Sun System. She explained to us that the report is due by the 20th of the following month, and is automatically populated in UTAB. (**Key Control #1 - Control Activities**)(**Automated Control**). Karen G. explained to us how UTAB populates the required fields and showed is how you can drill down on the data that generates the report. We also discussed the UI Reporting Handbook No. 401, regarding all the field and definitions for information going into the report. The Sun System has built-in warnings and even a fatal error, if something is really wrong with the report and it will not submit. If an error occurs, Karen G. will look into the issue and work with IT, or appropriate staff to correct the error.

## Identified Key Internal Controls

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## **Key Control #1- The Data Consultant prepares the report, based on data populated from UTAB (Control Activities) (Automated Control)**

*Note: IT Audit will test this automated control at ESD - Unemployment Insurance.*

**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 at , to determine if we can place reliance on the controls.

### **ETA 9055 - Appeals Case Aging - Lower and Higher Authority Appeals**

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.

This is a monthly report, with the Reference Core Measure: Average Age of Pending Lower and Higher Authority Appeals. Sections for testing: Section A. Exclude the test for states that do not have Higher Authority Appeals.

On 8/31/22, we met with Samuel Havens, Management Analyst and Karen Gibeau, Data Consultant, to discuss the process in place over the preparation and submittal of the ETA 9055 report. When speaking with ESD staff, we found them to be knowledgeable about the process of preparing and submitting the ETA 9055 (**Control Environment**).

Karen Gibeau is responsible for submitting the ETA 9055 report through the DOL Sun System. The purpose of the report is to gather data on single claimant appeals filed, but not decided (number of days taken, average and median age of appeals). The information for this report comes from the Office of Administrative Hearings (Lower appeals) and the Commissioner's Review Office (Higher appeals). She explained to us that the report is due by the 20th of the following month, and is populated in the DOL Sun System. This is based on information collected from the courts by Lisa Stogner, Legal Administrative Manager. We also discussed the UI Reporting Handbook No. 401, regarding all the field and definitions for information going into the report. The Sun System has built-in warnings and even a fatal error, if something is really wrong with the report and it will not submit. If an error occurs, Karen G. will look into the issue and work with IT, or appropriate staff to correct the error.

Since Karen is manually entering the information into the DOL Sun System, without a secondary review, this creates the risk that report could contain errors that would go undetected. **(Control Weakness) This poses a significant deficiency in internal controls based upon no secondary review of performance report data.**

### **Identified Key Internal Controls**

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None

## Key Internal Control Weakness Identified:

The is no secondary review of the data being manually entered and submitted to DOL. This is an internal control deficiency. See issue at 2022-005 The Employment Security Department did not have adequate internal controls to ensure it submitted accurate monthly reports for the Unemployment Insurance program..

## **Evaluation of Results:** Did you identify any control deficiencies? Yes:

1. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **not material**.
2. Control risk is assessed at HIGH. We determined that the data for the weekly report comes to a user within the Department who has to manually input the data into the federal reporting template. This creates the risk of data entry error, which without detective controls in place at the program level for management to review the reports before they are submitted to the federal grantor, increases the likelihood of inaccurate reporting (noncompliance). We discussed the possibility of noncompliance with the Audit Manager and determined the risk of noncompliance does not rise to a material level, therefore we will recommend a significant deficiency in internal controls be reported.

## Preliminary Control Risk Assessment

### **Step 4**

HIGH - Internal control design is not likely to be effective to prevent or detect non-compliance with grant requirements. We will report a **significant deficiency** in accordance with 2 CFR §200.516(1). See issue at 2022-005 The Employment Security Department did not have adequate internal controls to ensure it submitted accurate monthly reports for the Unemployment Insurance program..

# Special Reporting

## ETA 2208A, Quarterly UI Contingency Report

### 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.

ESD refers to this report as the "UI-3" report. This is a quarterly report of staff years worked and paid by program category. A separate report is required for regular, trade, and additional benefits. Per the Compliance Supplement, we are expected to examine lines 1 through 7 of Section A of this report.

On 8/23/22, we met with Sophal Espiritu, Funds Manager; and Joy Farrell, Budget Analyst, to discuss the preparation and review of the UI-3 report. A budget analyst (Joy) is responsible for completing and entering the UI-3 information on the online Federal Reporting System. When speaking with Sophal and Joy, we

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found them to be knowledgeable about the process of preparing and submitting the ETA 2208A (**Control Environment**).

UI-3 Regular: Sophal explained that the Department uses Webi (Enterprise) to pull financial data and FTE information. The report gathers data from AFRS to obtain the staff years worked (SYW) and the staff years paid (SYP) which will be entered into a spreadsheet. The query is done by using the project codes to group the data by federal activity such as claims, trade, AS&T, etc. This query gathers the FTE data for the UI program and categorizes it by these groupings. Since AFRS does not create a transaction report by function, she prepares the spreadsheets/pivot tables using this information, sorting the data to meet the requirements of the UI-3 report. Staff Years worked and Staff Years Paid for the quarter is keyed on lines 1-7 of the UI-3 Regular report by program category. Workload totals on lines 8-20 of the UI-3 automatically populate based on ETA forms (5159, 5130, and 207) that are uploaded to USDOL on a monthly and quarterly basis by the Policy Data Performance and Integrity team. DOL assigns a time value to each workload category to determine the total entitlement staff years paid on line 23. A monetary value determined by DOL is applied to the total staff years paid in line 24. DOL adds a standard 19% overhead rate to the calculation on line 25. The analyst runs an Enterprise “Expenditure Activity By Vendor” report to determine the amount of SAVE payments that have paid to the Department of Homeland Security to verify citizenship and immigration status. This data is entered on line 26 and noted in the comments field. Lines 24-28 are added to determine the net entitlement amount on line 29 of the UI-3 Regular Report. (**Key Control #1 - Control Activities**).

UI-3 Additional Benefits: initial claims, weeks claimed, nonmonetary determinations, appeals, and monetary redeterminations for additional benefits are entered by the analyst based on data provided by the UI Performance team (lines 1-5). DOL assigns a time value to each workload category to determine the total staff years worked on line 7. A monetary value determined by DOL is applied to the total staff years worked on line 9. DOL adds a standard 19% overhead rate to the calculation on line 10. Lines 9, 10, and 11 are added to determine the total dollar costs for additional benefits.

UI-3 Trade: initial claims, weeks claimed, nonmonetary determinations, appeals, and monetary redeterminations for trade benefits are entered by the analyst based on data provided by the UI Performance team (lines 1-5). DOL assigns a time value to each workload category to determine the total staff years worked on line 7. A monetary value determined by DOL is applied to the total staff years worked on line 9. DOL adds a standard 19% overhead rate to the calculation on line 10. Lines 9, 10, and 11 are added to determine the total dollar costs for trade.

Once staff have ran the queries and entered the data into the report, they save the reports on the shared drive and notify Sophal that the reports are ready for approval. She compares the report to the supporting documentation to ensure it was accurately entered (**Key Control #2 - Control Activities, Monitoring**). Once she has reviewed the report, she transmits the form to DOL. The analyst saves a version of the reports that show the reports haven’t been transmitted with the date which it was prepared and given to Sophal. Once Sophal certifies, she saves the version of the report that shows “transmitted” with the date.

As described above, there are three UI-3 reports filed per quarter. There is a regular report that contains almost all of the reported data and also two subsidiary reports labeled Additional Benefits and Trade Benefits. Only section A of the regular UI report is tested by the auditor.

### Identified Key Internal Controls

**Key Control #1 - The Budget Analyst uses records and reports from AFRS as the basis for the ETA 2208A (Control Activities).**

**Key Control #2 - The Funds Manager, compares the amounts entered within the ETA 2208A to supporting documents to ensure that the amounts are accurate (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 at , to determine if we can place reliance on the controls.

## **C.4.PR.G - 17.225-Unemployment Insurance (UI) - ESD**

**Procedure Step:** N1. Special Tests and Provisions - Controls

**Prepared By:** EWS, 2/16/2023

**Reviewed By:** ACS, 4/20/2023

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:

- **Employer Experience Rating**

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls **for each Special Test and Provision.**

### **Source:**

FY 2022 ACFR

Jay Summers, External Audit Liaison

Jeff Robinson, Labor Market Analysis/UI Research & Forecasting Manager

Meredith Cole, Employment Security Program Coordinator 3

Denice Craig, Employer Services Manager

Tai Ralston, Treasury Manager

Son Pham, Financial Analyst 4



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## **Conclusion:**

- **Employer Experience Rating**

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 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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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).

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 Special Tests and Provisions.

The Compliance Supplement for 2022, states the following about Employer Experience Rating:

*Certain benefits accrue to States and employers when the State has a federally approved experience-rated UI tax system. All States currently have an approved system. For the purpose of proper administration of the system, the SWA maintains accounts, or subsidiary ledgers, on State UI taxes received or due from individual employers, and the UI benefits charged to the employer.*

*The employer's "experience" with the unemployment of former employees is the dominant factor in the SWA computation of the employer's annual State UI tax rate. The computation of the employer's annual tax rate is based on State UI law (26 USC 3303).*

*Note that states were provided with temporary emergency flexibility regarding experience rating as needed in response to the spread of COVID-19. As such, a state should have supporting documentation (e.g., statutory changes, emergency rules, or executive orders) if this temporary flexibility was exercised for the time period in question.*

**Audit Objectives** – To verify the accuracy of the employer's annual State UI tax rate and determine if the tax rate was properly applied by the State.

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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.

## Gain an Understanding of Internal Controls

### Assigning Tax Rates

We met with the following people on 6/1/2022 to update our understanding over premiums and assessments (assigning tax rates):

- Jeff Robinson, Labor Market Analysis/UI Research & Forecasting Manager

Initially new employers are assigned a North American Industry Classification system (NAICS) rate by the Labor Market and Performance Analysis (LMPA) based on the industry average for the business activity of the applicant. After two years of providing timely wage reports and payments the employer will qualify for a lower experience rate. LMPA calculates the taxable wage base used by every employer and the social flat cost rate for the year applicable to each employer's tax rate based on state law within RCWs. During FY21 Senate Bill 5061 assigned the flat social tax rate of .5%. During FY22, Senate Bill 5873 made changes to the flat social tax rates assigned by Senate Bill 5061. For rate year 2011 and thereafter, the calculation may not result in a flat social cost factor that is more than one and twenty-two one-hundredths percent except for:

- Rate year 2021 the calculation may not result in a flat social cost factor that is more than five-tenths percent (.5%)
- Rate year 2022 the calculation may not result in a flat social cost factor that is more than five-tenths percent (.5%)
- Rate year 2023 the calculation may not result in a flat social cost factor that is more than seven-tenths percent (.75%)
- Rate year 2024 the calculation may not result in a flat social cost factor that is more than eighty-five one-hundredths percent (.85%)
- Rate year 2025 the calculation may not result in a flat social cost factor that is more than nine-tenths percent (.9%)

LMPA relies on a computer generated report (Jeff called this report the LMPA\_AAW) to completely and accurately identify financial activity pulled to calculate the Taxable Wage Base and Social Cost tax rate. The financial activity report used in calculating the rates is produced by the Quarterly Census of Employment and Wage (QCEW) unit of the Employment Security Department (ESD). The QCEW unit collects the quarterly Unemployment Insurance tax reports from employers and then processes/verifies and edits the wage and employment records. Wage and employment information is used as the basis for calculating the average annual wage and contribution amount. To ensure accurate insurance premium revenues, the taxable wage base and the Flat Social Cost factor for the year is determined using the computer generated financial activity report or calculated in accordance with RCWs (**Key Control 1**).

Tax rates are calculated by NGTS as specified in RCW 50.29.025 (as amended by 2011 c 4). NGTS calculates the Employer's experience-rated tax (component of total employer tax rate) based on the amount of unemployment benefits paid to former employees over the past four years and the payroll size. It's determined by taking the benefit charges associated with the employer and dividing that by the total wages paid by the employer. Each employer is then assigned to one of 40 rate classes based on this number. Employers are notified of their UI tax rate in December of each year. The data used for calculating UI annual tax rates are based on employers' account information as of September 30th. The UI tax rate for an employer is dependent on several factors; the employer's benefit ratio, delinquent balance, social cost rate, legislative limit, and Employer Assistant Fund. Once the rate has been calculated, the system determines the amount which should have been billed (received in payment), as the employer would have calculated the taxes owed the same as the system. Tax rates are calculated by NGTS

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as specified in RCW 50.29.025 (Key Control 2).

Note: Senate Bill 5873 also gave many small employers with 10 or fewer employees in fourth quarter 2021 more relief on their social tax rate in 2023.

- Employers in rate classes 8 to 40 will get the social tax rate for rate class 7.
- Employers in rate classes 1 to 7 will stay at their social tax rate.

### Payments

After the employer is registered and has paid employees, the employer reports employee wages and hours to ESD electronically through Employer Account Management Services (EAMS). EAMS is a program that collects the wage data that is then uploaded into NGTS for payment (not considered significant accounting systems). Paper tax & wage reports are mailed to the ESD mail room or to the retail lock box. Payments for Insurance Premiums due are submitted through e-pay or mailed to the retail Lockbox or ESD mailroom. State agencies make up the rest of the collections.

On a quarterly basis, employers file and pay their UI Taxes through one of the following methods:

- Original paper forms that are sent to a Retail Lockbox
  - A special request must be made for these paper forms
- Electronic filing through the Employer Account Management Services (EAMS)
- ePay
- Automatic Clearing House (ACH) electronic payment

| Tax Calendar       |                               |          |                          |
|--------------------|-------------------------------|----------|--------------------------|
| Quarter One (Q1)   | January<br>Q4 taxes due 1/31  | February | March<br>Q1 ends 3/31    |
| Quarter Two (Q2)   | April<br>Q1 taxes due 4/30    | May      | June<br>Q2 end 6/30      |
| Quarter Three (Q3) | July<br>Q2 taxes due 7/31     | August   | September<br>Q3 end 9/30 |
| Quarter Four (Q4)  | October<br>Q3 taxes due 10/31 | November | December<br>Q4 end 12/31 |

The transactions that are included in this line item are the premiums received from the employers. Insurance premiums are under fund 620 - Unemployment Compensation Account with Source 71 - Unemployment Compensation Contribution. ESD uses the Next Generation Tax System (NGTS) for calculating and collecting all premiums.

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## How transactions are recorded in AFRS:

### Treasury's Reconciliation

We met with the following people on 6/2/2022 to update our understanding over premiums and assessments (treasury's reconciliation):

- Meredith Cole, Employment Security Program Coordinator 3
- Denice Craig, Employer Services Manager
- Tai Ralston, Treasury Manager
- Son Pham, Financial Analyst 4

ESD's current process is to perform NGTS reconciliations daily except on Tuesday when no bank statement is available. The daily NGTS reconciliation is performed by Tina Drew, Tax Specialist 4. The reconciliation starts with the NGTS report, Daily Bank Deposit Worksheet. This report itemizes the different deposit sources, payments, the amount posted by the bank, and the receipts posted in NGTS. Tina reconciles the Daily Bank Deposit Worksheet to Key Bank activity (BAI2 report). Differences between bank deposits and NGTS are calculated and shown in a column. These differences, are due to timing differences between the bank and NGTS (i.e. payment didn't post so they have to make an adjustment to a different day). To reconcile these differences the dates of the NGTS reports are revised to reflect the bank's deposits.

Son posts the NGTS activity (from the BAI2 report) in the "Monthly AFRS JV" spreadsheet to ensure Key Bank, AFRS, and NGTS activity are accurate. A bank reconciliation is then performed by My-Phuong Tran, Fiscal Analyst 3, to ensure the deposits posted by the bank agrees to the NGTS receipts and all items expected are received by the ESD (**Key Control 3**).

The current process is to review the BAI2 report on a daily basis and post to the UC Clearance Journal. At the end of the month, the Treasury Department, then uploads the total in the JV to AFRS fund 620 using the AFRS toolbox. Tai or Shelly Peterson, Assistant Treasurer, reviews the reconciliation by comparing the supporting documentation, daily deposits, to the total recorded in AFRS. A review is performed between the bank deposits recorded to AFRS. The ESD determines the amount of accrued revenue to recognize during their accounts receivable process and books the entry to the AR and accrued revenue as part of the monthly journal voucher, based on a SQL run by Treasury. Tai reviews this entry as well before it is entered into AFRS (**Key Control 4**).

Currently there is no reconciliation between NGTS and AFRS for receipts. ESD is in the process of testing an interface of accounting transactions from NGTS to AFRS. When the testing is complete and all development work is complete, the interface will be turned on. In the meantime, ESD, has developed "work arounds" such as relying on SQL reports that pull data directly from the NGTS database and use this information to post accounting transactions to AFRS. However the NGTS account balance reports do not accurately reflect ending and beginning account balance from month to month. Therefore, account balance reports cannot be relied on to perform a reconciliation between NGTS and AFRS.

Note: Key Control 3 addresses NGTS to bank and Control #4 addresses the work arounds being used by Treasury to post to AFRS. We will take issue with this area, if our control confirmation or substantive testing identifies issues.

**Key controls are as follows:**

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- **Key Control 1 (Automated)** - The taxable wage base and the Flat Social Cost factor for the year is determined using the computer generated financial activity report or calculated in accordance with RCWs, to ensure that insurance premiums and assessments are calculated correctly using these factors.
- **Key Control 2 (Automated)** - Tax rates are calculated by NGTS as specified in RCW 50.29.025.
- **Key Control 3 (Manual)** - A reconciliation is performed to ensure the deposits posted by the bank agrees to the NGTS receipts and all items expected are received by the ESD.
- **Key Control 4 (Manual)** - Tai Ralston reviews the reconciliation by comparing the supporting documentation, daily deposits, to the total recorded in AFRS. A review is performed between the bank deposit recorded to AFRS. The ESD determines the amount of accrued revenue to recognize during their accounts receivable process and books the entry to the AR and Accrued revenue as part of the quarterly journal voucher.

**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 - 17.225-Unemployment Insurance (UI) - ESD

**Procedure Step:** N2. Special Tests and Provisions - Controls

**Prepared By:** SBG, 11/10/2022

**Reviewed By:** ACS, 11/28/2022

|                     |
|---------------------|
| 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:

- **UI Benefit Payments**

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To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to **UI Benefit Payments**.  
To provide a preliminary control risk assessment based upon our understanding of the internal controls **UI Benefit Payments**.

**Source:**

Nicole Sherman, UI Quality Assurance Manager  
Jessica Ripley, UI Case Review Supervisor

**Conclusion:**

- **UI Benefit Payments (BAM)**

Based on our understanding of internal controls over Special Tests and Provision, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess **preliminary control risk as HIGH and will report a finding for a material weakness**. No internal control testing is necessary in this instance. See finding at 2022-006 The Employment Security Department did not have adequate internal controls over and did not comply with federal requirements to conduct case reviews for the Benefit Accuracy Measurement program of the Unemployment Insurance program in a timely ma.

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.

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)



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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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).

Record of Work Done.:

### **Inherent Risk of Noncompliance**

#### **Step 1**

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 risks when designing our tests of compliance.

- **Risk:** Prior Finding 2021-005: The Employment Security Department did not have adequate internal controls over and did not comply with federal requirements to conduct case reviews for the Benefit Accuracy Measurement program of the Unemployment Insurance program in a timely manner.

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.

Due to the complexity of the UI benefit payment operations, it is unlikely the auditor will be able to support an opinion that UI benefit payments are in

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compliance with applicable laws and regulations without relying on the SWA's (State Workforce Agency, i.e. the Employment Security Department of the State of Washington) systems and internal controls.

The Payments Integrity Information Act (PIIA) of 2019 codified the requirement for valid statistical estimates of improper payments. SWAs are required by 20 CFR section 602.11(d) to operate and maintain a quality control system. The Benefits Accuracy Measurement (BAM) program is DOL's quality control system designed to assess the accuracy of UI benefit payments and denied claims, unless the SWA is excepted from such requirement (20 CFR section 602.22). The program estimates error rates, that is, numbers of claims improperly paid or denied and dollar amounts of benefits improperly paid or denied, by projecting the results from investigations of statistically sound random samples to the universe of all claims paid and denied in a state. Specifically, the SWA's BAM unit is required to draw a weekly sample of payments and denied claims, complete prompt, and in-depth investigations to determine if the administration of the UC program is consistent with state and federal law (20 CFR section 602.21(d)). DOL has promulgated investigational requirements and instructions in ET Handbook No. 395 (see below), pursuant to 20 CFR section 602.30(a). As presented in the handbook, the investigation involves a review of state agency records, as well as contacting the claimant, employers, and third parties (either in-person, by telephone, or by fax) to conduct new and original fact-finding related to all of the information pertinent to the paid or denied claim that was sampled. BAM investigators review cases for adherence to federal and state law as well as official policy. For claims that were overpaid or underpaid, the BAM investigator determines the amount of payment error, the cause of and the responsibility for any payment error. For erroneously denied, BAM investigators also determine the potential eligibility of the claimant and the point in the UI claims process at which the error was detected. Investigators record the actions taken by the agency and employer prior to the payment or denial decision that is in error. BAM covers state UC (Unemployment Compensation), UCFE (Unemployment Compensation for Federal Employees), and UCX (Unemployment Compensation for ex-military service members).

Additional information on BAM procedures, historical data, and a state contacts list can be obtained at (<https://oui.doleta.gov/unemploy/bqc.asp>).

The auditor should review the requirements relating to the investigative process and data collection in ET Handbook No. 395, 5th Edition, Benefit Accuracy Measurement State Operations Handbook, Chapters IV, V, VI, VII, and Appendix C (Investigative Guide Source, Action, and Documentation), pertinent UIPLs (Unemployment Insurance Program Letters), including UIPL Nos. 28-13 ([http://wdr.doleta.gov/directives/corr\\_doc.cfm?DOCN=6139](http://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=6139)) and 13-16 ([https://wdr.doleta.gov/directives/corr\\_doc.cfm?DOCN=4604](https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=4604)), and other sources of information, including Question and Answer series on the Employment and Training website (see above).

**Audit Objectives** To verify that states operate a BAM program in accordance with federal requirements to assess the accuracy of UI benefit payments and denied claims.

### **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 10/4/22, we met with Nicole Sherman, UI Quality Assurance Manager; Jessica Ripley, UI Case Review Supervisor; Jay Summers, External Audit Liaison, to

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gain an understanding of controls related to BAM.

The UIPA (Unemployment Insurance Performance Assurance) unit was created to fulfill a requirement set up by the US Department of Labor (DOL) as codified in RCW 50.20.240; this requires a quality control process to obtain assurances about eligibility and accuracy of benefit payments. The Employment Security Department has a UI Benefit Accuracy Measurement Procedures Manual to assist in performing BAM duties. The BAM unit also utilizes the Benefit Accuracy Measurement State Operating Handbook (ET Handbook No. #395, 5th Edition) to ensure that they are in compliance with federal requirements (**Key Control #1 - Control Environment**). This handbook informs ESD on how to sample the population, sample review requirements, and requirements for formatting and reporting of completed reviews. The handbook also specifies the timelines for these activities. We noted during our review of applicable literature that DOL has provided updated guidance to these selections under Unemployment Insurance Program Letter 25-20 changing the selection and documentation required as dated June 15th, 2020, affecting beginning the week ending July 4th.

BAM staff review Unemployment Insurance paid claims and denials. These are sampled for testing to determine eligibility of claimants and accuracy of payments. Annual minimum testing is over 480 Paid Claims Accuracy cases and 450 Defined Claims Accuracy cases. Denial claims are split evenly into "Monetary", "Separation", and "Non-Separation" sub-categories.

The ET handbook requires that specific UI payments are excluded from the population for testing. These exclusions include:

- Supplemental payments (payment corrections) because the original payment was already included in the population;
- All wait weeks; **Auditor Note: This was waived on March 18, 2020 during the Covid Event, in compliance with directives from Gay M. Gilbert, Administer - Unemployment Insurance, US Department of Labor, Employment and Training Administration (ETA).**
- Weeks with stop payments on the benefit payment check;
- All weeks paid under shared work, extended benefits, TRA, DUA, any temporary federal-state supplemental compensation programs, or other special programs.

DOL provides ESD with an algorithm for selection of cases for testing by the department. Each Sunday, a list is generated by the UTAB system. On Monday, the BAM supervisor pulls this listing and assigns staff to the select claim cases.

Each case selected is an original payment for a specific week of unemployment claims which is referred to as the "Key Week".

Nicole keeps a IPIA (Improper Payments Information Act) required tracking spreadsheet to maintain a log of the cases pulled each week, and to which investigator was assigned to each case. This spreadsheet is updated weekly, and retained at the end of each fiscal year. This sheet breaks down total cases required by DOL as compared to cases that were selected and assigned. (**Key Control #2 - Monitoring**). This tracking allows Nicole to identify deficiencies in coverage, as required by DOL, which provides the BAM staff the ability to adjust workloads to ensure compliance is met.

Once cases are assigned, they are examined by an investigator who is responsible for managing cases assigned to them for timeliness and quality control standards. The investigator will document this review by completing a standardized contact form for each case (**Key Control #3 - Control Activity**).

The federal grantor requires ESD to meet the following time-lines for completion of the selected case reviews:

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- a minimum of 95 percent of paid cases (85% for denied) must be completed within 90 days of the week ending date of the the batch; and
- a minimum of 98 percent of cases for the year must be completed within 120 days of the end of the fiscal Year

Source: (UIPL 12-19)

The Data Collection Investigation (DCI) system is data collected from the UTAB system for each selected case. This information is a replica of the data will be entered into the automated data processing SUN system; as provided to DOL for multi-state data collection in a uniform format. The DCI fields are a mixture of auto-populated data from UTAB and selected manual entries from the investigators. The DCI is coded so that the investigator knows the nature of the information presented. Gray fields denote information auto-populated from UTAB, while yellow fields are completed by the investigator. Red and blue fields require review due to an error or inconsistency. The assigned investigator must verify and/or update all fields with information gathered during the review process.

The investigators must obtain the following information, as obtained by phone, mail, in-person, or by a method the investigator deems prudent:

- **A complete claimant questionnaire:** An investigator must make four documented attempts to complete this questionnaire, with at least two attempts being by mail.
- **Employer interviews:** The investigator is required to contact all current or prior employers of the claimant which could affect the Key Week under review.
- **Verification of Weekly Earnings:** This should contain an request for earnings verification for each week claimed beginning with the Effective Date of Claim through the Key Week and response due date. The investigator must also compare the earnings reported to those in GUIDE/UTAB to ensure the amounts were accurate.
- **Work Search Verifications:** Investigators must contact a sufficient number of potential employers to determine if a claimant has met the state's work search requirements. Specifically, the investigator must contact Key Week work search contacts including, but not necessarily limited to referrals by union halls, job service or labor exchanges, and private employment agencies, to verify that the contact satisfied the state job search requirements.
- **Third Party Verifications:** Investigators are required to perform third party verifications for any issues that arise which could affect a claimants eligibility. These may be included issues related to medical conditions, school attendance, etc, and must be verified.

The standardized contact form has been developed for items above, except the third party verifications. This document is how the investigator demonstrates the number and type of contact attempts made for the claimant, employers, and third parties. It is required that the investigator make at least three attempts to gather appropriate information for the case review and document these contacts on the log, excepting the questionnaire which requires four attempts. A case cannot be completed until all fields are completed in the DCI system. After the DCI is finalized, the investigator is responsible for entering the completed information into the SUN system, which is then reviewed by a supervisory for accuracy before submission to DOL.

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Supervisors review the DCI system information, then compare it to the information entered into the SUN system. If they match, a '0' is entered into the supervisory review field (h9). If a higher level review is performed, including additional in-depth review of supporting documentation, this review is denoted by a '1' in the supervisory review field. All cases must receive a '0' or '1' review before they are approved for DOL submission. **(Key Control #4 - Control Activity)**

Unemployment Insurance Program Letter No. 19-20 was issued on April 29, 2020. It offered the opportunity to request waiver of BAM timeliness requirements to the ETA administrator by Oct. 9, 2020. ESD did request this waiver and received approval.

## Prior Finding and Corrective Action (CAP):

In addition we discussed with Nicole and Jessica, the prior finding (2021\_005\_prior finding (BAM)) and related CAP (BAM\_CAP).

Nicole explained that BAM did not meet the time line review standards and provided me the following (N2) IPIA 2022 PCA case report, regarding how BAM made 66.82% (for paid cases), instead of the required 95% completed within 90 days.

In regards to the CAP, the BAM unit continued to experience staffing issues into FY22 (A few employees retired, a few were out on medical leave, and the Department lost two other staff due to other reasons). Nicole stated that they have hired a few staff recently, but it will take time to train them. Another employee was reallocated from another section to BAM, but they just started. Nicole is working to get the unit fully staffed and trained.

## **Evaluation of Results:**

Based on our understanding documented above, the Department does not have a key internal control effective to ensure Federally mandated timelines for completing case reviews are achieved. Therefore, we believe the design of the Department's key internal controls would not be effective to prevent material noncompliance with UI Benefit Payment (BAM) requirements. A control deficiency exists.

1. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.
2. Preliminary Control Risk is assessed at **High** - Repeat finding; per documentation provided by program staff, ESD has not implemented internal controls to effectively ensure compliance with UI Benefit Payment requirements. As a result, the Department was not able to meet Federal timelines for review of BAM cases during the audit period.

## Preliminary Control Risk Assessment

### **Step 4**

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). See finding at 2022-006 The Employment Security Department did not have adequate internal controls over and did not comply with federal requirements to conduct case reviews for the Benefit Accuracy Measurement program of the Unemployment Insurance program in a timely ma.

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## C.4.PR.G - 17.225-Unemployment Insurance (UI) - ESD

**Procedure Step:** N3. Special Tests and Provisions - Controls

**Prepared By:** EWS, 2/2/2023

**Reviewed By:** ACS, 2/15/2023

### 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:

- **Match with IRS 940 FUTA Tax Form**

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls **for each Special Test and Provision.**

#### **Source:**

Jay Summers, ESD Internal Audit

Denice Craig, Employer Services Manager, UI Tax and Wage Administration

Nicole Sherman, Quality Assurance Review Supervisor

William Martin, Management Analyst 4, Tax and Wage Administration

Janel Lamm, TS4, UI Tax Rate and Registration

Nipaporn McMullin (Ni), Financial Examiner 3, Tax Audit Coordination Unit (State UI Tax Audit Coordinator)

#### **Conclusion:**

- **Match with IRS 940 FUTA Tax Form**

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

### Testing Strategy:

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## 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.

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.*



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**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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**

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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

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 Special Tests and Provisions. The Compliance Supplement for 2021, Part 4, states the following about the Match with IRS 940 FUTA Tax Form requirement:

**Compliance Requirement** - States are required to annually certify for each taxpayer the total amount of contributions required to be paid under the state law for the calendar year and the amounts and dates of such payments in order for the taxpayer to be allowed the credit against the FUTA tax (26 CFR section 31.3302(a)-3(a)). In order to accomplish this certification, states annually perform a match of employer tax payments with credit claimed for these payments on the employer's IRS 940 FUTA tax form.

**Audit Objective** – Determine whether the state properly performed the match to support its certification of State FUTA tax credits.

## 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 September 19, 2022, we held a Teams meeting with Jay Summers, Internal Audit; Denise Craig, Employer Services Manager; Nicole Sherman, Quality Assurance Review Supervisor; William Martin, Management Analyst 4; Janel Lamm, TS4; and Ni McMullin, Financial Examiner 3; to assist with backlog. The purpose of the meeting was to gain an understanding of the controls related Special Tests #1 and #3. They confirmed our understanding as documented below.

The IRS provides information on how to perform/certify the IRS 940 FUTA information in the *"Guide for the Certification of State FUTA Credits" - Publication 4485*. The Department uses Publication 4485 to ensure that they perform the match with IRS 940 FUTA Tax in accordance with federal requirements (**Key Control #1 - Control Environment**).

The IRS sends a file in to ESD containing data on all employers who claimed a credit toward FUTA tax payments based on UI Taxes paid to Washington State. The file arrives in October each year and is sent via the IRS Secure Data Transfer System (SDT) and an IT staff person is notified via email when the data is ready for her to download. Once the data has been downloaded via SDT, it is then uploaded to the ESD domain on the SQL Server. Once the data is on the SQL

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Server, the UI Liaison and UI Employer Accounts staff are notified that the file is ready for processing. The ESD receives an email every time something changes or is updated with the IRS data.

The first stage of the certification process is a verification of the data received. This stage consists of taking the fields of data received from the IRS and making sure that the proper data types are present for each field. They will review the data types and verify they are present for each field. The spreadsheets were all numerical with regards to the data. The software used to perform the certification requires strict adherence to data type and if there are problems with this verification, the IRS must correct the data and resend it to get a valid verification. In addition to uploading the data into the DIS mainframe, ESD also converted the data to SQL Server.

The second stage consists of compiling collections data for submittal to the IRS. During this stage, data is collected from NGTS regarding each employers' quarterly tax submissions. This data is included as part of the return data sent to the IRS. Additionally, it is during this stage that employers that claimed credits but couldn't be found in NGTS are noted and identified as Non-Certified Records. The verification also identifies "Zero Cert" records which are discrepancy records that show no taxable wages and no payments to the state.

The third stage consists of transmitting the results of the testing back to the IRS via the SDT system by *January 31st* (four months after the data is received). The transmittal contains the results of the certification including certified records, non-certified records and zero cert records. With the electronic submittal, a header page is sent listing the total number of records examined. The Department certifies to the IRS the state Unemployment Insurance taxes paid by employers. The certification is performed electronically and ESD sends the IRS an electronic submittal of all employers that have paid UI taxes during the previous calendar year (**Key Control #2 - Control Activities**).

To certify that the data is accurate, two reports are reviewed; "IRS FUTA Certification Sample First 50 ZERO" and "IRS FUTA Certification Sample First 50 Non Zero." These reports contain fifty samples each of accounts certified as reported and certified as "Zero Cert". The Department is required by IRS Publication 4485 to perform a manual certification of these accounts. This process starts by selecting the top 50 records in each category and pulling the data out of NGTS for each of the 100 employers in the sample. Once the data is pulled, Department staff perform a manual review to test that the electronic cross match is properly certifying the account data pulled from NGTS is accurate and meets IRS requirements (**Key Control #3 - Monitoring**). The data is then compared to the employers taxable wages, payments made, and timeliness.

### Other Information:

The IRS categorizes payments in three ways: timely payment, semi-timely payment, and late payment. Payments during the year are timely so long as they are performed by January 31st of the following year. Any payments between Feb 1st and 10th is semi-timely. Payments after February 10th are late. Any payments that are made in a not timely fashion have some level of interest and penalties assessed. When certifying the IRS FUTA samples, sometimes there is a "parent account" listed. The list uses employers by EIN; multiple businesses can use the same EIN (parent / subsidiary relationships), which can cause reconciliation problems because ESD uses separate identification numbers for each parent and associated subsidiary. In these cases, the parent information is used to verify information for the IRS.

Per IRS instructions for [completing the FUTA Form 940](#), page 3, employers have until January 31st of the following calendar year to file their reports. For tax year (calendar year) 2020, employers must file not later than January 31, 2021. The IRS compiles employer data over calendar year 2021 and requests a

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confirmation from the ESD in October of 2021. ESD performs a cursory match to their system to verify information is correct as of October 2021. The IRS requests a final confirmation in January of the following year (2022). [We determined we need to obtain control confirmation and testing documentation exchanged between October 2021 and January 2022.](#)

## **Key Controls identified:**

**Key Control #1** - The Department uses Publication 4485 to ensure that they perform the match with IRS 940 FUTA Tax in accordance with federal requirements (Control Environment).

**Key Control #2** – The Department certifies to the IRS the state Unemployment Insurance taxes paid by employers. The certification is performed electronically and ESD sends the IRS an electronic submittal of all employers that have paid UI taxes during the previous calendar year (Control Activities).

**Key Control #3** – Department staff perform a manual review to test that the electronic cross match is properly certifying the account data from NGTS is accurate and meets IRS requirements (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 - 17.225-Unemployment Insurance (UI) - ESD**

***Procedure Step:*** N4. Special Tests and Provisions - Controls

***Prepared By:*** EWS, 2/21/2023

***Reviewed By:*** ACS, 4/20/2023

Purpose/Conclusion.\*

## **Purpose:**

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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:

- UI Program Integrity - Overpayments

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to UI Program Integrity - Overpayments.

To provide a preliminary control risk assessment based upon our understanding of the internal controls for UI Program Integrity - Overpayments.

## **Source:**

Jay Summers, External Audit Manager

Shalina Latiff, Office of Special Investigations Data Performance Analyst

Kaylene Flynn, Office of Special Investigations Data Performance Analyst

Tai Ralston, Treasury Manager

Son Pham, Fiscal Analyst 4

## **Conclusion:**

- UI Program Integrity - Overpayments

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 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)

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- (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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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).

Record of Work Done:

### **Inherent Risk of Noncompliance**

#### **Step 1**

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 risks when designing our tests of compliance.

- **Risk:** New Funding - *There is a risk that controls are not in place to ensure the correct amount of benefits are paid to eligible claimants.*
- **Risk:** Waiting Week Waived - *There is a risk that controls are not in place to ensure the correct amount of benefits are paid and that payments are only made to eligible claimants.*

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.

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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 Special Tests and Provisions. The compliance supplement for 2022, part 4, states the following about the UI Program Integrity compliance requirement ([changes for 2022 in blue](#)):

*Pub. L. No. 112-40, enacted on October 21, 2011, and effective October 21, 2013, amended sections 303(a) and 453A of the Social Security Act and sections 3303, 3304, and 3309 of FUTA to improve program integrity and reduce overpayments. (See UIPL Nos. 02-12, Changes 1 and 2 [https://wdr.doleta.gov/directives/corr\\_doc.cfm?DOCN=6707](https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=6707).) States are:*

*(1) required to impose a monetary penalty (not less than 15 percent) on claimants whose fraudulent acts resulted in overpayments, and  
(2) prohibited from providing relief from charges to an employer's UI account when overpayments are the result of the employer's failure to respond timely or adequately to a request for information. States may continue to waive recovery of overpayments in certain situations and must continue to offer the individual a fair hearing prior to recovery.*

*In addition, states may approve "blanket waivers" where individuals are eligible for payment under an unemployment benefit program for a given week, but through no fault of the individual, they were paid incorrectly under either the PUA or PEUC program at a higher weekly benefit amount (WBA), or specific to PUA, when, through no fault of the individual, the state paid the individual a minimum WBA based on DUA guidance other than UIPL No. 03-20 (UIPL No. 20-21, section 4.d.ii.).*

*Section 2103 of Pub. L. No. 112-96 amended FUTA and the Social Security Act to require states to recover overpayments through an offset against UC payments. States must enter into two agreements prior to commencing the recoveries: the Cross Program Offset and Recovery Agreement (see UIPL No. 05-13), which allows states to offset state UI from federal UI overpayments, and the Interstate Reciprocal Overpayment Recovery Agreement, which allows states to recover overpayments from benefits being administered by another state.*

*States that recover EUC08 and EB overpayments must ensure that the recovered payments are returned to EUCA in chronological order from the date the overpayment was established, identifying the program source (EUC08 or EB) when the funds are returned to the UTF. In addition, any Federal Additional Compensation (FAC) that is re-covered must be returned to the UTF.*

*Additionally, states that recover FPUC, PUA, PEUC, and MEUC overpayments must ensure that the recovered payments are returned to the source of such funds. Program Integrity-related requirements and guidance for each of the programs above are described in more detail in various UIPLs listed below:*

- FPUC/MEUC: UIPL 15-20, Change 1, 2, and 3, and any subsequent changes.*
- PUA: UIPL 16-20, Change 1, 2, 3, and 4, and any subsequent changes.*
- PEUC: UIPL 17-20, Change 1 and 2, and any subsequent changes.*

*The Bipartisan Budget Act of 2013 (Pub. L. No. 113-67) amended Section 303 of the Social Security Act to require states to utilize the Treasury Offset Program (TOP), authorized by Section 6402(f)(4), Internal Revenue Code (IRC), to recover covered unemployment compensation debts that remain uncollected one year after the debt was determined to be due. Covered unemployment compensation debts include benefit overpayments due to fraud and benefit overpayments due to*



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*a claimant's failure to report earnings. Some states may need to amend their UI law in order to have the authority to collect overpayments through TOP. In addition, states will also need to enter into an agreement with Treasury. See UIPL No. 02-19 and UIPL No. 12-14 for guidance on the implementation of the TOP requirement. Please note that IRC 6103(l)(10) restricts access to TOP federal tax information (FTI). The access limitation extends to contractors employed by the state, including those managing state technology systems that process and store TOP FTI, and to auditors engaged to conduct the Single Audit process, whether they are contractors or employees of the state. DOL recognizes that this restriction to accessing TOP FTI used for benefit administration prevents state auditors from meeting the audit objectives concerning a state's use of TOP for the recovery of UI improper payments. Because of this legal restriction, DOL does not expect auditors to create an audit issue or finding based on their lack of access to TOP FTI.*

**Audit Objectives** To determine if states are (a) properly identifying and handling overpayments, including, as applicable, assessment and deposit of penalties and not relieving employers of charges when their untimely or inaccurate responses cause improper payments; and (b) offsetting all debts resulting from an overpayment of the individual's UC payments. Please note that the suggested audit procedures mentioned below are not applicable to offsets through TOP.

### **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.

ESD recognizes the waivers in UIPL 28-20, change 4. ESD is looking at administrative waivers for managing overpayments for pandemic payments and individuals may apply for individual waivers. Maximum waiver amount is \$1,000 and ESD is looking at how to relieve some debt for claimants currently in overpayment status.

### **Office of Special Investigations - Overpayment Detection**

On February 13, 2023, we met with Jay Summers, External Audit Manager, Shalina Latiff, and Kaylene Flynn, Data Performance Analysts from the Office of Special Investigations, to gain an understanding of how the Department identifies claimant overpayments and determine the key controls in place to identify these claimants:

The Office of Special Investigation (OSI) is a section of the Unemployment Insurance program that uses external and internal data matches to identify claimants that are being paid benefits that are not eligible for them. They conduct different types of audits throughout the year on unemployment claims to ensure the accuracy of benefit payments made. Individuals found to have committed fraud are assessed penalties (RCW 50.20.070), are required to repay the amount identified as overpaid (RCW 50.20.190), and are subject to possible state or federal criminal prosecution.

The Department performs regular cross-matches with state and federal systems to detect over-payments and potential fraud (**Key Control 1 - Risk Assessment**). The Department identifies over-payments through

- Regular cross-matches with other systems,
- Tips and leads or

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- System edits that flag over-payments detected through the weekly certification process.

Data is compared to ESD's claimant information to determine if the benefit payments are potentially unallowable. A majority of the cross matches happen within UTAB. Not all crossmatches are scored and are a "yes" or "no" match which results in denial. These cases are analyzed and scored by the system to determine likelihood of issue and/or fraud. The scores are hierarchal and the higher the score the more risk of improper payment or fraud. OSI uses a scoring system where only cases with 600 or more points are flagged for investigation. OSI is the primary group responsible for identifying and reviewing potential fraudulent cases.

ESD implemented controls as required by the U.S. Department of Labor (USDOL) and identified in UIPL 23-20 on Program Integrity for the Unemployment Insurance (UI) Program. In addition, ESD opted to incorporate additional recommended control verifications. These include the use of the NASWA Integrity Data Hub (IDH) for identification verification, incarceration cross match\*, and Suspicious Actor Repository (SAR) checks.

### ESD conducts the following cross matches and processes:

#### *Multiple State Filing (Cross-Matches with other states):*

- *ESD has controls to prevent or detect individuals filing unemployment insurance claims in multiple states during the same time frame using the same personal information. This is detected through ESD's Claims Center.*
- *ESD does Interstate Benefits Cross-matches. This cross-matches state UI beneficiary data against data from other states to locate individuals with outstanding overpayment balances. This is determined by ESD's Collections Unit.*
- *ESD does identification Inquiry and IB8606 enhancements made to the Interstate Connection (ICON) cross-match to prevent concurrent claim filing in multiple states. ESD does use ICON to verify identification and SSN's.*
- *ESD uses State Information Data Exchange System (SIDES). This is a system designed to enable more rapid and accurate communication between states and employers, resulting in better initial eligibility determinations and a reduction in UI improper payments. ESD uses SIDES, both for large employers/TPAs and for smaller employers through eResponse.*

#### *National Directory of New Hires (NDNH) / State Directory of New Hires (SDNH):*

- *To ensure unemployment compensation payments stop at the appropriate time ESD has some controls to identify when claimants have returned to work. A key control for doing so is effective use of the NDNH and/or SDNH to identify Benefit Week End (BWE) overpayments. Cross matches of the NDNH against state claims databases, including PUA claimants, to ensure the continued eligibility of all benefit recipients should be performed.*
- *ESD has these cross-matches in place. However, PUA claims are self-certified, meaning that ESD relies on the claimant to report their status.*

#### *Social Security Administration:*

- *ESD does do an SSA cross-match on initial claims to verify DOB and first, middle, and last name checks.*

#### *Other cross matches:*

- *UTAB Discovery Process*
- *Address/phone matches*
- *IP Address match*

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- *Dept. of Corrections List of Inmates match*

### PUA

The new Pandemic Unemployment Assistance Program extends benefits to those who are classified as self-employed, independent contractors, those with limited work history, and other individuals not traditionally eligible for unemployment benefits who are unable to work as a direct result of COVID-19. PUA is similar to the Disaster Relief Funds. For PUA claims, under the CARES Act language, states were required to rely on applicants' self-certification of eligibility for benefits. States were also required to pay claimants the minimum PUA weekly benefit amounts until documents could be verified and used to increase the weekly benefit amount if applicable. The guidance from USDOL was to pay out PUA claims unless there was reasonable suspicion of fraud. PUA used automated cross checking processes to determine if the claimant was eligible for other UI programs. However, if no documentation was submitted and the claimant was not eligible for another UI program, a minimum payment was established in the system (Minimums were \$230 full-time; \$188 part-time; + \$600) and paid out. To increase the Weekly Benefit Amount (WBA) beyond the minimum, claimants have to submit documentation (ex: earnings form 2019 tax return; some submitted B&O tax returns). PUA was turned on 4/18/20, and was retroactive back to the first week of February. Those who didn't provide any documentation continued to receive the minimum weekly benefit amount. **ESD was not allowed to establish stricter controls.** The high risk of fraud for the PUA program was noted by the U.S. Department of Labor's Office of Inspector General in reports in April and May 2020, both because of the inherent risk in implementing benefit programs and because of the CARES Act requirements.

UTAB also identifies overpayments through the weekly certification process, which is required to be completed by all claimants receiving benefits. There are edits in UTAB that will flag information that is inconsistent with the data used to determine eligibility or that a required weekly certification has not been filed. The claims centers handle system generated (administrative) overpayments that may result from the lack of eligibility. Claims centers are not tasked to look for overpayments, but if a claimant fails to do the weekly certification or provides inconsistent information, staff would set an issue in the system. OSI may receive third party tips on potential UI frauds. Tips which are determined to be suspicious may be flagged by investigators for further review. In FY2022, ESD stopped their weekly single case review to discuss challenges in adjudication with managers.

UTAB and staff identify issues before or after an overpayment occurs by setting an issue using the appropriate issue code and placing a note in the system. If a claimant is unavailable to work for more than 3 days during the benefit period (for example, a cross-match shows the claimant was incarcerated for 4 out of the 6 days for which a benefit was allowed) then the claimant is not eligible for benefits because he or she did not meet the availability criteria. Once a code is entered into UTAB, a *Determination Letter* that contains an *Advice of Rights* is automatically generated and sent to the claimant stating that an overpayment was identified and their right to appeal (**Key Control 2 - Control Activities**). This document informs them of the overpayment and their right to appeal and/or provide additional information. Claimants have 30 days to appeal. This time limit is automatically programmed into UTAB and can only be changed if a staff member enters information that the claimant's overpayment is in the appeals process.

Per RCW 50.32.020, the overpayment remains in suspense for 30 days allowing the claimant to file an appeal. If the claimant appeals, the overpayment will remain in suspense. If there is no appeal, the overpayment will enter the automatic billing cycle. An interest rate of 15% on fraud over-payments begins to accrue immediately while an interest rate of 1% on non-fraud over-payments starts accruing after 60 days (30 day suspense plus 30 days after first bill). Per RCW 50.16.010, penalties incurred through the process are remitted to fund 620, the Unemployment Compensation Account. (**Key Control 3 - Information & Communication/ Control Activities**)

## State of Washington

We met with Tai Ralston, Treasury Manager, on 6/8/2022 to perform a walk-through on how overpayments are offset:

Each day, Son Pham, Fiscal Analyst 4, enters the daily total into the Excel spreadsheet “Monthly AFRS JV.” Monthly, UTAB data is automatically imported into AFRS on the 6<sup>th</sup> business day of the following month at a summary level. UTAB imports are reconciled each month by comparing the monthly activity WEBI report to the “Monthly AFRS JV” (daily entry). If needed, she also uses additional UTAB reports to support reconciling items. Manual JVs are done to make any adjustments to AFRS.

Monthly, Son prepares the JV from the “Monthly AFRS JV” Excel workbook. While Son prepares the JV, Tai Ralston, Treasury Manager, simultaneously reviews and posts the JV. For non-UTAB programs, additional manual JVs are required to capture monthly activity and record into AFRS. The Department used manual JVs for the following:

1. Unemployment insurance (UI) modernization,
  - One entry during FY22.
2. Short term compensation (STC)
  - These typically occur monthly (insignificant dollar amount).
3. Non-UTAB overpayment refunds
  - Tai stated that these are very rare, but can occur from time to time.

Monthly, the Treasury Department preforms a reconciliation of UTAB to WEBI reports and the trial balance from AFRS. This is when adjustments will be posted to ensure AFRS data is accurate and complete. After this is complete, the banking desk performs a reconciliation of AFRS to Key Bank. While these reconciliations are performed for every month it is often not completed until 30-60 days after month end. This is because any discrepancies are investigated and corrected until the differences for the month are within a "tolerable" level of variance. Once the reconciliation is complete Tai or Shelly Peterson, Assistant Treasury Manager, reviews the reconciliation to ensure the AFRS data is accurate and complete. **(Key Control 4 - Information & Communication/ Control Activities)**

If the claimant is not making payments, the Department has statutory authority to garnish wages, bank accounts and other assets. UTAB will send out the pre-lien notice, eventually assign a lien, initiate garnishments and eventually determine if the account is uncollectible. The process starts with a warrant issued for each determination of overpayment that is in delinquency, this authorizes the department to pursue garnishment. Tracking of garnishments is done weekly by a case management report detailing all currently garnishable accounts, including those which are not being garnished due to employers not complying with a garnishment order and those accounts which are missing key information to proceed with garnishment. **(Key Control 5 - Information & Communication/ Control Activities)**. ESD has suspended collections of ALL overpayments for FY2022. Overpayments do not include cases where the claimant was a victim of identity theft; ESD is still pursuing fund recovery from the perpetrators of identity theft. Additionally, ESD has not yet waived overpayments for claimants who may be eligible for a waiver and has opted to not pursue the collection of overpayments until ESD understands the population of claimants that will be waived.

### Accounting Department - Overpayment Collection

We met with the following people on 6/9/2022 to update our understanding over UTAB receivables:

- Tai Ralston, Treasury Manager

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## General Information:

Claimant over-payments are tracked in GL 1319 and tracked by fund (620 – federal or 622 – state).

Overpayments were governed by the following:

- RCW 50.20.190 - Recovery of benefit payments (<http://app.leg.wa.gov/rcw/default.aspx?cite=50.20.190>)
- WAC 192-220-045 - How is the fraud penalty calculated? (<http://apps.leg.wa.gov/wac/default.aspx?cite=192-220-045>)
- RCW 50.24.200 - Charge-off of uncollectible accounts (<https://app.leg.wa.gov/rcw/default.aspx?cite=50.24.200>)
- RCW 50.32.020 - Filing of benefit appeals (<https://app.leg.wa.gov/rcw/default.aspx?cite=50.32.020>)
- SAAM 85.54.55 – Receivables (<https://www.ofm.wa.gov/sites/default/files/public/legacy/policy/85.54.htm>)

## Repayment of Overpayments

When overpayments are identified, benefit recipients are not expected to repay the full amount due immediately. UTAB calculates the minimum monthly payment depending on the type of overpayment (fraud or non-fraud). The calculation is:

Fraud:

- The weekly benefit amount client was receiving at the time the overpayment occurred, or 3% of the overpayment balance, whichever is greater.
- Interest is assessed at 1% per month on the balance, the interest begins the day the overpayment is established.

Non-Fraud

- One third of the weekly benefit amount, 3% of the overpayment balance, or \$25.00, whichever is greater.
- Interest is assessed at 1% per month on the balance, on accounts at least a portion of two payments past due.

If the account is delinquent, UTAB calculates the minimum monthly payment by totaling the minimum monthly payment, accrued interest and past due amount.

When a client has an existing overpayment and begins claiming benefits, offsetting the principal balance will occur when:

1. The account is at least a portion of two payments past due; or
2. The overpayment is due to a UI Claim cancellation; or
3. The overpayment balance equals the New Balance Available (NBA) left on the UI Claim

Benefits will be offset at 50% of the weekly benefits payable for each week claimed for Non-Fraud overpayments.

Offsetting occurs at 100% of the weekly benefits payable for each week claimed for the following:

1. Fraud Overpayments; or
2. The overpayment is due to a UI Claim cancellation; or
3. The overpayment balance equals the NBA left on the UI Claim

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If the client sends in the full overdue amount, current monthly payment, and total interest owed to bring the account current, offsetting will stop as long as the client continues to keep the account current.

## **Identified Key Internal Controls**

**Key Control #1 (Automated)** - The Department performs regular cross-matches with state and federal systems to detect over-payments and potential fraud **(Risk Assessment)**.

**Key Control #2 (Automated)** - UTAB sets an issue on any claimant whose case indicates an overpayment may be have issued and generates a Determination Letter containing an Advice of Rights that an overpayment may have occurred. The determination letter contains the required notification of claimant's rights to appeal a decision and/or provide additional information. **(Control Activities)**

**Key Control #3 (Automated)** - UTAB automatically processes and assigns the appropriate amount of interest and penalties and offsets scheduled UI benefits to offset the overpayment amount. Per RCW 50.16.010, penalties incurred through the process are remitted to fund 620, the Unemployment Compensation Account. **(Information & Communication/ Control Activities)**

**Key Control #4 (Manual)** - Monthly, the Treasury Department preforms a reconciliation of UTAB to WEBI reports and the trial balance from AFRS. The banking desk performs a reconciliation of AFRS to Key Bank. Once the reconciliations are complete, Tai or Shelly Peterson, Assistant Treasury Manager, reviews the reconciliation to ensure the AFRS data is accurate and complete.

**Key Control #5 (Manual)** - If the claimant does not repay overpaid benefits, UTAB case workers send out the pre-lien notice and as needed, assign a lien, initiate garnishments, and determine if the account is uncollectible. Management tracks garnishment reports weekly through a case management report detailing all currently garnishable accounts, including those which are not being garnished due to employers not complying with a garnishment order and those accounts which are missing key information to proceed with garnishment. **(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.

# State of Washington

## C.4.PR.G - 17.225-Unemployment Insurance (UI) - ESD

**Procedure Step:** N5. Special Tests and Provisions - Controls  
**Prepared By:** EWS, 12/12/2022  
**Reviewed By:** ACS, 1/20/2023

### 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:

- UI Reemployment Programs: Worker Profiling and Reemployment Services (WPRS) and Reemployment Services and Eligibility Assessments (RESEA)

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to UI Reemployment Programs: Worker Profiling and Reemployment Services (WPRS) and Reemployment Services and Eligibility Assessments (RESEA).

To provide a preliminary control risk assessment based upon our understanding of the internal controls **for UI Reemployment Programs: Worker Profiling and Reemployment Services (WPRS) and Reemployment Services and Eligibility Assessments (RESEA).**

#### **Source:**

Jay Summers – External Audit Manager  
Erin Blades – Performance Data Policy Integrity Manager – Grant Manager – Program Analyst  
Mariana Hernandez – PDID – RESEA Grant Manager / Policy Analyst  
Gary Kamimura – Policy Manager for Workforce Issues (oversees Erin and Mariana)  
Daegoon Lee – Operations Research Specials (Labor Market and Economic Analysis Unit)

#### **Conclusion:**

**UI Reemployment Programs: Worker Profiling and Reemployment Services (WPRS) and Reemployment Services and Eligibility Assessments (RESEA)**

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**

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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 (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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the**



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document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.

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 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:

**Auditor Note:** Staff at ESD pronounce this program as spelled out R - E - S - E - A, not said as single word.

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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, and any available program guidelines to determine specific requirements for Special Tests and Provisions. The Compliance Supplement for 2022, Part 4, states the following about the UI Reemployment Programs: Worker Profiling and Reemployment Services (WPRS) and Reemployment Services and Eligibility Assessments (RESEA) requirement:

### **Compliance Requirements**

The UI program serves as one of the principal “gateways” to the workforce system. It is often the first workforce program accessed by individuals who need workforce services. The WPRS and RESEA programs serve as UI’s primary programs that facilitate the reemployment needs of UI claimants.

WPRS, which is mandated by Section 303(j) of the Social Security Act, is designed to identify UI claimants who are most likely to exhaust their benefits and need reemployment assistance to return to work, and refer them to appropriate reemployment services, such as: job search and job placement assistance; counseling; testing; provision of occupational and labor market information; and assessments. WPRS provides reemployment services to selected claimants through an early intervention process. The number of individuals served under WPRS is determined by the state (and/or local areas) based on its capacity to serve these individuals. UIPL No. 41-94 provides guidance on WPRS requirements.

RESEA is authorized by Section 306 of the Social Security Act and builds on the success of both WPRS and RESEA’s predecessor, the former UI Reemployment and Eligibility Assessment (REA) program. RESEA uses an evidence-based integrated approach that combines an eligibility assessment for continuing UI eligibility and the provision of reemployment services. RESEA is a voluntary program and under certain circumstances may be designed to also satisfy WPRS requirements. Operating guidance for the RESEA program is updated annually. UIPL 10-21 provides RESEA operating Guidance for FY2021.

**Audit Objectives** To verify that states operate a WPRS or RESEA program that satisfies the WPRS mandate in accordance with federal requirements.

## **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.

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On September 28, 2022, we met with ESD staff to gain an understanding over the ESD's RESEA Program. The following people attended the meeting:

- Erik Simonson, SAO Team FA;
- Jay Summers – External Audit Manager;
- Erin Blades – Performance Data Policy Integrity Manager – Grant Manager – Program Analyst;
- Mariana Hernandez – PDID – RESEA Grant Manager / Policy Analyst;
- Gary Kamimura – Policy Manager for Workforce Issues (oversees Erin and Mariana);
- Shellie Dunning, Service Program Manager

The ESD utilizes an RESEA (Reemployment Services and Eligibility Assessments) program to meet the federal requirement to have an operational WPRS (Workers Profiling and Reemployment Services). The ESD's RESEA program uses an exhaustion of benefits metric expressed as a profile score. This score prioritizes claimants who are most likely to exhaust their benefits and have the greatest need for reemployment services.

### **Claimant Identification Process:**

Daegoon Lee, Operations Research Specials (LMEA Unit), explained that the predication model is based on a logistic regression profiling model (a type of binary choice model), as based on the prior two (2) years of available data for all UI beneficiaries, and is updated every other fiscal year since its inception in 2014. This information was updated in FY2019 and, at the time of our meeting, had been updated in October 2021 for FY2022. According to Mr. Lee this method of binary model is the preferred method as established by DOL's surveys of UI providers. The model uses weighted variables, based on the claimant profile information, used to identify those most likely to exhaust their benefits. Each claimant is scored based on a statistical combination of factors including industry, occupation, labor market characteristics, fiscal quarter, state unemployment rates, region, and other personal characteristics to generate a ratio. Each claim submitted is scored and prior claim's score is retained by UTAB for future reference. The requirements for how the department will identify individuals likely to exhaust their benefits are provided in WAC 192-180-060. The WAC specifically directs that members of unions participating in the referral union program and claimants who do not have a job search requirement (employer attached, in approved training, employees on standby, or those participating the referral union program) should be screened out. The scores may range from 0% (no likelihood of exhaustion) to one hundred percent (certainty of exhaustion). Claimants are ranked based on their individual score from least likely to most likely to exhaust (Key Control #1 - Control Activity). In contrast to FY21, DOL did not waive RESEA program requirements to score and offer services. Certain claimants, specifically Ex-Service Members (UCX), may be given priority for RESEA services (like other Federally funded programs). UIPL 41-94 restricts the use of certain demographic information for modeling, so ESD does not use certain information in their model.

Erin Blades, Performance Data Policy Integrity Manager, explained that there is a two stage process for the claimants to be moved from the identification in the system model to the final WorkSource Office. The first stage is the movement from the model to an assigned queue at a local workforce office, within one of the 12 regions, based upon the claimant's zip code. The second phase is that the local office selects from this queue based on most likely to exhaust benefits (highest ratio), which are then selected based on the capacity of the individual office to provide the initial letters to the claimants. Juan Martinez, RESEA Program Operator - Employment Connections, is able to actively monitor the local WorkSource offices through Reemployment Appointment Scheduler (RAS) to ensure the highest scores are prioritized. **(Key Control #2-Control Activity)**.

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Claimants who are selected from the queue are provided with an initial RESEA letter for an appointment. Letters are NOT generated in the UTAB system but in the RAS. Appointments are scheduled automatically and the claimant is notified, by the letter, to schedule an appointment by a certain timeline. As these appointments are mandatory, and scheduled without regard to claimant's availability, transportation barriers, or other factors, the letter does provide direction to have the claimant call their assigned WorkSource center to reschedule if they meet certain allowable criteria such as conflicts of job interviews, medical, etc. Claimants may reschedule meetings up to twice but cannot be for longer than 30 days from the initial appointment date. Starting on July 22, 2019, the self-scheduling option through the online system became available to allow claimants to reschedule appointments directly rather than calling the local center.

The claimant is required to participate in all components of the RESEA program if selected, including any subsequent meetings. The initial meetings are automatically scheduled with WorkSource staff in a one-on-one meeting with a specialist. Some claimants will not have a follow-up meeting if they have a return to work date. For 2022, the majority of appointments were held via telephone or virtually, but in person appointments increased from 2021. During this meeting claimants are informed of their requirements, responsibilities, and rights. This is documented through the letter, handbook, and supplementary information provided by the specialist to the claimant. **(Key Control #3-Control Activity)** The letter sent to the claimant is not kept as within the UTAB database. A "Reemployment Appointment Scheduler" or RAS both generates the RESEA initial letter and holds information on appointments.

### **Operations and Performance Activities:**

WorkSource is the local provider of RESEA service benefits for the UI program across the state. Worksource operates under an ongoing Memorandum of Understanding and contractual operations with the Economic Security Department. ESD submits a state plan for how WorkSource will administer the RESEA program. The contract operations related to RESEA are overseen by Erin Blades and Mariana Hernandez.

Local offices are staffed by FTE as determined by Mr. Martinez and his team, who also assess performance targets for each local office.

All staff working with the RESEA program must, at a minimum, be trained in the programmatic requirements, state laws, rules, and agency policies. These include requirements over job search, reporting requirements, and UI eligibility assessments. In addition, all staff working with RESEA participants must be trained to detect and report potential issues to the Unemployment Insurance claims centers. Staff are required to remit most information through the UTAB tracking in the self-scheduling system and the "Efforts to Outcome" system (ETO), however the service level contract requires that staff remit information related to potential issues (an act, circumstance, or condition that is potentially disqualifying under state law) using a report of potential issues form (RPI). RPIs are emailed to the adjudication team for decision. This remitted information is transmitted through the normal claims adjudication process. This is a 4 hour training course provided by Sam Virgil's training department. Participants and certificates of completion are documented in the Learning Management System. **(Key Control #4-Control Activity)** Training is conducted bi-monthly and at ad hoc, if needed, to ensure persons are properly trained. VTC training sessions have improved the overall quality of training delivered.

Performance reporting is completed quarterly. At the beginning of each year, Erin Blades works with the data and budget teams to develop a schedule of when reports will be posted. Erin distributes the due dates and develops a plan on when folks will submit report performance. Ms. Blades and Ms. Hernandez are the responsible parties for final reviews before submission to DOL. ETA reports are managed by Peter Sundholm (IT). **(Key Control #5-Information/Communication, Monitoring).**

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## **Identified Key Internal Controls**

**Key Control #1:** WorkSource utilizes an automated risk scoring model to determine which claimants are most likely to exhaust their benefits. Claimants are rank ordered for services from most likely to least likely to exhaust benefits. (Control Activity)

**Key Control #2:** WorkSource assigns claimants to a local office queue for services based on zip code and risk score. Claimants with the highest scores are prioritized. (Control Activity)

**Key Control #3:** Meeting materials include specific policies and procedures to ensure claimants are provided a notice that includes the RESEA's eligibility condition, requirements, benefits, and clear warnings regarding the consequences of failing to complete required elements and reasonable scheduling accommodations are provided. (Control Activity)

**Key Control #4:** All staff working in the RESEA program receive training to understand compliance reporting requirements. Training is documented in their learning management system records. (Control Activity)

**Key Control #5:** The Performance Data Policy Integrity Manager creates and distributes a reporting calendar at the beginning of the year to internally forecast report submission deadlines and develops a plan to collect performance reports. The Performance Data Policy Integrity Manager and RESEA Grant Manager review and certify quarterly performance reports submitted to DOL. (Information/Communication, Monitoring)

**Evaluation of Results:** We did not identify a 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.5.PR.G - 17.258/259/278-Workforce Innovation & Opportunity Act (WIOA) Cluster - ESD**

***Procedure Step:*** A. Activities Allowed- Controls

# State of Washington

**Prepared By:** SNK, 12/15/2022

**Reviewed By:** ACS, 12/21/2022

## 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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

### **Source:**

- Mary Merrill-Grants/Vendor Pay Manager
- Kim Anensen-Specialized Accounting Manager
- Phouang Hamilton- WIOA Monitoring Manager
- Greg Ferland-Director of Employment System, Policy and Integrity Manager
- Jay Summers-External Audit Manager

### **Conclusion:**

Based on our understanding of internal controls over Activities Allowed, 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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

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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:

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

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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).

### 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

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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 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;

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- (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 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)**

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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                            |
| <i>Formula (rounded up)<br/>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                   |

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|                     |    |    |    |
|---------------------|----|----|----|
| 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 <b>types</b> 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 <b>only</b> 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



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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:

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

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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.)

(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

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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 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 risks when designing our tests of compliance.

- The Majority of funds received by the state are expended by the 12 Local Workforce Development Boards (LWDB) which all function differently in order to best serve their populations.

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. Statewide Activities**

##### **a. Administrative**

- (1) Preparing the annual performance progress report and submitting it to the Secretary of Labor, (20 CFR sections 677.160 and 683.300(d) and WIOA, Section 116(d)(1), WIOA, 128 Stat. 1476).
- (2) Operating a fiscal and management accountability information system (20 CFR sections 652.8(b) and 682.200(l); Section 116(i), WIOA, 128 Stat. 1481).
- (3) Carrying out monitoring and oversight activities (20 CFR sections 682.200(j) and 683.410; Sections 129(b)(1)(E), 134(a)(2)(B)(iv), and 184(a)(4), WIOA, 128 Stat. 1507, 1521, and 1591).

##### **b. Programmatic**

- (1) Conducting statewide workforce development activities
  - (a) *Required statewide youth activities.* Administration of youth workforce development activities (Section 129(b)(1), WIOA, 128 Stat. 1506 *et seq.*).
  - (b) *Other allowable statewide youth activities.* Providing technical assistance and career services to local areas, including local boards, AJC operators, AJC partners, and eligible training providers (Section 129(b)(2), WIOA, 128 Stat. 1507).
  - (c) *Required statewide adult dislocated worker services.* Providing employment and training activities, such as rapid

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- response activities, and additional assistance to local areas (Section 134(a)(2), WIOA, 128 Stat. 1520).
- (d) *Other allowable statewide adult dislocated worker services.* Establishing and implementing innovative incumbent worker training programs (Section 134(a)(3), WIOA, 128 Stat. 1522 *et seq.*)
- (2) Providing support to local areas for the identification of eligible training providers, (Section 122(a)(2), WIOA, 128 Stat. 1493).
- (3) Implementing innovative programs for displaced homemakers and programs to increase the number of individuals trained for and placed in non-traditional employment (Section 134(c)(3), WIOA, 128 Stat. 1528).
- (4) Carrying out adult and dislocated worker employment and training activities as the State determines are necessary to assist local areas in carrying out local employment and training activities (Section 134(a)(2), WIOA, 128 Stat. 1520).
- (5) Disseminating the following:
- (a) The State list of eligible training providers for adults and dislocated workers.
- (b) Information identifying eligible training providers of on-the-job training and customized training.
- (c) Performance and program cost information about these providers.
- (d) A list of eligible providers of youth activities (Section 122, WIOA, 128 Stat. 1492 *et seq.*)
- (6) Conducting evaluations of workforce activities for adults, dislocated workers and youth, in order to promote, establish, implement, and utilize methods for continuously improving core program activities to achieve high-level performance within, and high-level outcomes from, the workforce development system (Section 116(e), WIOA, 128 Stat. 1479).
- (7) Providing incentive grants (Section 134(a)(3)(A)(xi), WIOA, 128 Stat. 1524).
- (8) Providing technical assistance to local areas that fail to meet local performance measures (Section 129(b)(2)(E), WIOA, 128 Stat. 1508).
- (9) Assisting in the establishment and operation of AJC delivery systems, in accordance with the strategy described in the Unified State Plan.
- (10) Providing additional assistance to local areas that have high concentrations of eligible youth (Section 129(b)(1)(F), WIOA, 128 Stat. 1507).

### 2. *Local Activities*

#### *Subtitle B, Chapter 3 Adult and Dislocated Worker Employment and Training Activities – Required Activities*

- a. Funds must be used at the local level to pay for career and training services through the AJC system for program participants.
- b. Basic Career Services – The following are basic career services (Sections 134(c)(2)(A)(i) through (xi), WIOA, 128 Stat. 1525 *et seq.*, and TEGL 19-16):
- (1) Eligibility determination for WIOA services.
- (2) Outreach, intake, and orientation to available information and services.
- (3) Initial assessment of skill levels, including literacy, numeracy, and English language proficiency, as well as aptitudes, abilities (including skills gaps), and supportive service needs.
- (4) Provision of labor exchange services, including job search and placement assistance, as well as career counseling and appropriate recruitment and other business services provided by employers.
- (5) Provision of referrals to and coordination of activities with other programs and services within the AJC system.

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- (6) Provision of workforce and labor market employment statistics and job information.
- (7) Provision of performance information and program cost information on eligible training providers by program and type of provider.
- (8) Providing information on local area performance.
- (9) Provision of information on availability of supportive services and assistance.
- (10) Provision of information and meaningful assistance to individuals seeking assistance in filing a claim for unemployment compensation.
- (11) Providing assistance on financial aid eligibility for training and education programs that are not funded under the WIOA.
- c. Individualized Career Services – The following are individualized career services (Section 134(c)(2)(A)(xii), WIOA, 128 Stat. 1527). These services must be provided to participants after AJC staff determine that such services are required to retain or obtain employment, consistent with statutory priorities:
  - (1) Comprehensive and specialized assessments of skill levels and service needs, including diagnostic testing, in-depth interviewing, and evaluation.
  - (2) Development of an individual employment plan.
  - (3) Group and/or individual counseling and monitoring.
  - (4) Career planning.
  - (5) Short-term pre-vocational services, including development of learning skills, communication skills, interviewing skills, punctuality, personal maintenance skills, and workplace behavior skills training.
  - (6) Internships and work experiences linked to careers.
  - (7) Workforce preparation activities, including basic academic skills, critical thinking skills, digital literacy skills, and self-management skills.
  - (8) Financial literacy services.
  - (9) Out-of-area job search assistance and relocation assistance.
  - (10) English-language acquisition and integrated education and training programs.
- d. Training Services – When determined appropriate, the following training services are allowable (Section 134(c)(3)(D), WIOA, 128 Stat. 1529):
  - (1) Occupational skills training, including training for nontraditional employment
  - (2) On-the-job-training (OJT). Employers may be reimbursed up to 50 percent, and, in some instances, 75 percent, of the wage rate of an OJT participant for the extraordinary costs of providing the training and additional supervision related to the OJT. The employer is not required to document its extraordinary costs (Section 134(c)(3)(H), WIOA, 128 Stat. 1531). Instances in which the reimbursement level may be up to 75 percent are based on the following criteria:
    - (a) Participant characteristics, e.g. length of unemployment, current skill level, and barriers to employment;
    - (b) Size of the employer;
    - (c) Quality of employer-provided training and advancement opportunities, and
    - (d) Other factors the State or local board may determine appropriate, such as number of employees participating in the training, wage and benefit levels of employees, and relation of the training to the competitiveness of the participant.

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- (3) Incumbent worker training (20 CFR section 680.800; Section 134(d)(4), WIOA, 128 Stat. 1535) (see III.G.3.b.(2), “Matching, Level of Effort, Earmarking – Earmarking,” for a limitation).
- (4) Programs that combine workplace training with related instruction, including cooperative education programs.
- (5) Training programs operated by the private sector.
- (6) Skill upgrading and retraining.
- (7) Entrepreneurial training.
- (8) Transitional jobs, as long as they do not exceed 10 percent of the funds allocated to the local area and are consistent with the requirements of Section 134(d)(5), WIOA, 128 Stat. 1537.
- (9) Job readiness training in combination with other training programs.
- (10) Adult education and literacy training.
- (11) Customized training (Customized training is designed to meet the specific requirements of an employer. Such employers are required to pay a significant portion of the cost of the training (Section 3(14), WIOA, 128 Stat. 1431)).
- e. Follow-up Services – Follow-up services must be provided, as appropriate, for participants who are placed in un subsidized employment, for up to 12 months after the first day of employment. Follow-up services may include counseling about the work place (Section 134(c)(2)(A)(xiii), WIOA, 128 Stat. 1527); (TEGL 19-16, 4. *Follow-up Services*, pg. 5).
- f. Pay for Performance (PFP) - PFP contract strategies must be used to provide Adult and Dislocated Worker training services in WIOA §134(c)(3) and/or Youth activities in §129(c)(2), as applicable. For the Adult and Dislocated Worker contract strategies, such services are the “allowable training” listed in WIOA §134(c)(3), which includes occupational skills training, on-the-job training, incumbent worker training, cooperative education, private sector training, skill upgrading and retraining, entrepreneurial training, transitional jobs, job readiness training, adult education and literacy activities, and customized training.

### *Subtitle B, Chapter 3 Adult and Dislocated Worker Employment and Training Activities – Other Activities*

At the discretion of the State and local boards, the following services may be provided (Section 134(d), WIOA, 128 Stat. 1532 *et seq.*):

- a. Job seeker services, including:
  - (1) Customer support to enable individuals with barriers to employment to navigate among multiple services,
  - (2) Training programs for displaced homemakers and for individuals training for nontraditional occupations, and
  - (3) Work support activities for low-wage workers.
- b. Employer services, including:
  - (1) Customized screening and referral of individuals in career and training services to employers; and
  - (2) Customized employment-related services to employers, employer associations, or other organization on a fee-for-service basis, in addition to labor exchange services available to employers under the Wagner-Peyser Act; and
  - (3) Activities to provide business services and strategies.
- c. Coordination activities, including:
  - (1) Employment and training activities in coordination with child support enforcement and child support services;
  - (2) Employment and training activities in coordination with cooperative extension programs carried out by the U. S. Department of Agriculture;

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- (3) Employment and training activities to facilitate remote access to services provided through a one-stop delivery system, including facilitating access through the use of technology;
  - (4) Improving coordination with economic development activities to promote entrepreneurial skills training and micro enterprise services;
  - (5) Improving linkages with small employers;
  - (6) Strengthening linkages with unemployment insurance programs;
  - (7) Improving coordination of activities for individuals with disabilities; and
  - (8) Improving coordination with other Federal agency supported workforce development initiatives.
- d. Implementing PFP contract strategies for training services. PFP contract strategies include only the activities listed in the definition of PFP contracting strategies at WIOA Section 3(47), such as payments for performance outcomes and independent validation of results.
  - e. Technical assistance for AJCs, partners, and eligible training providers on the provision of services to individuals with disabilities.
  - f. Activities for setting self-sufficiency standards for the provision of career and training services.
  - g. Implementing promising services to workers and businesses.
  - h. Supportive services, including needs related payments.
  - i. Locating transitional jobs, which are time-limited work experiences that are subsidized and are in the public, private, or nonprofit sectors. They are for individuals with barriers to employment who are chronically unemployed or who have an inconsistent work history, and are combined with comprehensive career and supportive services. (Section 134(d)(5)(A), WIOA, 128 Stat. 1537).

### *Subtitle B, Youth Activities*

- a. Youth activities can provide a wide array of activities relating to employment, education and youth development. The activities identified in Section 129(c)(2), WIOA (128 Stat. 1509 and 1510) include the following:
  - (1) Tutoring, study skills training, instruction and evidence-based dropout prevention and recovery strategies that lead to completion of the requirements for a secondary school diploma or its recognized equivalent (including a recognized certificate of attendance or similar document for individuals with disabilities) or for a recognized post-secondary credential;
  - (2) Alternative secondary school services or dropout recovery services, as appropriate;
  - (3) Paid and unpaid work experiences that have academic and occupational education as a component of the work experience, which may include the following types of work experiences:
    - (a) summer employment opportunities and other employment opportunities available throughout the school year;
    - (b) pre-apprenticeship programs;
    - (c) internships and job shadowing; and
    - (d) on-the-job training opportunities;
  - (4) Occupational skill training, which includes priority consideration for training programs that lead to recognized post-secondary credentials that align with in-demand industry sectors or occupations in the local area involved, if the local board determines that the programs meet the quality criteria described in Section 123, WIOA (128 Stat. 1498);
  - (5) Education offered concurrently with and in the same context as workforce preparation activities and training for a specific occupation or occupational cluster;
  - (6) Leadership development opportunities, including community service and peer-centered activities encouraging responsibility and other positive social and civil behaviors;

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- (7) Supportive services;
- (8) Adult mentoring for a duration of at least 12 months that may occur both during and after program participation;
- (9) Follow-up services for not less than 12 months after the completion of participation;
- (10) Comprehensive guidance and counseling, which may include drug and alcohol abuse counseling and referral, as appropriate;
- (11) Financial literacy education;
- (12) Entrepreneurial skills training;
- (13) Services that provide labor market and employment information about in-demand industry sectors or occupations available in the local area, such as career awareness, career counseling, and career exploration services; and
- (14) Activities that help youth prepare for and transition to post-secondary education and training;
- (15) PFP contract strategies must be used to provide Adult and Dislocated Worker training services in WIOA §134(c)(3) and/or Youth activities in §129(c)(2), as applicable. The Youth services include training and also tutoring, work experience, supportive services, counseling, entrepreneurship, labor market information, financial literacy, and other services listed in WIOA §129(c)(2).

b. Funds allocated to a local area for eligible youth shall be used for programs that:

- (1) Objectively assess academic levels, occupational skills levels, service needs (i.e., occupational, prior work experience, employability, interests, aptitudes), supportive service needs of each participant, and developmental needs of each participant, for the purpose of identifying appropriate services and career pathways;
- (2) Develop service strategies that are directly linked to one or more indicators of performance of the youth program described in Section 116(b)(2)(A)(ii), WIOA, 128 Stat. 1472, and identify career pathways that include education and employment goals, appropriate achievement objectives, and the appropriate services needed to achieve the goals and objectives for each participant taking into account the assessment conducted; and
- (3) Provide activities leading to the attainment of a secondary school diploma or its recognized equivalent, postsecondary education preparation, strong linkages between academic instruction and occupational education that lead to the attainment of recognized postsecondary credentials, preparation for unsubsidized employment opportunities, and effective connections to employers in in-demand industry sectors and occupations of the local and regional labor markets (Section 129(c)(1)(A)(B)(C), WIOA, 128 Stat. 1508).

### *Waivers and Workforce-Flexibility*

- (1) Under the Secretary of Labor's general waiver authority (Adult, Dislocated Worker, and Youth Waivers), the Secretary may waive statutory or regulatory requirements of the adult and youth provisions of the WIOA and Sections 8 through 10 of the Wagner-Peyser Act) (29 USC 49g through 49i) (Section 189(i)(3), WIOA, 128 Stat. 1601).
- (2) Under an approved Workforce Flexibility plan, a Governor may be granted authority to approve requests for waivers of statutory or regulatory provisions of Title I submitted by local workforce areas (29 USC 2942; Sections 190(a)-(d), WIOA, 128 Stat. 1602 *et seq.*).

### 3. *WIOA, Activities Unallowed*

a. WIOA Title I funds may not be used for the following activities, except as indicated:



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- (1) Construction, purchase of facilities or buildings, or other capital expenditures for improvements to land or buildings except with the prior approval of the Secretary of Labor. WIOA Title I funds can be used for construction only in limited situations, including meeting obligations to provide physical and programmatic accessibility and reasonable accommodations, certain repairs, renovations, alterations, and capital improvements of property, and for disaster relief projects under Section 170(d), WIOA, 128 Stat.1575, Youth Build programs under Section 171(c)(2)(A)(i), WIOA, 128 Stat. 1578, and for other projects that the Secretary determines necessary to carry out the WIOA, as described under Section 189(c) of WIOA, 128 Stat. 1599.
  - (2) Employment-generating activities, economic development activities, investment in revolving loan funds, capitalization of businesses, investment in contract bidding resource centers, and similar activities not directly related to training for eligible individuals, with the exception of employer outreach and job development activities, which are considered directly related to training for eligible individuals (Section 181(e), WIOA, 128 Stat. 1588).
  - (3) The employment or training of participants in sectarian activities. Participants shall not be employed in the construction, operation, or maintenance of a facility that is or will be used for sectarian instruction or as a place for religious worship. However, WIOA funds may be used for the maintenance of a facility that is not primarily or inherently devoted to sectarian instruction or religious worship if the organization operating the facility is part of a program or activity providing services to WIOA participants (Section 188(a)(3), WIOA, 128 Stat. 1598).
  - (4) Encouraging or inducing the relocation of a business or part of a business from any location in the United States if the relocation results in any employee losing his or her job at the original location (Section 181(d)(1)), WIOA, 128 Stat. 1588).
  - (5) Providing customized training, skill training, or on-the-job training or company specific assessments of job applicants or employees of a business or a part of a business that has relocated from any location in the United States, until the company has operated at that location for 120 days, if the relocation resulted in any employee losing his or her job at the original location (Section 181(d)(2), WIOA, 128 Stat. 1588).
  - (6) Paying the wages of incumbent employees during their participation in economic development activities provided through a Statewide workforce investment system (Section 181(b)(1), WIOA, 128 Stat. 1586).
  - (7) Public service employment, except to provide disaster relief employment, as specifically authorized in Section 194(10), WIOA (128 Stat.1606).
- b. Funds available to States and local areas under Subtitle B may not be used for foreign travel (29 USC 2931(e), WIOA, 128 Stat. 1588).

### Indirect Costs

Indirect costs for SFY22 totaled 556,766.62 or approximately 0.87% of the total expenditures and therefore were determined not material to the grant.

See:Overview indirect costs section

### Material Expenditures

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

- NZ-Other Grants and Benefits totaling \$55,451,420 accounting for about 94% of all WIOA cluster expenditures during SFY22. See:FY22-Details-Expanded-Preliminarytab "Expenditures by Subobject"

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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 reviewed ESD policies over activities allowed. See [FY22 Activities Allowed Policies](#)

In addition, we reviewed the Department's procedures for the draw down process. See: [Draw Directions](#)

We requested ESD provide key internal controls over this areas. We sent this request to Jay Summers on July 14,2022. See: [Internal Control request letter - Activities Allowed](#) We received ESD's response on August 4th, 2022 See: [FY22 Activities Allowed - Internal Controls](#)

On August 17th,2022, we met with ESD staff to gain an understanding of controls over Activities Allowed. The following staff was in attendance:

#### **ESD**

- Mary Merrill-Grants/Vendor Pay Manager
- Kim Anensen-Specialized Accounting Manager
- Jay Summers-External Audit Manager

#### **SAO**

- Shelbie Katheder

The Local Workforce Development Boards (LWDB) provide services to WIOA participants in their service area and then submit a reimbursement request to ESD to receive payments incurred while providing WIOA services. In addition, they also submit a revenue and expenditure report pulled from their accounting system with the reimbursement request.

#### ***Note:***

*The revenue and expenditure report do not provide detailed information about the expenditures incurred, however the subrecipient monitoring team goes on site to complete the LWDB's annual monitoring visit. During this visit , the monitoring team will pull a sample of reimbursement requests and review all supporting documentation for the request (i.e. receipts, invoices, contracts etc.) For additional details and the testing of the on-site fiscal monitoring. See subrecipient monitoring at: [M. Subrecipient Monitoring - Controls](#)*

#### **Formula draws:**

A Fiscal Analyst reviews the reimbursement request and the supporting document. During the review, they confirm the amount requested matches the supporting documentation, review the accounting codes to ensure the LWDB is requesting the reimbursement against an open grant and compares the amount requested against the LWDB budget to ensure they still have funds to draw down. In addition, the Analyst then reviews the expenditure line items and General Ledger (GL) accounts in the accounting backup to make sure the costs seem reasonable or allowable.

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**Key Control #1-The Fiscal Analyst reviews the reimbursement request to ensure the amount requested matches the supporting documentation, the request is against an open grant, the LWDB has funds available in their budget to draw down, the expenditures are incurred in the period of performance and the expenditures seem reasonable and allowable. (Monitoring/Control Activities) H. Period of Performance - Controls**

Once the Fiscal Analyst completes their review, they provide the reimbursement request and supporting documentation to the Grant Manager. The Grant Manager will review the reimbursement request and supporting document to ensure they match, the request is against an open grant, and the LWDB has available funds to draw down. Once they complete their review, they approve the payment and submit it to ESD's internal treasury department to complete the entry in the Payment Management System (PMS), then submit it the Office of the State Treasurer who completes the payment to the LWDB. Typically, the LWDB will receive payment the following business day.

**Key Control #2-The Grant Manager reviews the reimbursement request to ensure the amount requested matches the supporting documentation, the request is against an open grant, LWDB has funds available in their budget to draw down against and the expenditures are incurred in the period of performance of the grant. (Monitoring) H. Period of Performance - Controls**

After the payment is approved, the Fiscal Analyst records the payment on an internal spreadsheet called the "fund manager" which is used by the fiscal team to track all payments to the LWDBs, their respective budget for each open grant and expenditures recorded in AFRS (control activities) On a monthly basis, the Fiscal Analyst, pulls an AFRS report to determine amount expended by each LWDB against the open grants. They input the data in the "fund manager" spreadsheet to reconcile the expenditures to AFRS to the payments made to the LWDB. (Control Activities/Monitoring)

## Fiscal Monitoring

Fiscal monitoring is included as part of the annual monitoring visit for each LWDB. The Workforce Monitoring team will reach out to fiscal staff and get a list of all draws completed by the LWDB since their last monitoring visit prior to the visit. Once they receive the list the team will judgmentally select a sample of draws from the list to test during the monitoring visit. They will reach out to the LWDB and request all supporting documentation for review. During the monitoring visit, the monitoring team will review all supporting documentation for each sampled reimbursement request to ensure they are allowable under the WIOA program requirements.

**Key Control #3-During the annual on-site monitoring visits, the sub recipient monitoring team reviews reimbursement request to the ensure reimbursement was for allowable activities. (Control Activities/Monitoring)**

*\*Testing of this area will be completed as part of sub recipient monitoring. For testing details:M. Subrecipient Monitoring - Controls*

## **A19 draws:**

ESD also has contracts with various vendors to complete the goals associated with the governor's reserve program. As part of the WIOA program, the State is allowed to utilize ten percent of the total WIOA grant funds allocated to the governor reserve which can be used to design specific programs to support the state's workforce. In Washington this program is known as "Economic Security for All."

For Economic Security for All contract payments, the vendor submits the invoice and supporting documentation directly to the contract manager. Upon receipt, the contract manager reviews the A-19 reimbursement request and the supporting documents. During their review, the contract manager confirms the amount requested matches the supporting documentation, reviews the accounting codes to ensure the LWDB is requesting the reimbursement be charged against an open

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grant, and compares the amount requested against the LWBD's budget to ensure they still have funds to draw down. In addition, the manager reviews the expenditure line items in the accounting backup to make sure the costs seem reasonable or allowable. After they complete their review, they submit the documentation to the accounting department who will process the payment.

**Key Control # 4-**The Contract Manager reviews the reimbursement request to ensure the amount requested matches the supporting documentation, the request is against an open grant, the contractor has funds available in their budget to draw down against and the expenditures are incurred in the period of performance of the grant (**Control Activities/Monitoring**).

### Monthly Reconciliation

Each year during the month of February, USDOL provides a Notice of Award to ESD detailing the amount of WIOA funds they will be granted for the program year. Although, ESD is provided with the notice in February, they do not receive their first disbursement of funds until April, and then the second disbursement of funds occurs in August. To aid with the tracking of funds, the first disbursement is named after the WIOA program year and the second disbursement is named after the fiscal year. To assist with grant closeout, during FY22 ESD staff started on a monthly basis reviewing the amount of funds left on the Program Year award for each LWDB and if the amount would not be sufficient on its own to cover the next reimbursement request, they create a journal voucher to move the remaining program year funds over to fiscal year program funds.

*\*Note: They are able to determine if the remaining funds will not cover the next reimbursement request by reviewing the history of the LWDB.\**

### Summary of Key Controls

**Key Control #1-**The Fiscal Analyst reviews the reimbursement request to ensure the amount requested matches the supporting documentation, the request is against an open grant, the LWDB has funds available in their budget to draw down, the expenditures are incurred in the period of performance and the expenditures seem reasonable and allowable. (**Monitoring/Control Activities**) H. Period of Performance - Controls

**Key Control #2-**The Grant Manager reviews the reimbursement request to ensure the amount requested matches the supporting documentation, the request is against an open grant, LWDB has funds available in their budget to draw down against and the expenditures are incurred in the period of performance of the grant. (**Monitoring**) H. Period of Performance - Controls

*Note: Key Controls 1&2 identified will also be tested as part of controls for period of performance.* H. Period of Performance - Controls

**Key Control #3-**During the annual on-site monitoring visits, the sub recipient monitoring team reviews reimbursement request to ensure reimbursement was for allowable activities. (**Control Activities/Monitoring**) M. Subrecipient Monitoring - Controls

*Note: Key Control 3 identified will be tested as part of subrecipient monitoring.* M. Subrecipient Monitoring - Controls

**Key Control # 4-**The Contract Manager reviews the reimbursement request to ensure the amount requested matches the supporting documentation, the request is against an open grant, the contractor has funds available in their budget to draw down against and the expenditures are incurred in the period of performance of the grant (**Control Activities/Monitoring**)

**Evaluation of Results:** Did you identify any control deficiencies? No

### 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 to determine if we can place reliance on the controls.

## C.5.PR.G - 17.258/259/278-Workforce Innovation & Opportunity Act (WIOA) Cluster - ESD

**Procedure Step:** G. Earmarking - Controls

**Prepared By:** SNK, 8/12/2022

**Reviewed By:** ACS, 8/15/2022

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 key internal controls the agency has established to prevent or detect noncompliance with earmarking requirements.

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

### **Source:**

Sophal Espiritu-Funds Manager

### **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.

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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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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**

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.

1. Statewide Activities

## State of Washington

1. The governor shall reserve not more than 15 percent of each of the amounts allotted to the state Adult, Dislocated Worker, and Youth Activities for a fiscal year to carry out statewide activities under Section 129(b) or statewide employment and training activities for adults or dislocated workers under section 134(a) (Section 128(a), WIOA, 128 Stat. 1502).
  2. Not more than 5 percent of the funds allotted to a state under Section 127(b)(1)(C) of WIOA shall be used by the state for administrative activities related to youth workforce investment and employment and training activities (Section 129(b)(3), WIOA, 128 Stat 1508).
  3. The state must reserve for rapid response activities a portion of funds, up to 25 percent, allotted for dislocated workers. The funds are used to plan and deliver services to enable dislocated workers to transition to new employment as quickly as possible, following either a permanent closure or mass layoff, or a natural or other disaster resulting in a mass job relocation (20 CFR section 682.350; sections 133(a)(2) and 134(a)(2)(A), WIOA, 128 Stat. 1516 and 1520).
2. Local Areas
1. A local area may expend no more than 10 percent of the Adult, Dislocated Worker, and Youth Activities funds allocated to the local area under Sections 128(b) (WIOA, 128 Stat. 1502) and 133(b) (WIOA, 128 Stat. 1516) for within state allocations. The funds provided for administrative costs by one of the three fund sources (Adult, Dislocated Worker, Youth Activities) can be used for administrative costs of the other two sources.
  2. The amount that may be spent on incumbent worker training may not exceed 20 percent of the amount of the combined total of federal funds allocated to local areas to carry out the Adult and Dislocated Worker programs for a program year (20 CFR section 680.800; Section 134(d)(4), WIOA, 128 Stat. 1535).
  3. WIOA authorizes workforce investment areas, with the approval of the governor, to transfer up to 100 percent of the Adult Activities funds to Dislocated Workers Activities, and up to 100 percent of Dislocated Workers Activities funds to Adult Activities (Section 133(b)(4), WIOA, 128 Stat. 1518).



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4. At the discretion of the local board, not more than 10 percent of the total funds allocated to the local area under section 128(b) and under section 133(b)(2)-(3) may be used to implement a pay-for- performance contract strategy as defined in WIOA Section 3(47) (WIOA Section 129(c)(1)(D) and 134(d)(1)(A)(iii)).
  5. As no state has received prior approval for implementation of a PFP contract strategy, no funds from the program years prior to PY 2019 are available for PFP contract strategies or for the accompanying extended disbursement. However, these funds could still be used for other types of performance-based contracting, but the life of those funds remains the normal two-year limit for local WIOA grant funds.
3. Youth Activities
1. A minimum of 75 percent of the Youth Activity funds allocated to states and local areas, except for the local area expenditures for administration, must be used to provide services to out-of-school youth (Section 129(a)(4)(A), WIOA, 128 Stat. 1506).
  2. Not less than 20 percent of Youth Activity funds allocated to the local area, except for the local area expenditures for administration, must be used to provide paid and unpaid work experiences (Section 129(c)(4)), WIOA, 128 Stat. 1510).

### **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 reviewed ESD's policy over earmarking which outlines how allotments to each are determined. See: ESD-Policy 5270 In addition, we also reviewed TEGL No. 19-20 from USDOL which outlines the allotment requirements for the WIOA grant for PY21 See: TEGL 19-20

We requested ESD provided key internal controls over this area. We sent this to Jay Summers on July 12, 2022. See: Internal Control request letter - Earmarking We received ESD's response on August 4th, 2022 and we received an updated version on August 8, 2022. See: FY21 Earmarking Controls.-Updated Response

On August 10, 2022, we met with ESD staff to gain an understanding of controls over Earmarking. The following staff were in attendance:

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## ESD

- Sophal Espirtu-Budget Manager
- Jay Summers-External Audit Manager

## SAO

- Shelbie Katheder-Auditor in Charge
- Andrew Schmitz-WIOA Supervisor

Sophal explained how the funding flows through the Department. The Department receives the first payment installment from the Department of Labor (**USDOL**) for Youth Activities in April and the first payment installment for the Adult and Dislocated Worker Program in July. The Department receives the second payment installment in October for all the programs. The grant awards are open for three years and prior to the first payment installment, the Department receives a Notice of Obligation (**NOO**) from USDOL which documents the funds they will receive for that program year. Prior to receiving the NOO, the allocation team reviews the TEGL for the program year (For FY22, it was TEGL No.19-20) to ensure they are aware of all allocation requirements for the WIOA funds for the upcoming program year. (Control Activities) Once they receive the NOO, Sophal utilizes an internal spreadsheet called "Allocation Model" to record the amount of grant funds included on the NOO, the spreadsheet has built in formulas an automatically calculates the earmarking amounts for each category. **The Department establishes allocations in the budgeting process to ensure it will be in compliance with the earmarking requirements and expend funds by the end of the third year of the grant award. (Key Control #1- Control Activities)**

Once Sophal completes the allocation model, her and the allocation team have a meeting where they review the model to ensure it addresses all the earmarking requirements. The allocation team consists of Sophal, staff from the Grants Management team, staff from Policy and from legal. (Control activity) Once the allocation team finishes its review, Sophal set up a meeting with the CFO to go over the allocation model. During this meeting, Sophal and the CFO complete a detailed review of the allocation model to ensure all earmarking requirements are met as well as it is accurate and complete. If the CFO provides verbal approval at the end of the meeting. **The allocation team (Budget analyst and Funds Manager) meets with the CFO to walkthrough the allocation model to ensure it is accurate and complete and gain final approval. (Key Control #2-Control Activity)**

Once the allocation model is complete and reviewed internally by ESD, the results are shared with the LWDBs at their annual meeting with ESD. (information and communications) After the meeting a subgroup of 5 volunteers from the LWDBs review the allocation model to ensure it accurate by redoing the calculations. They have 5 days from the date of presentation to complete their review.(Monitoring) Once they complete their review they will communicate their agreement of the allocation model. Once ESD receives the agreement from the LWDBs, the allocation model is finalized and budget letters are distributed to each of the 12 LWBDs.

In addition to the allocation model process, Sophal explained the Department has a chart of accounts which includes separate accounting codes for WIOA activities. For each new program year, the Department creates new project codes in the accounting system. The coding is set up with a begin date and an end date. Once the end date is reached the coding becomes inactive and expenditures can no longer be reported against it. **For each program year, the Department establishes new coding in the accounting system (AFRS) to ensure it meets the earmarking and period of performance requirements. (Key Control #3-Control Activities)** *\*During FY22, coding was created by Sundara Chan, Budget Analyst and approved by Sophal Espiritu, Budget Manger\**

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On a monthly basis, a budget analyst, runs an monthly AFRS budget status report to determine the amount of funds expended within each program for each earmarking requirement. **A Budget Analyst, monitors expenditures monthly using AFRS budget status reports to ensure ESD is on track to meet the earmarking requirements. (Key Control #4-Control Activities/Monitoring)**

### Summary of Key Controls

**Key Control #1-**The Department establishes allocations in the budgeting process to ensure it will be in compliance with the earmarking requirements and expend funds by the end of the third year of the grant award. **(Control Activities)**

**Key Control #2-**The allocation team (Budget analyst and Funds Manager) meets with the CFO to walkthrough the allocation model to ensure it is accurate and complete and gain final approval. **( Control Activities)**

**Key Control #3-**For each program year, the Department establishes new coding in the accounting system (AFRS) to ensure it meets the earmarking and period of performance requirements. **(Control Activities)**

**Key Control #4-**A Budget Analyst, monitors expenditures monthly using AFRS budget status reports to ensure ESD is on track to meet the earmarking requirements. **(Control Activities/Monitoring)**

**Evaluation of Results:** Did you identify any control deficiencies? No

### 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.5.PR.G - 17.258/259/278-Workforce Innovation & Opportunity Act (WIOA) Cluster - ESD

**Procedure Step:** H. Period of Performance - Controls

**Prepared By:** SNK, 8/26/2022

**Reviewed By:** ACS, 8/30/2022

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

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authorized period of performance.

To identify key internal controls the agency has established to prevent or detect noncompliance with period of performance requirements.

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

## **Source:**

- Sophal Espirtu-Budget Manager
- Mary Merrill-Grants/Vendor Pay Manager
- Kim Anensen-Specialized Accounting Manager
- Jay Summers-External Audit Manager

## **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**

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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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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.

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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).

### **§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

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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).

| 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.      |

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|  |   |
|--|---|
| (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 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.

#### **1.        *Statewide Activities***

Funds allotted to a state for any program year are available for expenditure by the state during that program year and the two succeeding program years  
(29 USC 3249(g)(2)).

#### **2.        *Local Areas***



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Funds allocated by a state to a local area for any program year are available for expenditure only during that program year and the succeeding program year.

Funds which are not expended by a local area in two-year period must be returned to the state, which can use the funds for statewide projects during the third program year of availability. The state may also distribute the funds to local areas, which may have expended their original allocation and may need additional funds to complete their projects within the two-year period (29 USC 3249(g)(2)).

Funds used to carry out PFP contract strategies by local areas shall remain available until expended through procedures outlined in Attachment III of TEGL 8-20 (WIOA 189(g)(2)(D)).

### **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 ESD provide key internal controls over this area. We sent this request to Jay Summers on July 12, 2022. See: Internal Control request letter - Period of Performance We received ESD's response on August 4th, 2022 from Jay Summers. See: FY22 Period of Performance Controls

On August 10, 2022, we met with ESD staff to gain an understanding of controls over Earmarking. The following staff were in attendance:

#### ESD

- Sophal Espirtu-Budget Manager
- Jay Summers-External Audit Manager

#### SAO

- Shelbie Katheder-Auditor in Charge
- Andrew Schmitz-WIOA Supervisor

On August 17, 2022, we met with ESD staff to gain an understanding of controls over Activities Allowed. The following staff was in attendance:

#### ESD

- Mary Merrill-Grants/Vendor Pay Manager
- Kim Anensen-Specialized Accounting Manager
- Jay Summers-External Audit Manager

#### SAO

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- Shelbie Katheder

During these two meetings, we discussed the internal controls over activities allowed and earmarking. We also discussed period of performance. During our period of performance discussion, ESD staff identified some of the controls over activities allowed and earmarking were the same controls in place to ensure period of performance requirements were met as well, as they do not have separate processes in place to ensure the requirement is met. Based on this information, we determined the controls over period of performance were identified in activities allowed/cost principles and earmarking. We have documented our understanding of those controls at A. Activities Allowed- Controls and G. Earmarking - Controls

## Summary of Key Controls

**Key Control #1**-The Fiscal Analyst reviews the reimbursement request to ensure the amount requested matches the supporting documentation, the request is against an open grant, the LWDB has funds available in their budget to draw down, the expenditures are incurred in the period of performance and the expenditures seem reasonable and allowable. **(Monitoring/Control Activities)** A. Activities Allowed- Controls

**Key Control #2**-The Grant Manager reviews the reimbursement request to ensure the amount requested matches the supporting documentation, the request is against an open grant, LWDB has funds available in their budget to draw down against and the expenditures are incurred in the period of performance of the grant. **(Monitoring)** A. Activities Allowed- Controls

**Key Control #3**-The Department establishes allocations in the budgeting process to ensure it will be in compliance with the earmarking requirements and expend funds by the end of the third year of the grant award. **(Control Activities)** G. Earmarking - Controls

*\*Note: This Key Control was identified as Key Control #1 under earmarking \**

**Key Control #4**-For each program year, the Department establishes new coding in the accounting system (AFRS) to ensure it meets the earmarking and period of performance requirements. **(Control Activities)** G. Earmarking - Controls

*\*Note: This Key Control was identified as Key Control # 3 under earmarking\**

**Evaluation of Results:** Did you identify any control deficiencies? No

## 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.5.PR.G - 17.258/259/278-Workforce Innovation & Opportunity Act (WIOA) Cluster - ESD

**Procedure Step:** L. Reporting - Controls-ETA 9130

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**Prepared By:** SNK, 8/26/2022

**Reviewed By:** ACS, 8/30/2022

## 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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

### **Source:**

- Mary Merrill-Grants/Vendor Pay Manager
- Kim Anensen-Specialized Accounting Manager
- Jay Summers-External Audit Manager

### **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.

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## 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.*

**AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

**Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

*(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*

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award or reduce future awards (as stipulated in the agreement).

## 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

**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.

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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).

### 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)<br/>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

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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 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.

#### 1. Financial Reporting

1. *SF-270, Request for Advance or Reimbursement* – Not Applicable
2. *SF-271, Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
3. *SF-425, Federal Financial Report* – Not Applicable
4. *ETA-9130, Financial Report (OMB No. 1205-0461)* – All ETA grantees are required to submit quarterly financial reports for each grant award they receive. Reports are required to be prepared using the specific format and instructions for the applicable program(s); in this case, *Workforce Innovation and Opportunity Act* instructions for the following: *Statewide Adult; Workforce Statewide Youth; Statewide Dislocated Worker; Local Adult; Local Youth; and Local Dislocated Worker*. A separate ETA 9130 is submitted for each of these categories. Funds reserved and set aside for PFP contract strategies are required to be reported on ETA 9130 basic reports for each WIOA fund source utilized. Reports are due 45 days after the end of the reporting quarter. Financial data is required to be reported cumulatively from grant inception through the end of each reporting period. Additional information can be accessed at <http://www.doleta.gov/grants/>; scroll down to the section on Financial Reporting. See TEGL 02-16 for specific and clarifying instructions about the ETA 9130 at [https://wdr.doleta.gov/directives/corr\\_doc.cfm?DOCN=5156](https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=5156).

## 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 reviewed ESD's policies over financial reporting which contains time lines as well as the responsibilities of the Local Workforce Development Boards (LWDBs) and other agencies who must report back to ESD. See: Policy 5240 - Financial Reporting and Policy 5245 - Grant Closeout. In addition, we also reviewed the written procedures used by ESD staff to complete the ETA 9130 Report. See: WIOA Quarterly reports process

We requested ESD provide key internal controls over this area. We sent this request to Jay Summers on July 12, 2022. See: Internal Control request letter - Reporting-ETA9130 We received ESD's response on August 4, 2022 from Jay Summers. See: FY22 Reporting-ETA 9130 Controls

On August 17th, 2022, we met with ESD staff to gain an understanding of controls over Reporting-ETA 9130. The following staff was in attendance:

### ESD

- Mary Merrill-Grants/Vendor Pay Manager
- Kim Anensen-Specialized Accounting Manager
- Jay Summers-External Audit Manager

### SAO

- Shelbie Katheder

A fiscal analyst prepares the ETA 9130-Financial Report on a quarterly basis for each grant award that is active during the quarter, even if there are no expenditures associated with a particular grant award. Each grant award has two parts to it, the **Program Allotment** which is awarded by July of that year, and the **Federal Year** which is awarded by October of that year. The award has a three year period where funds are available, with the final report needing to be submitted for June 30 of the third year.

The LWDBs and the Workforce Training and Education Coordinating Board submit a quarterly financial status report for each quarter, using a template created by ESD similar to the ETA-9130 within 30 days of quarter close. The report lists expenditures and revenues for each section that was awarded to the LWDB or state agency. The Fiscal Analyst will enter all of the data from each financial report onto the "Fund Manager Spreadsheet" during which they review the data provided for reasonableness and accuracy by comparing the amount reported to the cash draws during the quarter as well as AFRS. The "Fund Manager" spreadsheet when completed rolls up to the "Title 1 Quarterly Report" spreadsheet. The fiscal analyst utilizes this spreadsheet to ensure data was entered into the "Fund Manager" accurately by comparing the unobligated and unliquidated amount reported on the financial report to the total on Title 1 Quarterly report. (Control Activities). If there is a variance, the fiscal analyst will investigate to identify what data was incorrectly entered. If amounts match, the fiscal analyst can proceed in the reporting process. The Title I Quarterly Report then rolls up to a generic 9130 quarterly report that will be submitted to the Department of Labor. This is done by logging into the DOL-Grantee Reporting System.



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**Key Control #1 - When preparing the ETA-9130, the fiscal analyst compares the amount reported on the financial reports to the record of cash draws and AFRS to ensure accuracy and reasonableness (Control Activities/Monitoring).**

Once everything is entered, the Fiscal Analyst will save their work and print out the report which will read "awaiting state certification" The analyst then provides the draft 9130 to the Grants Manager to review and approve. The Grants Manager compares all supporting documentation to the report to verify that values were entered correctly and are accurate. The Grants Manager will then log in to the DOL system and certified the the report utilizing their pin. Once it has been certified the Grant Manager will print out another copy of the ETA-9130. The certified report will say "is grantee certified" at top.

**Key Control #2 - The Grants Manager compares the amounts entered within the ETA 9130 to supporting documents to ensure that the amounts are accurate and then certifies that the report is correct in the Grantee Reporting System. (Monitoring)**

\*Note: The Grants Manager is the only ESD employee to have a pin, if they were to be gone at a time a report was due, her back up would need to request a pin from DOL as pins are only active if used within the 90 days (Control Activities).\*

The Grants Manager will then give the entire report packet back to the fiscal analyst. Once DOL approves and certifies the report, the fiscal analyst will print out the ETA-9130 from the Grantee Reporting System and add to the 9130 Financial Report file for that quarter. The Department keeps a file for all 9130 Financial Reports for each grant year along with all supporting documentation until two years after a grant closes. (Control Activities)

Once grant term is up, the fiscal analyst will file a final close out 9130 report. The Department is allowed 90 days to complete the close out. The report is completed in the exact same way as the quarterly reports and the review process is the same.

### **Summary of Key Controls**

**Key Control #1 - When preparing the ETA-9130, the fiscal analyst compares the amount reported on the financial reports to the record of cash draws and AFRS to ensure accuracy and reasonableness (Control Activities/Monitoring).**

**Key Control #2 - The Grants Manager compares the amounts entered within the ETA 9130 to supporting documents to ensure that the amounts are accurate and then certifies that the report is correct in the Grantee Reporting System (Monitoring)**

**Evaluation of Results:** Did you identify any control deficiencies? No

### **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.5.PR.G - 17.258/259/278-Workforce Innovation & Opportunity Act (WIOA) Cluster - ESD**

# State of Washington

**Procedure Step:** L. Reporting - Controls-FFATA

**Prepared By:** SNK, 8/26/2022

**Reviewed By:** ACS, 8/30/2022

## 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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

### **Source:**

- Mary Merrill-Grants/Vendor Pay Manager (left agency August 2022)
- Kim Anensen-Specialized Accounting Manager
- Jay Summers-External Audit Manager

### **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.*

### **AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

#### **Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at [USASpending.gov](https://www.usaspending.gov) as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

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**(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).

### 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

**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:

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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).

### **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)<br/>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**

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 Reporting.

### **Federal Funding Accountability and Transparency Act**

Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act) that are codified in 2 CFR part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).

Where the Reporting type of compliance requirement is marked as a “Y” in the Part 2 Matrix of Compliance Requirements, indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR part 170 using the guidance in this section when the auditor determines Reporting to be direct and material and the recipient makes first tier awards.

### *Federal Funding Accountability and Transparency Act*

Aspects of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to subaward reporting (1) under grants and cooperative agreements were implemented in OMB in 2 CFR part 170 and (2) under contracts, by the regulatory agencies responsible for the Federal Acquisition Regulation (FAR at 5 FR 39414 et seq., July 8, 2010). The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts. There are limited exceptions as specified in 2 CFR part 170 and the FAR. The guidance at 2 CFR part 170 currently applies only to federal financial assistance awards in the form of grants and cooperative agreements (e.g., it does not apply to loans made by a federal agency to a recipient), however the subaward reporting requirement applies to all types of first-tier subawards under a grant or cooperative agreement.

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As provided in 2 CFR part 170 and FAR Subpart 4.14, respectively, federal agencies are required to include the award term specified in Appendix A to 2 CFR part 170 or the contract clause in FAR 52.204-10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards subject to the Transparency Act.

Consistent with the OMB guidance,

- [2 CFR part 170](#) defines “subaward” as a legal instrument to provide support for the performance of any portion of the substantive project or program for which a recipient received a grant or cooperative agreement award and that is awarded to an eligible subrecipient. The term does not include procurement of property and services needed to carry out the project or program. A subaward may be provided through any legal agreement, including an agreement that the recipient considers a contract.
- [FAR 52.204-10\(a\)](#) defines “first-tier subcontract” to mean a subcontract awarded directly by a contractor to acquire supplies or services (including construction) for performance of a prime contract, but excludes the contractor’s supplier agreements with vendors, such as long-term arrangements for materials or supplies that benefit multiple contracts or the costs of which would normally be applied to a contractor's general and administrative expenses or indirect cost.

While 2 CFR part 170 and the FAR implement several distinct Transparency Act reporting requirements, including reporting of executive compensation, the Supplement addresses only the following requirements: (1) recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in federal funds; and (2) contractor reporting of each first-tier subcontract award of \$25,000 or more in federal funds (this requirement was phased in based on the value of the new prime contract as specified below under “Effective Date of Reporting Requirements”).

### *Reporting Site*

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. To do so, they will first be required to register in the System for Award Management (SAM) (previously Central Contractor Registration) (if they have not done so previously for another purpose (e.g., submission of applications through Grants.gov) and actively maintain that registration. Prime contractors have previously been required to register in CCR/SAM. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>)

### **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 reviewed ESD's written procedures which outline the process to complete the FFATA report. See: [FFATA Reporting instructions \(Recovered\)](#)

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We requested ESD provide key internal controls over this area. We sent this request to Jay Summers on July 12, 2022. See: Internal Control request letter - FFATA We received ESD's response on August 4, 2022 from Jay Summers. See: FY22 Reporting-FFATA Controls

On August 17th, 2022, we met with ESD staff to gain an understanding of controls over Reporting-FFATA. The following staff was in attendance:

## ESD

- Mary Merrill-Grants/Vendor Pay Manager
- Kim Anensen-Specialized Accounting Manager
- Jay Summers-External Audit Manager

## SAO

- Shelbie Katheder

A fiscal analyst prepares the FFATA within 30 days on the execution of the contracts for WIOA formula. ESD also will issue contracts for discretionary funds such as rapid response and the governor's reserve. The FFATA for discretionary contracts is filed with 30 days of contract execution. However these do not have a typical timeline as they are based on need and/or projects. Prior to creating the FFATA in FSRS, the fiscal analyst inputs all executed contracts into the FFATA spreadsheet making it easier to reconcile the FFATA information to FSRS.

In order to prepare the FFATA report, the fiscal analyst will login into FSRS and create the grant categories. Once the grant categories are created the fiscal analyst inputs the executed contracts into the system. For each executed contract, the fiscal analyst inputs the DUNS number for each sub-awardee which will pre-populated the sub awardee information as well as the fiscal analyst will manually input the following elements into the system:

- Amount of Subaward
- Subaward Obligation/Action Date
- Subaward Project Description
- City
- State and Zip Code+4
- Country
- Subaward Number- This is a unique identifier created for each executed contract by ESD staff

Once everything is entered, the Fiscal Analyst will save their work and print out the FFATA report. The analyst will then provide the draft FFATA, FFATA spreadsheet and the executed contracts via their share drive to the Grants Manager to review and approve. The Grants Manager compares all the supporting documentation to the draft FFATA to verify the values were entered correctly and are accurate.

**Key Control #1- The Grants Manager compares the amounts entered within the FFATA to supporting documents to ensure the amounts are accurate and reports are filed timely, and then approves the draft FFATA report for submission. (Control Activities)**

Once the Grants Manager completes their review, they will inform the fiscal analyst that the report is approved. Once the fiscal analyst receives approval from



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the Grants Manager, they will log into FSR and submit the FFATA. Once the submission is completed, the fiscal analyst will save the completed FFATA and all supporting documentation.

\*Note: The budget analyst is the only ESD employee who has access to FSRS (Control Activities).

## **Summary of Key Controls**

**Key Control #1-** The Grants Manager compares the amounts entered within the FFATA to supporting documents to ensure the amounts are accurate and reports are filed timely, and then approves the draft FFATA report for submission. **(Control Activities)**

**Evaluation of Results:** Did you identify any control deficiencies? No

## **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.5.PR.G - 17.258/259/278-Workforce Innovation & Opportunity Act (WIOA) Cluster - ESD**

***Procedure Step:*** L. Reporting - Controls-PIRL

***Prepared By:*** SNK, 8/12/2022

***Reviewed By:*** ACS, 8/15/2022

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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

### **Source:**

- Haley Hildebrandt-Economic Analyst 3

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- Elise Mcknight-IT Business Analyst
- Sam Havens-Reporting, Accessibility and Performance Manager
- Jay Summers-External Audit Manager

## **Conclusion:**

Based on our understanding of internal controls over Reporting-PIRL, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess **preliminary control risk as high and will report a finding for a material weakness at 2022-007 The Employment Security Department did not have adequate internal controls over and did not comply with requirements to ensure it submitted complete and accurate quarterly performance reports for the Workforce Innovation and Opportunity grant.** No internal control testing is necessary in this instance.

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.*

**AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

**Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282)**

**(Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding**

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**Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at [USASpending.gov](https://www.usaspending.gov) as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

**(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).

### **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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Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.

**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.***

Guidance/Criteria:

## **INTERNAL CONTROL UNDERSTANDING**

## State of Washington

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)<br/>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 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 risks when designing our tests of compliance.

- Multiple locations enter the data into the system used to create the report
- The report requires an large amount of data entered for multiple grant programs to be completed accurately
- The report is completed by a contractor and ESD does not have access to their coding rule
- ESD currently does not have policies and procedures over the preparation and review of the report

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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 Reporting.

#### 2. Performance Reporting

*WIOA Participant Individual Record Layout (PIRL) (OMB No. 1205-0526)*

[https://www.doleta.gov/performance/pfdocs/ETA\\_9170\\_WIOA\\_PIRL\\_Final.pdf](https://www.doleta.gov/performance/pfdocs/ETA_9170_WIOA_PIRL_Final.pdf) is used to report services, activities, and outcomes of service for all job seekers and veterans. This report is submitted quarterly.

The WIOA Adult and Dislocated Worker Programs are responsible for reporting common WIOA performance indicators. Key data elements include:

- Data Element 1602 - Employed 2nd Quarter after Exit Quarter: is the percentage of program participants who are in unsubsidized employment during the second quarter after exit from the program (certain criteria apply);
- Data Element 1606 - Employed 4th Quarter after Exit Quarter: This element is the percentage of program participants who are in unsubsidized employment during the fourth quarter after exit from the program.
- Data Element 1704 - Median Earnings, Median Wages 2nd Quarter After Exit - is the median earnings of program participants who are in unsubsidized employment during the second quarter after exit from the program, as established through direct UI wage record match, federal or military employment records, or supplemental wage information. The median is the number that is in the middle of the series of numbers, so that there is the same quantity of numbers above the median as there are below the median.
- Data Element 1800 - Credential Attainment Rate is the percentage of those participants enrolled in an education or training program (excluding those in on-the-job training (OJT) and customized training) who attained a recognized postsecondary credential or a secondary school diploma, or its recognized equivalent, during participation in or within one year after exit from the program.
- Data Element 1806 - Measurable Skill Gains is the percentage of participants who, during a program year, are in an education or training programs that lead to a recognized postsecondary credential or employment and who are achieving measurable skill gains, defined as documented academic, technical, occupational, or other forms of progress, towards such a credential or employment.
- Data Element 1618 - Effectiveness in Serving Employers. WIOA sec. 116(b)(2)(A)(i)(VI) requires the Departments to establish a primary indicator of performance for effectiveness in serving employers. The Departments have determined that this indicator will be measured as a shared outcome across all six core programs within each State to ensure a holistic approach to serving employers. The Departments are initially implementing this indicator in the form of a pilot program to test the rigor and feasibility of the three proposed approaches, and to develop a standardized indicator. This indicator is reported on an annual basis; therefore, the reporting period for the effectiveness in serving employers indicators is the program year.
- The correct form numbers for reporting performance indicators are as follows:

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- Participant Reporting WIOA PIRL ETA-9170
- Statewide Performance Report WIOA PIRL ETA-9169.

WIOA Youth program grantees are responsible for reporting WIOA performance indicators as identified in WIOA Section 116(a)(2)(A)(ii) which includes:

- Data Element 1900 - Employed, or in Education or Training Activities in the 2nd Quarter after Exit is the percentage of title I youth program participants who are in education or training activities, or in unsubsidized employment, during the second quarter after exit from the program.
- Data Element 1901 - Employed, or in Education or Training Activities in the 4th Quarter after Exit is the percentage of program participants who are in education or training activities, or in unsubsidized employment, during the fourth quarter after exit from the program.
- Data Element 1704 - Median Earnings, see above.
- Data Element 1800 - Credential Attainment Rate, see above.
- Data Element 1806 - Measurable Skill Gains, see above.
- Data Element 1618 - Effectiveness in Serving Employers, See above.

For additional information, you may access the Workforce Integrated Performance System (WIPS) at: (<https://dol.appiancloud.com/suite/>) There you will find program data on ETA form 9173 collected quarterly and annually.

## **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 ESD provided us with the key internal controls over the WIOA Participant Individual Record Layout (PIRL). We sent this request to Jay Summers on July 12,2022. See:[Internal Control request letter - Reporting-PIRL](#) We received their response on August 9,2022. See:[RE FY22 SAO WIOA Audit – Gain Understanding over Reporting-PIRL](#)In this response, the agency stated they did not have internal controls over this area during the audit period that would be sufficient to ensure the PIRL is accurate.

On August 10,2022 we met with ESD staff to discuss the PIRL. The following staff were in attendance:

### **ESD**

- Haley Hildebrandt-Economic Analyst 3
- Elise Mcknight-IT Business Analyst
- Sam Havens-Reporting, Accessibility and Performance Manager

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- Jay Summers-External Audit Manager

### SAO

- Shelbie Katheder-Auditor in Charge
- Andrew Schmitz-WIOA Supervisor

During this meeting, we confirmed our understanding that the Department had not made changes to the controls over the PIRL and the Department was still unsure if the report submitted was accurate, complete or supported by records. We also confirmed the actions outlined in the Department's Corrective Action Plan have not been implemented since the previous audit. The Department is in the process of developing a system of protocols and procedures to review and validate information used to prepare the quarterly performance report (PIRL), and corrective action steps to be taken include:

- Updating the scripts in the Participant Individual Record Layout (PIRL) system with its contractor to reflect zero (or blank) value elements and only allowable values.
- Execute a Workforce Integrated Technology Replacement Project that focuses on improving case management and data management internal controls.
- Initiate the process of a statewide implementation of the USDOL Quarterly Report Analysis data integrity and data quality internal control system.
- Continue to execute the Data Element Validation policy update for the PIRL report, per DOL expectations. *(Completed in July 2022)*
- Continue to provide technical assistance, training, and one-on-one coaching for the local areas, which cover WIOA Title I, PIRL reporting, data management, validation, quality, and integrity systems and processes.

The Department asserts that all of the corrective actions will not fully take effect until December 2024. Based on this understanding, we informed the Department that we are required to reissue a material weakness in the controls for the PIRL report and will not perform internal control testing to determine whether internal controls are effective to prevent or detect noncompliance.

We will move forward with compliance testing.

**Evaluation of Results:** Did you identify any control deficiencies? Yes

1. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.
2. **HIGH-** Based on information provided by the program staff, we do not believe the controls in place over the PIRL are sufficient to ensure the information reported is accurate or complete.

### Preliminary Control Risk Assessment

#### **Step 4**

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). See finding at 2022-007 The Employment Security Department did not have adequate internal controls over and did not comply with requirements to ensure it submitted complete and accurate quarterly performance reports for the Workforce Innovation and Opportunity grant.



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## C.5.PR.G - 17.258/259/278-Workforce Innovation & Opportunity Act (WIOA) Cluster - ESD

***Procedure Step:*** M. Subrecipient Monitoring - Controls  
***Prepared By:*** SNK, 8/24/2022  
***Reviewed By:*** ACS, 8/30/2022

### 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 key internal controls the agency has established to prevent or detect noncompliance with subrecipient monitoring requirements. To provide a preliminary control risk assessment based upon our understanding of the internal controls.

#### **Source:**

- Sophal Espiritu-Budget Manager
- Brooke Zielinski-Workforce System Monitor
- Maria Cheeseman-Workforce System Monitor
- Phouang Hamilton- WIOA Monitoring Manager
- Greg Ferland-Director of Employment System, Policy and Integrity Manager
- Jay Summers-External Audit Manager

#### **Conclusion:**

Based on our understanding of internal controls over Subrecipient Monitoring, we assessed preliminary control risk at LOW. We will perform testing to determine if we can place reliance on the controls.

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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 200.332(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,

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 200.332(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).

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**(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>**.
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**

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*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 200.331, .332, 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):

| <i>Subaward Contract Checklist</i>  |   |
|---|---|
| Element   | Element   |
| (i) Subrecipient name (which must match the name associated with its unique entity identifier); | (viii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation; |

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|   |   |
|---|---|
| (ii) Subrecipient's unique entity identifier;   | (ix) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;  |
| (iii) Federal Award Identification Number (FAIN);   | (x) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);   |
| (iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency; | (xi) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;  |
| (v) Subaward Period of Performance Start and End Date;  | (xii) Assistance Listings number and Title; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement; |
| (vi) Subaward Budget Period Start and End Date;   | (xiii) Identification of whether the award is R&D; and  |
| (vii) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;    | (xiv) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).   |

### 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

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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 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 risks when designing our tests of compliance.

- As of July 12, 2022, about 94% of the total funds received from the federal grantor for the Workforce Innovation and Opportunity Act (WIOA) grant are distributed to sub recipients. Therefore, subrecipient monitoring is the most critical component of overall program compliance. See: FY22-Details-Expanded-Preliminary

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.

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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 Subrecipient Monitoring.

### **Subrecipient Monitoring**

1. Recipients must ensure that commercial organizations that are sub recipients under WIOA Title I and expend more than the minimum level specified in 2 CFR Part 200, Subpart F, have either an organization-wide audit conducted in accordance with 2 CFR Part 200 or a program-specific financial and compliance audit (20 CFR section 683.210).
2. Each state must have a monitoring system which:
  1. Provides for annual on-site monitoring reviews of local areas' compliance with DOL uniform administrative requirements, including the appropriate administrative requirements and cost principles for sub recipients and other entities receiving WIOA funds, as required by Section 184(a)(4), WIOA (128 Stat. 1591);
  2. Ensures that established policies to achieve program quality and outcomes meet the Act's objectives, including policies relating to the provision of services by AJC centers, eligible providers of training services, and eligible providers of youth activities;
  3. Enables the governor to determine if sub recipients and contractors are in substantial compliance with WIOA requirements;
  4. Enables the governor to determine whether a local plan will be disapproved for failure to make acceptable progress in addressing deficiencies; and
  5. Enables the governor to ensure compliance with WIOA nondiscrimination and equal opportunity requirements (29 USC 3248) (20 CFR sections 683.410(b)(1) through (3)).
3. The state must require that prompt corrective action be taken if any substantial violations are identified as result of annual on-site monitoring and must impose the sanctions provided in sections 184(b) and (c) of WIOA if a subrecipient fails to take required corrective action. The state may issue additional requirements and instructions to sub recipients on monitoring activities (20 CFR sections 683.410(b)(4) and (5)).



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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 reviewed ESD's policies over subrecipient monitoring. See:[Policies over Subrecipient Monitoring](#)

We requested ESD provide key internal controls over this area. We sent this request to Jay Summers on July 12, 2022. See:[Internal Control request letter - Subrecipient Monitoring](#) We received ESD's response on August 4, 2022 from Jay Summers. See:[RE FY22 WIOA Audit-Subrecipient Monitoring-Internal Controls](#)

On August 10th, 2022 we met with ESD staff to discuss subrecipient monitoring. The following staff was in attendance:

#### **ESD**

- Sophal Espiritu-Budget Manager
- Phouang Hamilton-WIOA Monitoring Manager
- Greg Ferland- Director of Employment System, Policy and Integrity Manager
- Jay Summers-External Audit Manager

#### **SAO**

- Shelbie Katheder-Auditor in Charge
- Andrew Schmitz-WIOA Supervisor

## **Subrecipient Contracts-Identification Elements**

On an annual basis, a team of ESD staff from the Financial Services Division (FSD) and Employment System Policy and Integrity Division (ESPI) updates the boilerplate agreement template to ensure that all items outlined in the Uniform Guidance 2 CFR 200.331 are included in the grant agreements. This team consists of staff from Contracts, Asset Management and Procurement, Grants Management, Funds Management and Workforce Monitoring. Once the update to the template is completed, ESD will present the budgets for the upcoming program year at the annual meeting with the 12 Local Workforce Development Boards (LWDBs)

During this meeting, ESD presents the employment data and formula utilized to determine the budgeted amount for each LWDB (Information & Communication). Once this meeting is completed, a group of five volunteers from the LWDBs review the employment data and redo the calculations used to determine the budget for each LWDB to ensure the budget amounts are accurate. These calculations are completed within 5 days from the annual meeting. Once the volunteers confirm the amounts are correct, they inform ESD. (Control Activities)

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After ESD has been notified the LWDBs have completed their review, policy staff finalize the grant agreements. Once the grant agreements are finalized, policy staff provides each LWDB with their grant agreement for that program year. Each LWDB will sign the agreement and submit it to ESD. Once the agreement is signed and submitted, the LWDB can start billing charges against the grant. Grants Accounting maintains a copy of all signed agreements in the LWDB's file.

**Key Control #1 - Designated staff from the Financial Services (FSD) and Employment System Policy and Integrity (ESPI) Divisions convene annually to update the Boilerplate template to ensure all requirements are included. (Control Activities)**

## **Risk Assessments**

Two months prior to the LWDB annual monitoring visit, the monitoring team completes a risk assessment for each LWDB to determine the scope of the monitoring visit. The team uses an Excel spreadsheet to document the risk assessment. The risk assessment takes into account the results of the previous year's visit and their current budget.

After completing the risk assessment and six weeks prior to the on-site visit, the monitoring team sends out a questionnaire to the LWDB. The questionnaire is due three weeks prior to the on-site visit. In addition, the monitoring team has a meeting with fiscal staff, contracts and grants accounting to see if there are any concerns these departments noted for the LWDB. If the LWDB fails to submit the questionnaire by the due date, the monitoring team follows up with a phone call and email to ensure they receive it timely. After they receive the completed questionnaire from the LWDB, the monitoring team reviews the risk assessment to ensure it accurately reflects the questionnaire responses.

**Key Control #2 - On an annual basis, the monitoring team reviews the risk assessment prior to sending the pre-visit questionnaire and upon the return of the questionnaire by the LWDB, the team re-reviews the risk assessment to ensure it is accurate and complete. (Control Activities/Risk Assessment)**

On an annual basis, the monitoring team sends an email out to all 12 LWDBs with the available monitoring dates, the LWDBs are required to respond by the due date with their top three date preferences. If a LWDB fails to submit their date preferences by the due date, the monitoring team will follow-up. Once all date preferences are received, the workforce monitoring unit holds a team meeting to finalize the monitoring schedule for the year. They not only take into account the date preferences of the LWDBs, but they also consider proximity, timing, staff preference, etc. to ensure a schedule that is not only beneficial to the LWDBs, but also the monitoring team. Once the schedule is finalized, they send the visit dates to the LWDBs and add the visit dates to the due date tracker spreadsheet. Additionally, the visit is added to the monitoring team's outlook calendar specifically for LWDB activity with reminders as well as during the weekly monitoring team huddle meetings the staff will review the due date tracker and discuss upcoming visits, any documentation that is coming due or is missing as well as any issues they are having with LWDBs.

Six weeks before the scheduled visit, the monitoring team sends a questionnaire to the LWDB to help the monitoring team determine the scope of the visit. This pre-monitoring questionnaire details out specific CFR requirements and asks entity-specific information to complete the monitoring visit. See: [PY21-pre-monitoring-questionnaire](#) The questionnaire is due from the LWDB three weeks before the scheduled visit, the team places the due date on the due date tracker and sets a reminder in outlook to ensure the due date is not missed. If the questionnaire is not returned by the due date, the team will reach out to the LWDB to find out why it was not submitted. After the monitoring team receives the questionnaire, the team selects their samples for fiscal monitoring and eligibility testing. They will send the sample selection to the LWDB along with additional items requested using the Item Requested in Advance template [PY21-items-requested-in-advance](#) which also includes applicable CFRs as well as entity-specific information. For each sample, the LWDB is required to provide the

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monitoring team with all supporting documentation during the visit for review.

**Key Control #3 - On a weekly basis, monitoring staff review the due date tracker regularly to ensure all LWDBs receive their required annual visit and all required documentation is received and completed timely. (Monitoring)**

For each of the on-site monitoring visits, they use the following monitoring tools:

- ESD Participant File Review Monitoring Tool
- ESD Monitoring Daily Observation Report
- Workforce Monitoring Checklist
- Administrative and Fiscal Monitoring Tool

The team utilizes the monitoring tools above to complete monitoring over subrecipient controls, systems policies, eligibility, LWDB subrecipient monitoring, support services and expenditures for allowable activities/cost principles. After the on-site monitoring visit, the monitoring team communicates the results to the LWDB. In addition, they complete a report that documents the work completed by the monitoring team during their visit and the result of the visits which includes any required corrective action plans.

## **Audit Monitoring**

Based on guidance received from DOL, the monitoring team has 12 months from the time of an subrecipient's audit being issued to review the audit and issue a management decision for any findings pertains to WIOA. As part of the annual on-site monitoring visit, the team reviews the LWDB's most recent audit and issued management decisions for any finding that impact WIOA. *(This will be tested as part of key control #3, above).*

## **Eligibility**

On August 18th, 2022, we met with the following ESD staff to discuss how eligibility is reviewed as part of the annual on-site monitoring visits:

- Brooke Zielinski-Workforce System Monitor
- Maria Cheeseman-Workforce System Monitor
- Phouang Hamilton- WIOA Monitoring Manager
- Greg Ferland-Director of Employment System, Policy and Integrity Manager
- Jay Summers-External Audit Manager

At each LWDB, the workforce monitoring team selects a sample of participants who were determine eligible since their previous visit from each grant. For each

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participant selected, the complete a participant file review checklist. The team has a checklist for adult, dislocated worker, out of school youth and in school youth as well as rapid response. Each item on the checklist documents the federal and/or state regulations that apply for that area. When completing their review, they identify issues they document the issue on the checklist and the Daily Observation Report (**DOR**) which documents all work completed by the monitoring staff during the visit and the report is emailed daily to the contact at the LWDB.

## **Fiscal Monitoring**

At each annual monitoring visit, monitoring staff will complete fiscal monitoring. Prior to the visit, the monitoring team reaches out to ESD fiscal staff and get a list of all reimbursement requests submitted by the LWDB since their previous monitoring visit. Once they receive a list, the team will judgementally select a sample of draws from the list to test during the visit. The monitoring team will send the sample to the LWDB two weeks prior to the monitoring visit and request all supporting documentation be available for review during the monitoring visits and request all supporting documentation be available for this review during their monitoring visit. During the visit, monitoring staff will review all supporting documentation for each sample draw to confirm it is allowable, accurate and complete. Once their review is complete, they document the results of testing in the DOR.

**Key Control #4 - During the annual on-site monitoring visits, the sub recipient monitoring team reviews reimbursement requests to the ensure reimbursement was for allowable activities. (Control Activities/Monitoring)**

*Key Control # 4 is a documented as Key Control # 3 for activities allowed See: A. Activities Allowed- Controls*

## **Management Review**

At each annual monitoring visit, the Director conducts regular meetings with the program monitors and the fiscal admin monitors to talk through the status of the monitoring visit and any issues they have identified.

On a daily basis, the fiscal and program monitors write up items to address, questioned costs, disallowed costs, findings or recommendations in the DOR. The Director reviews the DORs prior to meeting with the local board-fiscal agent where the items are discussed. Findings, disallowed costs, unresolved questioned costs and noted practices would then be carried forward into the to the management letter. Once completed, the Director will review the management letter and compare it to the DOR for completeness and accuracy. After the Director completes his review, he signs his name to the corresponding management letter, which evidences his review and approval of the monitoring visit.

**Key Control #5- Once a visit is complete, the Director reviews the Daily Observation Report and compares it to the management letter to determine if the visit meets standards. (Control Activities/Monitoring)**

**Evaluation of Results:** Did you identify any control deficiencies? No

## **Identified Key Controls**

**Key Control #1 - Designated staff from the Financial Services (FSD) and Employment System Policy and Integrity (ESPI) Divisions convene annually to update the Boilerplate template to ensure all requirements are included. (Control Activities)**

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**Key Control #2** - On an annual basis, the monitoring team reviews the risk assessment prior to sending the pre-visit questionnaire and upon the return of the questionnaire by the LWDB, the team re-reviews the risk assessment to ensure it is accurate and complete. **(Control Activities/Risk Assessment)**

**Key Control #3** - On a weekly basis, monitoring staff review the due date tracker regularly to ensure all LWDBs receive their required annual visit and all required documentation is received and completed timely. **(Monitoring)**

**Key Control #4**-During the annual on-site monitoring visits, the sub recipient monitoring team reviews reimbursement requests to the ensure reimbursement was for allowable activities. **(Control Activities/Monitoring)**

**Key Control #5**- Once a visit is complete, the Director reviews the Daily Observation Report and compares it to the management letter to determine if the visit meets standards.**(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 to determine if we can place reliance on the controls.

## **C.7.PR.G - 84.010-Title I, Part A - OSPI**

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

***Prepared By:*** ES, 8/1/2022

***Reviewed By:*** MKH, 9/7/2022

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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

## **Source:**

Jason Miller - Director, Title I, Part A & LAP, OSPI

Amy Harris - Director of Federal Fiscal Policy and Grants, OSPI

Michelle Sartain - Grants Management Supervisor, OSPI

## **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.**

***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%).

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## **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**

*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*

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*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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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***



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*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.

**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

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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;

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).

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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 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.

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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;
- (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);

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- (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.

#### **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

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- 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)<br/>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 |

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|  |   |   |
|--|---|---|
| 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 <b>types</b> 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 <b>only</b> 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.

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## **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.

**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         |



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|  |  |
|--|--|
| 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.
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.

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## **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**

#### **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

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which activities and costs are allowed or unallowed. We identified the following:

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

See also Part 4, 84.000 ED Cross-Cutting Section.

Certain compliance requirements that apply to multiple programs are discussed once in the ED Cross-Cutting Section of this Supplement (84.000) rather than being repeated in each individual program. Where applicable, Section III references the ED Cross-Cutting Section for these requirements. Also, as discussed in the ED Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

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

### *SEAs*

through their FY 2021 LEA allocation process. SEAs may reserve funds for state administration and Direct Student Services and must reserve funds for school improvement activities in accordance with the statutory requirements (Title I, Sections 1003, 1003A, and 1004 of ESEA (20 USC 6303, 6303b (if applicable), and 6304). (See also III.G.3.a, “Matching, Level of Effort, Earmarking – Earmarking,” below, and ED Cross-Cutting Section, 84.000, III.G.3.a.)

From Part 4, 84.000 ED Cross-Cutting Section:

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

### ***1. Consolidation of Administrative Funds (SEAs/LEAs)***

A SEA may consolidate the amounts specifically made available to it for State administration under one or more ESEA programs (and such other programs as the ED Secretary may designate) if the SEA can demonstrate that the majority of its resources are derived from non-Federal sources. An SEA must use consolidated administrative funds for authorized administrative activities of one or more of the consolidated programs. It may also use such funds for administrative activities designed to enhance the effective and coordinated use of funds under one or more of the programs included in the consolidation, such as coordination of ESEA programs with other Federal and non-Federal programs; the establishment and operation of peer review mechanisms; the dissemination of information regarding model programs and practices; and technical assistance (Section 8201 of ESEA (20 USC 7821)).

An LEA may, with the approval of its SEA, consolidate and use for the administration of one or more ESEA programs not more than the percentage, established in each program, of the total available under those programs. An LEA may use consolidated funds for the administration of the consolidated programs and for uses at the school district and school levels comparable to those authorized for the SEA. An LEA that consolidates administrative

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funds may not use any other funds under the programs included in the consolidation for administration (Section 8203 of ESEA (20 USC 7823)).

A SEA or LEA that consolidates administrative funds is not required to keep separate records of administrative costs for each individual program. Expenditures of consolidated administrative funds are allowable if they are for administrative costs that are allowable under any of the contributing programs (Sections 8201(c) and 8203(e) of ESEA (20 USC 7821(c) and 7823(e))). See IV, “Other Information,” for guidance on the treatment of consolidated administrative funds for purposes of Type A program determination and presentation in the Schedule of Expenditures of Federal Awards (SEFA).

We reviewed Consolidation of Administrative Funds in G. Earmarking (G. Earmarking - Controls)

## **2. *Schoolwide Programs (LEAs)***

An eligible school participating under Title I, Part A may, in consultation with its LEA, use its Title I, Part A funds, along with funds provided from the above- identified programs, to upgrade the school’s entire educational program in a schoolwide program. See IV, “Other Information,” for guidance on the treatment of consolidated schoolwide funds for purposes of Type A program determination and presentation in the SEFA.

**Not Applicable** - We determined this is only applicable to LEAs.

## **3. *Transferability (SEAs and LEAs)***

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

See III.G.3.b, “Matching, Level of Effort, Earmarking – Earmarking,” in this cross-cutting section, for additional testing related to transferability. See IV, “Other Information,” for guidance on the treatment of funds transferred under this provision for purposes of Type A program determination and presentation in the SEFA.

**Not Applicable** - We confirmed via Michelle Sartain, Grants Management Supervisor, this is not done at the state level.

## **4. *Small Rural Schools Achievement (SRSA) Alternative Uses of Funds Program***

LEAs that (a) have a total average daily attendance of fewer than 600 students, or serve only schools that are located in counties with a population density of fewer than 10 persons per square mile; and (b) serve only schools that are coded by the National Center for Education Statistics (NCES) as rural (NCES code of 7 or 8), or (with the concurrence of the SEA) are located in an area defined as rural by a governmental agency of the State may,

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after notifying the SEA, spend all or part of the funds received under the above programs for local activities authorized under one or more of the following five programs:

CFDA 84.010 Title I Grants to Local Educational Agencies (LEAs) (Title I, Part A of the ESEA)

CFDA 84.287 Twenty-First Century Community Learning Centers (21st CCLC)

CFDA 84.365 English Language Acquisition Grants (Title III, Part A)

CFDA 84.367 Supporting Effective Instruction State Grant (Title II, Part A)

CFDA 84.424 Student Support and Academic Enrichment Grants (Title IV, Part A) (Section 5211(a)-(c) of ESEA (20 USC 7345(a)-(c))).

See IV, "Other Information," for guidance on the treatment of funds transferred under this provision for purposes of Type A program determination and presentation in the SEFA.

**Not Applicable** - We determined this is only applicable to LEAs.

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

#### **1. Documentation of Employee Time and Effort (Consolidated Administrative Funds and Schoolwide Programs)**

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

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

(1) For an employee who works solely on the consolidated administrative cost objective, an SEA or LEA is not required to maintain records reflecting the distribution of the employee's salary and wages among the programs included in the consolidation.

(2) For an employee who works in part on the consolidated administrative cost objective and in part on a Federal program whose administrative funds have not been consolidated or on activities funded from other revenue sources, an SEA or LEA must maintain time and effort distribution records in accordance with 2 CFR section 200.430(i)(1)(vii) that support the portion of time and effort dedicated to:

(a) The consolidated cost objective, and

(b) Each program or other cost objective supported by non- consolidated Federal funds or other revenue sources.

b. *Schoolwide Programs* – A schoolwide program school is permitted to consolidate Federal funds with State and local funds to upgrade the entire educational program of the school. A school that consolidates Federal funds with State and local funds in a consolidated schoolwide pool is not required to maintain separate records by program (Section 1114(a)(3)(C) of ESEA (20 USC 6314(a)(3)(C)); 34 CFR section 200.29(d)). If a schoolwide program school does not consolidate Federal funds in a consolidated schoolwide pool, the school must keep separate records by program. (Guidance is contained in the publication entitled Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; and Grantback Requirements (February 2008). This guidance is available at

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<http://www.ed.gov/programs/titleiparta/fiscalguid.doc.>)

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

- (1) If a school operating a schoolwide program consolidates Federal, State, and local funds in a consolidated schoolwide pool, there is no distinction between staff paid with Federal funds and staff paid with State or local funds. Under these circumstances, payment from the single consolidated schoolwide pool is sufficient to demonstrate that an employee works only on activities of the schoolwide program, and no other documentation is required.
- (2) If a school operating a schoolwide program does not consolidate Federal funds with State and local funds in a consolidated schoolwide pool, an employee who works, in whole or in part, on a Federal program or cost objective must document time and effort as follows:
  - (a) For an employee who works solely on a single cost objective (e.g., a single Federal program whose funds have not been consolidated or Federal programs whose funds have been consolidated but not with State and local funds), an LEA is not required to maintain records reflecting the distribution of the employee's salary and wages, including among the Federal programs included in the consolidation, if applicable.
  - (b) For an employee who works on multiple activities or cost objectives (e.g., in part on a Federal program whose funds have not been consolidated in a consolidated schoolwide pool and in part on Federal programs supported with funds consolidated in a schoolwide pool or on activities that are not part of the same cost objective), an LEA must maintain time and effort distribution records in accordance with 2 CFR section 200.430(i)(1)(vii) that support the portion of time and effort dedicated to:
    - (i) The Federal program or cost objective; and
    - (ii) Each other program or cost objective supported by consolidated Federal funds or other revenue sources.

c. In a September 7, 2012 letter to Chief State School Officers, ED authorized SEAs to approve LEAs' use of a substitute system for time- and-effort reporting for employees whose salaries are supported by multiple cost objectives, but who work on a predetermined schedule. ED also provided guidance to clarify the meaning of a "single cost objective." For more detail, see Letter to Chief State School Officers on Granting Administrative Flexibility for Better Measures of Success (Sept. 7, 2012) (<https://www2.ed.gov/policy/fund/guid/gposbul/time-and-effort-reporting.html>).

Also, per our expenditure analysis [[Title I FY22 Expenditures 7 29 2022](#)] expenditures for salaries and benefits constitute less than 1% of total Title I A grant expenditures.

## **2. Indirect Costs**

A "restricted" indirect cost rate (RICR) must be used for programs administered by state and local governments and their governmental subgrantees that have a statutory requirement prohibiting the use of federal funds to supplant nonfederal funds. The programs listed above in this section have a non-supplanting requirement and therefore must have a restricted indirect cost rate.

Nongovernmental grantees or subgrantees administering such programs have the option of using the RICR, or an indirect cost rate of 8 percent, unless

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ED determines that the RICR would be lower.

The formula for a restricted indirect cost rate is:

$$\text{RICR} = (\text{General management costs} + \text{Fixed costs}) / (\text{Other expenditures})$$
General management costs are costs of activities that are for the direction and control of the grantee's (or subgrantee's) affairs that are organization wide, such as central accounting services, payroll preparation and personnel management. For State and local governments, the general management indirect costs consist of (1) allocated Statewide Central Service Costs approved by the Department of Health and Human Services in a formal Statewide Cost Allocation Plan (SWCAP) as "Section I" costs and (2) departmental indirect costs. The term "general management" as it applies to departmental indirect costs does not include expenditures limited to one component or operation of the grantee. Specifically excluded from general management costs are the following costs that are reclassified and included in the "other expenditures" denominator:

- a. Divisional administration that is limited to one component of the grantee;
- b. The governing body of the grantee;
- c. Compensation of the chief executive officer of the grantee;
- d. Compensation of the chief executive officer of any component of the grantee; and
- e. Operation of the immediate offices of these officers.

Also excluded from the SWCAP Section I indirect costs are any occupancy and maintenance type costs as described in 34 CFR section 76.568. However, because these costs are allocated and not incurred at the departmental level, they do not require reclassification to the "other expenditure" denominator.

Fixed costs are contributions to fringe benefits and similar costs associated with salaries and wages that are charged as indirect costs, including retirement, social security, pension, unemployment compensation and insurance costs.

Other expenditures are the grantee's total expenditures for its federally and non- federally funded activities, including directly charged occupancy and space maintenance costs (as defined in 34 CFR section 76.568), and the costs related to the chief executive officer of the grantee or any component of the grantee and its offices. Excluded are general management costs, fixed costs, subgrants, capital outlays, debt service, fines and penalties, contingencies, and election expenses (except for elections required by Federal statute).

Occupancy and space maintenance costs associated with functions that are not organization-wide must be included with other expenditures in the indirect cost formula. These costs may be charged directly to affected programs only to the extent that statutory supplanting prohibitions are not violated. This reimbursement must be approved in advance by ED. Specific occupancy and space maintenance costs may be charged directly only to programs affected by the restricted rate calculation if charging for such costs is approved in advance by ED (34 CFR section 76.568(c)).

Indirect costs charged to a grant are determined by applying the RICR to total direct costs of the grant minus capital outlays, subgrants, and other distorting or unallowable items as specified in the grantee's indirect cost rate agreement.

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

Informational only.

### 3. *Unallowable Direct Costs to Programs*

Officials from ED have noted that some entities have charged costs in the following areas which were determined to be unallowable as specified in the indicated references. Auditors should be alert that if any such costs are charged, charges must be consistent with provisions of 2 CFR part 200, subpart E or, as applicable.

- a. Separation leave costs (2 CFR section 200.431(b)).
- b. Severance costs (2 CFR section 200.431(i)).
- c. Post-retirement health benefit (PRHB) costs (2 CFR section 200.431(h)).

Informational only.

### 4. *Unallowable Costs to Programs (Direct or Indirect)*

Officials from ED have noted that, in cases where grantees rent or lease buildings or equipment from an affiliate organization, the costs associated with the lease or rental agreement can be excessive. The auditor should be alert to the fact that the measure of allowability in such “less-than-arms-length-relationships” is not fair market value, but rather the “costs of ownership” standard as referenced in 2 CFR section 200.465(c).

Informational only.

#### Indirect Costs

The Agency has recovered indirect costs via the attached Indirect Cost Plan: FY 2022 Indirect Cost Plan 2021-117. Troy Klein, Budget Analyst, informed us that all Title I indirect costs were captured under program index 61AN1. We ran a Web intelligence expenditure report (Title I FY22 Expenditures 7 29 2022) and determined that total indirect costs as of 7/29/2022 were \$131,096 out of \$259,226,840.23 total grant expenditures (less than 1%). **We determined indirect costs are not material to the program.**

#### Material Expenditures

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

- SubObject NZ: Grants, Benefits and Client Services [Expenditure / Revenue Analysis]

#### 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.

### Activities Allowed/Unallowed – Cost Principles

We met with Michelle Sartain, Grants Management Supervisor, and Amy Harris, Director of Federal Fiscal, Jason Miller, Director, Title I, Part A & LAP, on July 14th, 2022 in order to gain an understanding of controls over activities allowed/cost principles.

Michelle Sartain, Grants Management Supervisor, explained to us that subrecipients (LEAs) are given pass-through funds on a reimbursement basis throughout the school year. A subrecipient can submit a claim at any time and does so electronically through the Grants Claim System, one of the applications accessible within the Education Data System (EDS). Within the grants claim system, the subrecipient will input where they spent the funds into an expenditure matrix based on the budget they submitted as part of the application approval process for that year. The system will automatically check what the subrecipient has input against their budget information and will not let them submit the claim *unless* there were funds originally budgeted in those line items in the original application, and, they still have funding available (**Key Control #1 - Control Activity**). Funds are automatically distributed after the subrecipient submits the claim and Michelle processes reimbursement claims for apportionment at the end of each month. Unless a subrecipient has been determined to be high risk, no additional review is performed or support requested for expenditures from the district prior to the reimbursement being processed and paid.

Because there is no additional review performed or support requested prior to reimbursement being issued, we asked how the Office ensures that federal awards are expended only for allowable activities, regardless of budgeted line items. Amy Harris, Director of Federal Fiscal Policy and Grants Management, explained that OSPI receives the subrecipient grant allocations from the Department of Education during the late spring of each school year, up through early June for the upcoming fiscal year. Eligible subrecipients are then notified through an official Title I, Part A funding eligibility letter sent via a School Apportionment and Financial Services (SAFS) notification, as well as electronically to the superintendent via iGrants. After subrecipients are notified of preliminary eligibility, they may then submit the application of intent for funding through iGrants.

Within iGrants, each subrecipient must complete both the general assurances and specific Title I /Special Ed assurances, e-sign, and submit them as part of their application, which are then reviewed and approved by program staff prior to subrecipients receiving their preliminary awards (**Key Control #2 - Control Activity**). After receiving their preliminary awards, subrecipients must submit their budgets with expected activity expenditures by expense category. Program staff review the proposed budget requests to ensure that the identified expense categories are allowable per grant regulations and that they appear reasonable. A supervisor will then approve the budget request.

Closer to the new school fiscal year, the award amounts are finalized and officially granted to subrecipients. The final subgrants are uploaded to iGrants. As districts complete their application and budget and the program staff approve them, this allows the budget to be exported to the claims system. Subrecipients are then able to claim expenditures through sub-object coding within the Grants Claim System. They cannot submit a request or receive reimbursement until the application and budget are approved and the budget has been exported. Expenditure claims in any given category can exceed the budget for that category *by 10% of the total sub-award* without needing further approval. *However*, this will reduce the amount of available funds left for use in other categories because the subrecipient's total spending still may not exceed 100% of their sub-award.

For example, if the total sub-award is \$100,000, the amount any one expenditure category can exceed spending by is \$10,000 (10% of \$100,000 = \$10,000). If spending in one category goes up by \$10,000, spending somewhere else must decrease by that much because the subrecipient can never overspend their total award.\*

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***\*Note to reviewer: Both Amy Harris and Michelle Sartain confirmed this understanding of how a subrecipient can exceed their spending. This is correct according to bulletin number 071-20 on Grants Management, section pertaining to budget revisions:***

*Unless prohibited by federal or state statute(s) governing a particular grant program, a subgrantee is authorized to increase/decrease expenditures for any budgeted activity total or object total by an amount of up to 10 percent of the total "Budgeted Direct Expenditures" for that grant award without submitting a budget revision. - [OSPI Bulletin -065-21 - Grants Management](#)*

If the amount claimed for any expenditure category varies more than 10% of the total sub award, the subrecipient must initiate a budget revision in iGrants, Once approved by the OSPI program staff, the new budget will be exported to claims to allow the subrecipient to claim the funds. If a subrecipient attempts to exceed their subaward, iGrants would reject the reimbursement request and report an error code.

The Grants Claim System is directly linked to iGrants. According to Michelle, it is not possible for a subrecipient to submit a reimbursement request unless an approved budget has first been established in iGrants.

Fiscal monitoring is also done on subrecipients selected as part of the Consolidated Program Review (CPR) each year, however this will be tested under M. Subrecipient monitoring ([M. Subrecipient Monitoring - Tests of Controls](#)) (**Key Control #3 - Monitoring Activity**).

From our understanding of the internal controls and the feedback ([Internal Control Document - Activities Allowed-Cost Principles](#)) from the Department we identified the following key controls:

### **Key Controls Identified:**

**Key Control #1: Prior to issuing a subgrant to an LEA, program staff review and approve applications and budgets to ensure they only include allowable activities and costs (Control Activity).**

**Key Control #2: Hard edits in the Grants Claim System prevent LEAs from claiming reimbursement in unapproved budget categories and also prevent LEAs from claiming reimbursements in excess of approved budgets (Control Activity).**

**Key Control #3: Staff from OSPI's consolidated program review division, periodically review Title I expenditures at selected LEAs to ensure costs charged to the Title I grant were allowable and met applicable cost principles. (Monitoring 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 to determine if we can place reliance on the controls.

### **C.7.PR.G - 84.010-Title I, Part A - OSPI**

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**Procedure Step:** G. Level of Effort - Controls

**Prepared By:** ES, 8/22/2022

**Reviewed By:** MKH, 8/22/2022

## 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 key internal controls the agency has established to prevent or detect noncompliance with level of effort requirements.

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

### **Source:**

Mikke Sando, Supervisor for Financial Reporting for School Districts and ESDs

Amy Harris, Director of Federal Fiscal Policy and Grants

Gideon Belmaker, Financial Analyst

Paul Stone, Supervisor for District Accounting

### **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

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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)

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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:

-

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

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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.

#### **Level of Effort**

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

See Part 4, 84.000 ED Cross-Cutting Section.

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

**Compliance Requirements** - An LEA may use Part A funds only to supplement the funds that would, in the absence of the Part A funds, be made available from State and local sources for the education of students participating in a Part A program. In no case may an LEA use Part A funds to supplant funds from State and local sources (Section 1118(b)(1) of ESEA (20 USC 6321(b)(1))). An LEA may not be required to (1) identify that an individual cost or service supported with Part A funds is supplemental; or (2) provide services through a particular instructional method or in a particular instructional setting (Section 1118(b)(3) of ESEA (20 USC 6321(b)(3))).

To demonstrate compliance, an LEA must demonstrate that the methodology it uses to allocate State and local funds to each Title I school ensures that the school receives all of the State and local funds it would otherwise receive if it were not receiving Part A funds—i.e., the LEA’s methodology may not take into account a school’s Title I status (Section 1118(b)(2) (20 USC 6321(b)(2))). An LEA may use a combination of methodologies to allocate State and local funds to schools—e.g., use a different methodology for high schools than it uses for elementary schools. An LEA also may design its methodology to take into consideration grade span or school type, student enrollment size, or schools in need of additional funds to serve high concentrations of children with disabilities, English learners, or other such groups of students the LEA determines require additional support.

An LEA need not have a methodology if it has (1) only one school; (2) only Title I schools; or (3) a grade span that contains only one school, only non-

# State of Washington

Title I schools, or only Title I schools (i.e., no methodology is required for this grade span).

This requirement applies to both schoolwide program schools and targeted assistance schools. Thus, a Title I targeted assistance school is not required to use Part A funds to provide supplemental services to identified children or to identify that an individual cost or service supported with Part A funds is supplemental. Part A funds still must be used only for allowable activities—i.e., in a Title I targeted assistance school, Part A funds may be used only to serve students who are failing, or most at risk of failing, to meet challenging State academic standards. (See Sections 1114 and 1115 of ESEA (20 USC 6314 and 6315)).

If an LEA reserves State and local funds for district-level activities (i.e., funds that it does not allocate through its methodology to schools), the LEA must conduct activities with those funds in a manner that does not take into account a school's Title I status. In addition, to the extent an LEA retains State and local funds to implement activities that are required by Federal, State, or local law, the LEA must use those funds in a manner that does not take into account a school's Title I status.

An LEA may exclude from determinations of compliance with the supplement not supplant requirement supplemental State or local funds spent in any school attendance area or school for programs that meet the intent and purposes of Part A (Section 1118(d) of ESEA (20 USC 6321(d)); 34 CFR section 200.79).

## **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.

Mike Sando, Supervisor of School District/Educational Service District Financial Reporting, explained to us that the LEAs perform the Maintenance of Effort (MOE) calculation as part of their F-196 financial report. The MOE calculation is done to ensure that federal funds are being used to supplement school districts expenditures and not supplant them. The F196 form is due November 15th following the end of the prior school year. The LEAs enter all of their financial information for the prior school year into the F-196 system in the Educational Data System (EDS). This system automatically accounts for allowable expenditures and removes unallowable expenditures from the calculation. OSPI provides guidance for the MOE to the LEAs in the Administrative Budgeting and Financial Reporting (ABFR) handbook, which is available on OSPI's website under apportionment, see <https://www.k12.wa.us/policy-funding/school-apportionment/instructions-and-tools/administrative-budgeting-and-financial-reporting-guidance>

Further information can be found in the Instruction/Tools/Indirect Cost Rates section of the SAFS webpage.  
<https://www.k12.wa.us/policy-funding/school-apportionment/instructions-and-tools/indirect-cost-rates>

Once the F-196 reports have been submitted by the LEAs, Mike re-performs the calculation to ensure the numbers and ratios are correct and to review for any noncompliance with the MOE requirement, sometime in January or February. **(Key Control #1 - Control Activities)** He does this by running a report in EDS to extract all F-196 data into an access database. He then runs a query on the access database and exports it into an excel spreadsheet with formulas that re-calculate the requirement. The aggregate expenditures and the per-pupil expenditures are reviewed using enrollment figures he gets from Becky McLean, Enrollment

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Supervisor.

Paul Stone, Accounting Supervisor, reviews the MOE calculations and then submits them to Michelle Matakas, Director of School Apportionment & Financial Services. She reviews the calculations and any LEAs determined to be non-compliant with MOE. **(Key Control #2 - Monitoring Activity)**. He then sends Amy Harris, Director of Federal Fiscal Policy, the calculation spreadsheet. Amy will then determine if these districts will need to have their federal allocations reduced for the current year. There is an exemption in ESEA that states if the LEA has not failed the MOE test in the last five years then their allocation is not reduced, even if they failed this year (See Section 9521 of the ESEA and Section 8521 of the ESEA). Amy will notify a Financial Analyst, of any districts that will need to have their federal allocations reduced and the financial Analyst will include this reduction in the current year allocation models. Once the final allocations are approved, Amy will send formal letters of notification to the applicable districts. The letter includes the option for the district to request a waiver for this requirement from the U.S. Department of Education. The district's funding will be reduced unless they receive a waiver and notify OSPI. **(Key Control #3 - Information and Communication)**

LEAs are given until mid-November to report their numbers for the previous school year because they need time to run the calculations, finalize records, and determine expenditures (a school year runs from September 1 - August 31). In the following spring, OSPI uses the data the LEAs submit to perform the MOE recalculations and determine the allocations for the upcoming school year.

For example, to determine the allocations for the 2020–21 school year, OSPI would have performed the MOE recalculations in spring of 2020, using school year 2018–19 data that the districts reported in November 2019

The chart below outlines how allocations are determined:

| School Year Data | is reported by the district in | and recalculated by OSPI staff | Which is compared to data from | for use in determining allocations for |
|------------------|--------------------------------|--------------------------------|--------------------------------|--|
| 2020-21          | November 2021                  | Spring 2022                    | 2019-20                        | 2022-23                                |
| 2019-20          | November 2020                  | Spring 2021                    | 2018-19                        | 2021-22                                |
| 2018-19          | November 2019                  | Spring 2020                    | 2017-18                        | 2020-21                                |

Adjustments are not made for the current school year after the data comes in for the prior year. In other words - once 2018–19 data starts coming in during the 2019–20 school year, award amounts for the 2019-20 school year are not adjusted based on that it would wait until the following year's allocation. This is because the calculation of the MOE determination is based on the timing and schedule of the school year calendar cycle. The non-regulatory guidance for section E of Title I fiscal issues released by the Department of Education for the purpose of clarifying requirements and guidance for fund accounting directs SEAs to take this approach.

From our understanding of the internal controls and the feedback (Internal Control Document - Level of Effort) from the Department we identified the following key controls:

**Key Controls Identified:**

**Key Control #1:** The financial reporting supervisor re-performs the MOE calculations using F-196 data to ensure the numbers and ratios are correct and to review for any noncompliance. **(Control Activities)**



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**Key Control #2:** The Director of School Apportionment & Financial Services review and approve the calculations. **(Monitoring Activity)**

**Key Control #3:** The Director of Federal Fiscal Policy will send a letter to the districts that did not meet the MOE calculation and will notify the Financial Data Analyst to reduce their final allocations. **(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 to determine if we can place reliance on the controls.

## **C.7.PR.G - 84.010-Title I, Part A - OSPI**

***Procedure Step:*** G. Earmarking - Controls

***Prepared By:*** BAB, 9/14/2022

***Reviewed By:*** MKH, 9/15/2022

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| Purpose/Conclusion.* |
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### **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 key internal controls the agency has established to prevent or detect noncompliance with earmarking requirements.

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

### **Source:**

Tisha Khun - OSPI Budget Analyst, Title I & School Improvement

Mary Adams – Grant Manager, Office of School Improvement

Gideon Belmaker - Financial Data Analyst

Amy Harris – Director of Federal Fiscal Policy and Grants Management

Liza Hartlyn – Director of Continuous Improvement and Student Support

Michelle Matakas – Director, School Apportionment and Financial Services

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Matthew Frizzell – Executive Director of Continuous Improvement

## **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**

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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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).

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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 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**

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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 Earmarking.

## **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.

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.

- **3. Earmarking**

See Part 4, 84.000 ED Cross-Cutting Section and the following:

- a. Allocation of funds to LEAs (SEAs)*

ED provides LEA allocation tables to SEAs for basic grants, concentration grants, targeted grants, and education finance incentive grants based on LEA-level data from the Bureau of Census (Census list).

- (1) If there is an LEA in a State that is not on the Census list (e.g., charter school LEAs), the SEA must adjust the initial allocations provided by ED for any eligible LEA that is not on the Census list (see III.E.3, “Eligibility - Eligibility for Subrecipients,” above) (34 CFR section 200.72).
- (2) In making the adjustments, the SEA must ensure that no eligible LEA is reduced below its hold harmless level. An LEA’s hold harmless level is 85, 90, or 95 percent of the amount it was allocated in the preceding year depending on its percentage of formula children (34 CFR section 200.73).
- (3) In making the adjustments, the SEA must apply section 4306(c) of the ESEA, as amended by the ESSA, which requires the SEA, for purposes of implementing the hold-harmless protections in Sections 1122(c) and 1125A(f)(3) of the ESEA for a newly opened or significantly expanded charter school LEA, to calculate a hold-harmless base for the prior year that reflects the new or significantly expanded enrollment of the charter school LEA (20 USC 7221e(c)). For more information see pages 4-7 in the ESSA Fiscal Changes & Equitable Services guidance (November 2016)

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(<https://www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf>).

*b. Targeting school improvement funds (SEAs)*

Each SEA must ratably reduce the allocations of LEAs and also follow the special rule described below to reserve for school improvement activities the greater of:

- Seven percent of the SEA's FY 2019 Part A award; or
- The sum of the total amount that the SEA reserved for school improvement under section 1003(a) from its FY 2016 Part A award (generally, 4 percent of that award) and the amount of the SEA's FY 2016 School Improvement Grants (SIG) allocation under section 1003(g).

Special rule: In reserving funds for school improvement from FY 2019 and subsequent years' allocations, an SEA may not reduce an LEA's Part A allocation below the prior year's amount. If funds are insufficient to reserve the amount described in the two bullets above, the SEA is not required to reserve this amount. The special rule in section 1003(h) of the ESEA took effect for FY 2018 Part A funds that ED awarded States on July 1, 2018. (<http://legcounsel.house.gov/Comps/Elementary%20And%20Secondary%20Education%20Act%20Of%201965.pdf>)

Of the amount reserved, the SEA must allocate not less than 95 percent directly to LEAs on a formula or competitive basis to support school improvement activities in schools identified for comprehensive support and improvement under Section 1111(c)(4)(D)(i) of the ESEA or implementing targeted support and improvement plans under Section 1111(d)(2) of the ESEA. However, the SEA may, with the approval of its LEAs, provide directly for these activities or arrange for them to be provided by other entities such as school support teams or educational service agencies.

If, after consulting with LEAs, the SEA determines that the amount of funds reserved is greater than needed, the SEA must allocate the excess amount to LEAs (1) in proportion to their allocations under subpart 2 of Part A, or (2) in accordance with the SEA's reallocation procedures under Section 1126(c) of the ESEA (Title I, Section 1003(a)-(h) of ESEA (20 USC 6303(a)-(h)); 34 CFR section 200.100(a)).

*c. Funds reserved for State administration (SEAs)*

From the amount received by the SEA for Part A to administer Part A, an SEA may reserve no more than the greater of one percent of what the SEA would have received for Part A if the appropriation for Parts A, C, D of Title I were \$14 billion (as indicated on a State administrative allocation table that ED provides to SEAs) or \$400,000 (\$50,000 for outlying areas). (Title I, Section 1004 (20 USC 6304); 34 CFR section 200.100(b)).

*d. Funds Reserved for Direct Student Services (SEAs: optional)*

After meaningful consultation with geographically diverse LEAs, an SEA may, but is not required to, reserve a maximum of three percent of its Part A allocation for direct student services. (Title I, Section 1003A (20 USC 6303b)).

### 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 July 13, 2022 and July 18, 2022, Mike Hutchinson, Elijah Stidham, and Benjamin Bostrom met with the following OSPI staff to gain an understanding over Earmarking internal controls:

Tisha Khun - OSPI Budget Analyst, Title I & School Improvement

Mary Adams – Grant Manager, Office of School Improvement

Gideon Belmaker - Financial Data Analyst

Amy Harris – Director of Federal Fiscal Policy and Grants Management

Liza Hartlyn – Director of Continuous Improvement and Student Support

Michelle Matakas – Director, School Apportionment and Financial Services

Matthew Frizzell – Executive Director of Continuous Improvement

Gideon Belmaker, Financial Data Analyst, explained to us that each year, the Department of Education sends OSPI all of their allocations related data for Title I, Part A based on census data. Therefore, OSPI gets information directly from the federal grantor telling them what the allocations are for each LEA (school district) prior to determining the 1% to be reserved for administration costs, the amounts to be allocated to charter schools, and the 7% for school improvement activities. The Department of Education also provides OSPI with a spreadsheet showing the maximum allowable amount for what the state can put toward consolidated admin.

The Financial Data Analyst performs the calculations in the Title I, Part A allocation methodology workbook to determine the 1% and then 7%, which are then taken out of the total allocation in order to determine the remaining amount available for allocations to LEAs. This spreadsheet is also used to examine the individual amounts each LEA is allocated to prior year allocations to ensure they do not drop below their hold harmless levels after contributing to the school improvement fund. The hold harmless thresholds are 85, 90, and 95% of the prior year's funding based on census poverty data provided by ED. After calculations have been determined, the spreadsheet is sent to Amy Harris, Director of Federal Fiscal Policy/Grants Management, and program staff to review and ensure the calculations are correct and complete. **(Key Internal Control #1 - Control Activities)**

The Department of Education allows OSPI to consolidate their administrative costs, meaning that OSPI does not need to monitor administrative expenditures per grant award. Instead, OSPI can allocate the consolidated funds to support Title programs within the agency based on level of need (as applicable). Tisha Kuhn, Budget Analyst, uses the Allocation spreadsheet to ensure the funding available meets or exceeds the agency level of need. Once consolidated administration (CA) allotment amounts are determined, Budget Analysts review data with the OSPI Director of Financial Services, to ensure accuracy and to obtain approval to the allotment amounts. Once approved, amounts are allotted into the Office of Financial Management's (OFM) allotment system by OSPI Budget Analysts using expenditure project code CA.

OSPI Budget Analysts are responsible for monitoring CA funding allocated to Title programs within their portfolio. This may include, but is not limited to, running monthly expenditure reports in AFRS to monitor allotment vs. actual expenditures; meeting with program staff on a regular basis to review expenditure detail; correcting miscoding; and/or making adjustments to reflect changes to annual spending plan. **(Key Internal Control #2 – Monitoring and**

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## Information/Communication)

Tisha Kuhn, Budget Analyst, is responsible for tracking the Title I, Part A funds on a monthly basis at a summary level, providing recurring expenditure reports showing allotments, disbursements, accruals, encumbrances, expenditures to date, and remaining balances. To ensure the earmarking requirement is met, Jon Mishra, Jason Miller, Ellen Hopkins, and Alyssa Ibanez receive monthly reports from Sary Li, OSPI Grants Analyst that include data for the Title I, Part A expenditures by district. Mishra, Miller, Hopkins, and Ibanez review these reports and compare it to the grants for individual districts and to expenditures from prior months to determine if spending is on track and seems normal based on their knowledge of the spending patterns. These reports are then used to see if any adjustments need to be made and to ensure that any errors will be caught at an early stage in the fiscal cycle. All of these reports are used for at least monthly face to face meetings between Tisha Kuhn, Jon Mishra, and Jason Miller to discuss, review, and monitor the Title I, Part A funds. **(Key Internal Control #3 – Monitoring and Information/Communication)**

Tisha Kuhn, the OSSI Program Budget Analyst, is responsible for tracking the Title I, Part A School Improvement funds on a monthly basis at a summary level, providing recurring expenditure reports showing school improvement allotments, disbursements, accruals, encumbrances, expenditures to date, and remaining balances for Title I A – School Improvement. To ensure the earmarking requirement is met, OSPI does the following:

- Creates a budget that ensures supports for LEA school improvement grant at the district and school level, grants for ESDs to support regional and statewide improvement efforts and additional state programming to support state improvement efforts, including contractors.
- Program staff receive monthly reports from Sary Li and Michelle Sartain that include data for the school improvement expenditures by district and school level. These reports are reviewed to monitor and track expenditures.
- Leadership and Christine Hurley meet with Budget Analyst Tisha Kuhn on a monthly basis to review, monitor and track expenditures. These reports are used to see if any adjustments need to be made and to ensure that any errors will be caught at an early stage in the fiscal cycle. **(Key Internal Control #3 - monitoring/information and communication)**

Troy Klein, the Delinquent and Negligent Program Budget Analyst, is responsible for tracking the Title I, Part A Delinquent and Negligent funds on a monthly basis at a summary level, providing recurring expenditure reports showing allotments, disbursements, accruals, encumbrances, expenditures to date. To ensure the earmarking requirement is met, Ada Daniels, receive monthly reports from Sary Li, OSPI Grants Analyst that include data for the expenditures by district. Daniels review this report and compares it to the grants for individual districts and to expenditures from prior months to determine if spending is on track and seems normal based on their knowledge of the spending patterns. These reports are used to see if any adjustments need to be made and to ensure that any errors will be caught at an early stage in the fiscal cycle. All of these reports are used for at least monthly face to face meetings between Troy Klein and Ada Daniels to discuss, review, and monitor the school improvement funds. **(Key Internal Control #3 - Monitoring/Information and Communication)**

From our understanding of the internal controls and the feedback (Internal Control Document - Earmarking) from the Department we identified the following key controls:

## Key Controls Identified

**Key Control #1:** The calculations done by the Data Analyst for administration costs, hold harmless thresholds, and school improvement activities are reviewed by the Director of Federal Fiscal Policy/Grants Management and the Title I Program staff prior to being finalized for use **(Control Activities)**

**Key Control #2:** The Accounting Manager for OSPI's Agency Financial Services runs monthly expenditure reports and sends them to all budget analysts. The

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OSPI's Budget Analysts compare them to the finalized CA calculations to ensure spending is on track, and reports this information to staff in grants management, accounting, and the program for their review **(Monitoring/Information and Communication)**.

**Key Control #3:** The OSPI Budget Analysts in Title I Part A, Title I Part A – School Improvement, and Title I Part A – Delinquent and Negligent programs reviews monthly expenditure reports by district and meets monthly with program staff to discuss this information and adjust as needed. **(Monitoring/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 to determine if we can place reliance on the controls.

## C.7.PR.G - 84.010-Title I, Part A - OSPI

**Procedure Step:** L. Reporting - Controls

**Prepared By:** ES, 7/15/2022

**Reviewed By:** MKH, 9/8/2022

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| Purpose/Conclusion.* |
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### **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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

### **Source:**

Amy Harris, Director of Federal Fiscal Policy and Grants

Michelle Sartain, Grants Management Supervisor, OSPI

### **Conclusion:**



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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.*

#### **AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

##### **Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part**

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**170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

**(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).

### **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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

**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;

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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.***

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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| Population Size   | Assurance Needed and/or Expected Deviations |                          |                                 |
|---|---|--------------------------|---------------------------------|
|   | Low   | Moderate                 | High                            |
| <i>Formula (rounded up)<br/>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**

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 Reporting.

We examined part four of the 2021 compliance supplement, which listed the following applicable reports:

- SF-270, Request for Advance or Reimbursement- (using the G5 System)

### **Purpose of Testing**

SF-270: To determine whether the SF-270 reports filed during the audit period include all activity of the reporting period, are supported by appropriate records,

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and fairly presented.

## **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.

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.

### **SF-270 Request for Advance or Reimbursement using the G5 System.**

The Compliance supplement states the following in regards to reporting requirements:

#### ***L. Reporting***

- ***Financial Reporting***

*Title I Part A (84.010); MEP (84.011); 21st CCLC (84.287); Title III, Part A (84.365); Title IV Part A (84.367).*

- a. *SF-270, Request for Advance or Reimbursement-Applicable (using the G5 System)*

On 8/31/2021, we met with Grants Management Supervisor, Michelle Sartain, and Audit Liaison, Amy Harris to discuss the SF-270 reporting requirement.

#### ***“FINANCIAL REPORTS:***

*When a Payee requests a draw down of funds by grant award, the Department records this draw down as an expenditure against the specified grant award. This method of identifying expenditures, at the time of draw down, and the capability to make adjustments on-line, eliminates the need for the submission of the Federal Cash Transactions Report Form 272. Thus, additional financial reporting generally will not be required, unless otherwise specified by ED.”*

Amy pointed out that completing and submitting the SF-270 report would most certainly be considered “*additional financial reporting*” and that the Dept. of Education had not specifically required OSPI to do so. The purpose of the SF-270 form was to determine the Department's total entitlement at the time of draw down by comparing the Department's grant expenditures-to-date to its reimbursements-to-date . We then asked Michelle Sartain how she performs this process without the SF-270. Because the Department no longer files the SF-270, they instead use the G5 system.

Michelle explained that on the day a draw is made she runs an expenditure report for each federal grant from enterprise reporting and copies the expenditures onto a tracking spreadsheet. The spreadsheet then automatically calculates the difference between expenditures and revenue to determine the draw amount. The sum of the draws for each program make up the total draw amount. Michelle will then go into G5 and manually enter the draw down amounts for each grant.

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OSPI makes three draws per month, one before each payday to cover payroll and one on the last business day of the month to cover sub-awards. Thus, three times per month, Michelle calculates the expenditures and reimbursements-to-date for all open federal programs in order to determine the cumulative draw amount.

To ensure the amount drawn-down in G5 is accurate, Fiscal Analyst, Sary Li, will examine the draw-down amount Michelle entered in G5 and compare it to the enterprise reporting report. If the amount reconciles, correspondence between Sary and Michelle will verify and approve the draw. **(Key Control #1 - Control Activities).**

From our understanding of the internal controls and the feedback (Internal Control Document - Reporting) from the Department we identified the following key controls:

### Summary of Key Controls

**Key Internal Control #1** The grants management supervisor or fiscal analyst determines the amounts to be drawn in G5 by calculating the difference between expenditures and revenue using Enterprise reports, before corresponding with one another to verify the report for accuracy and approval of the draw.

**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 to determine if we can place reliance on the controls.

### C.7.PR.G - 84.010-Title I, Part A - OSPI

**Procedure Step:** L. Reporting FFATA - Controls

**Prepared By:** BAB, 8/30/2022

**Reviewed By:** MKH, 9/7/2022

Purpose/Conclusion.

**Purpose:**

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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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

## **Source:**

Michelle Sartain, Grants Management Supervisor

Amy Harris, Director of Federal Fiscal Policy and Grants Management

## **Conclusion:**

Based on our understanding of internal controls over Reporting FFATA, 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.*

**AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:  
Federal Funding Accountability and Transparency Act (FFATA)**

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**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

**(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).

### **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*



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*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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

**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)<br/>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.

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## **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.

No specific requirements were identified in Part 4 and we will rely on Part 3.L for audit guidance.

## **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 June 29, 2022, we met with Grants Management Supervisor, Michelle Sartain, and Audit Liaison, Amy Harris to discuss the FFATA reporting requirements.

Michelle Sartain informed us that OSPI does FFATA reporting as they are a pass-through agency and allocate the majority of Title I, Part A funds directly to Local Education Agencies (LEAs). Michelle is the one that performs the FFATA reporting for all OSPI programs every month. OSPI maintains a procedure document for their FFATA reporting process ([FFATA Reporting Process](#)). Michelle identified the following form packages used for each grant:

- Form Package 201 - Title I, Part A
- Form Package 208 - Title i, Part D, Negligent and Delinquent
- Form Package 432 - School Improvement
- Form Package 871 - School Improvement
- Form Package 873 - School Improvement
- Form Package 875 - School Improvement
- Form Package 877 - School Improvement
- Form Package 910 - School Improvement

Every month, Michelle will use a list of all federal grants applicable to OSPI that could have subawards greater than the minimum FFATA threshold (\$25,000 for subawards before 11/12/2020, \$30,000 for subawards granted on or after 11/12/2020) to identify form packages where FFATA reporting will be applicable. Once this list is utilized, and all applicable form packages are identified, Michelle will begin creating a raw data file from within iGrants. Using a reporting tool within iGrants, Michelle will identify the correct fiscal period, change the report type to "Budget," and enter the form package number. New awards will be checked in iGrants by date for the previous month, and if any exist, Michelle will export the raw data from iGrants into an Excel spreadsheet. Awards are searched for in the prior month, due to FFATA requirements stating that all subawards must be reported on by the final day of the month following the award. The Excel file will be manipulated by deleting awards not applicable based on date (any awards not from the month prior to the current month in which the report is being submitted)

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and any amounts that are below the FFATA reporting threshold. The columns of the file are also deleted to reduce the data to only Organization Code, Org. Name, Grant Number, Category, Verified, and Budget Total fields. Columns will be added for the DUNS Number, City, and ZIP code of each subawardee. **The Grants Management Supervisor utilizes the iGrants Report Tool that automatically generates reports used to identify FFATA eligible transactions. (Key Control #1 - Automated Control) (Control Activities, Information and Communication)** A VLOOKUP formula will be applied to these added columns pulling information from a master file of school district addresses and DUNS numbers. Once this step is completed, the file is saved and is ready to be entered for upload into FSRS.

To upload the edited data file into FSRS, a previous FSRS Toolbox upload file will be used as a template. The month column on the template will be updated and old data in the DUNS Number, Sub City, Sub Zip, Sub Amount, Subaward Date, and Subaward Columns will be deleted. The manipulated raw data will then be copied and pasted into the blank fields within the FSRS Toolbox in order to prepare for upload. Once all of the information is transposed into the toolbox and additional dates are added, Michelle will log into the FSRS website and the Toolbox will be uploaded. If everything has been formatted correctly, an "Upload Successful" message will be displayed. If any errors are detected during upload, the error log will be saved, the erred sub-awards will be deleted, the file will be saved again, and re-uploaded into FSRS. This will upload the FSRS Toolbox and Michelle will then go into the report and manually re-add the sub-awards that were deleted due to causing upload errors. **The Grants Management Supervisor (Michelle), performs this entire upload process on the 5th of every month and has a recurring calendar notice set to ensure that it is being done timely. (Key Control 2 - Control Activities)**

Additionally, OSPI has a cross-check process implemented for verifying FFATA reporting uploads. To perform the cross-check of FFATA reporting, a person from Michelle's staff will begin by opening a list of federally funded form packages kept in a shared drive folder titled "FFATA" within the OSPI intranet. The staff member will then obtain a list of the current month's data in order to view which programs were submitted during the month and will be compared to the list of federally funded form packages in order to determine which form packages will need to be looked up in iGrants. After logging into iGrants, the staff member will run a report and check for any new awards granted above the FFATA reporting threshold. A random sample of any three new awards that meet the threshold will be selected and added to a cross-check file also located in the OSPI FFATA shared drive. The CFDA number will be added to this file from iGrants and the process will be repeated until there are nine total records selected. After the samples are selected and added to the cross-check log, the staff member will go to [usaspending.gov](https://usaspending.gov) to check for the sampled FFATA report submissions. **This FFATA upload process is documented on a cross-check log detailing who performed the cross-check, what information was checked, and the date that the cross-check occurred. (Key Control #3 - Monitoring).** The cross-check is always performed by the end of the month in which any FFATA submission was made.

We also navigated to the FSRS website and obtained a copy of the FSRS Awardee User Guide ([FSRS Awardee User Guide](#)) which outlines the process and requirements to report FFATA. Located on page 56, the process for uploaded batches for FFATA can also be seen.

Based on our understanding of the FFATA reporting requirements, we identified the following key controls:

**Key Control #1 - The Grants Management Supervisor utilizes the iGrants Report Tool that automatically generates reports used to identify FFATA eligible transactions. (Automated Control) (Control Activities, Information and Communication)**

**Key Control #2 - The Grants Management Supervisor (Michelle) performs this entire upload process on the 5th of every month and has a recurring calendar notice set to ensure that it is being done timely. (Control Activities)**

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**Key Control #3 - This FFATA upload process is documented on a cross-check log detailing who performed the cross-check, what information was checked, and the date that the cross-check occurred. (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 to determine if we can place reliance on the controls.

## **C.7.PR.G - 84.010-Title I, Part A - OSPI**

***Procedure Step:*** M. Subrecipient Monitoring - Controls

***Prepared By:*** ES, 10/7/2022

***Reviewed By:*** MKH, 10/10/2022

|                      |
|----------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with subrecipient monitoring requirements. To provide a preliminary control risk assessment based upon our understanding of the internal controls.

### **Source:**

Jason Miller - Administrative Assistant to the Director, Title I Part A and LAP, OSPI  
Amy Harris - Director of Federal Fiscal Policy and Grants

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## **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 200.332(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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 200.332(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

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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>**.
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).

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 200.331, .332, 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):

| <i>Subaward Contract Checklist</i>  |   |
|---|---|
| Element   | Element   |
| (i) Subrecipient name (which must match the name associated with its unique entity identifier); | (viii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation; |

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|   |   |
|---|---|
| (ii) Subrecipient's unique entity identifier;   | (ix) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;  |
| (iii) Federal Award Identification Number (FAIN);   | (x) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);   |
| (iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency; | (xi) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;  |
| (v) Subaward Period of Performance Start and End Date;  | (xii) Assistance Listings number and Title; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement; |
| (vi) Subaward Budget Period Start and End Date;   | (xiii) Identification of whether the award is R&D; and  |
| (vii) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;    | (xiv) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).   |

### 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

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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: |
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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. inherent risk --- high or low

### **Gather Information**

#### **Step 2**

We reviewed the scope of work per the grant agreement and part three of the 2022 compliance supplement and noted that Federal Department of Education provided no special guidance for subrecipient monitoring in part 3.

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According to Part three of the compliance supplement, the pass through entity (PTE) is expected to address the following requirements as part of its subrecipient monitoring efforts...

### **Federal Award Information:**

Part 3 of the Uniform Guidance states, "A pass-through entity is responsible for... at the time of the award, identifying to the subrecipient the Federal award information... and applicable compliance requirements."

This includes:

| <i>Subaward Contract Checklist</i>  |   |
|---|---|
| Element   | Element   |
| (i) Subrecipient name (which must match the name associated with its unique entity identifier);           | (viii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;   |
| (ii) Subrecipient's unique entity identifier;   | (ix) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;  |
| (iii) Federal Award Identification Number (FAIN);   | (x) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);   |
| (iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency; | (xi) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;  |
| (v) Subaward Period of Performance Start and End Date;  | (xii) Assistance Listings number and Title; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement; |
| (vi) Subaward Budget Period Start and End Date;   | (xiii) Identification of whether the award is R&D; and  |
| (vii) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;    | (xiv) Indirect cost rate for the Federal award (including if the de minimis rate is charged) per §200.414.  |

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## **SUBRECIPIENT RISK EVALUATIONS**

Pass through entities (PTE) 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).

**Monitoring Activities:** PTEs must perform monitoring procedures to ensure subrecipients use federal awards 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.

Monitoring activities must be reasonable based on the inherent risk of the program and subrecipient non-compliance. 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.

Note: 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.

## **Subrecipient Single Audits:**

Part 3 of the Uniform Guidance states, "A pass-through entity is responsible for... ensuring that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year...have met the audit requirements of 2 CFR part 200, subpart F. in brief, the Department must:

- Ensure Subrecipients receive a single audit if necessary.
- Issue Management decisions on audit findings within six months after receipt of the subrecipient's audit report
- Monitor Subrecipients to ensure they took timely and appropriate corrective action on all audit findings and...

# State of Washington

- Take sanctions (or other appropriate action) in cases of continued inability or unwillingness of a subrecipient to have the required audits.

## 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 July 13, 2022, we met with the following individuals to gain an understanding over how the Department performs Subrecipient monitoring:

- Amy Harris, Director of Federal Fiscal Policy and Grants Management and External Audit Liaison
- Jason Miller, Assistant Director, Title I & LAP

### (a) Subrecipient Contracts – Identification Elements:

OSPI uses iGrants to communicate federal identification elements and other required federal award information that be passed on to the subrecipients (LEAs). Mercedes Ekroth and Kim Hoss are the iGrants Administrators within OSPI who develop the form package profile pages for each federal program. Each program office is responsible for submitting an iGrants detail survey that includes form package information and a Word document with what they want to be included in the application pages. The program contact and director of the program office is responsible for reviewing each profile and application page before it is launched in a given year to ensure that it is up to date and contains all required information. **(Key Control #1: Control Activities/Information and Communication)** These approvals are tracked on a form package master list detailing the program name, program contact, approval to launch, and launch date. The program offices are responsible for staying up to date on any compliance changes for their programs.

In addition to the form package profile, OSPI informs the LEAs of additional federal requirements within iGrants through the General Assurances page. The General Assurances page contains information such as suspension and debarment requirements, single audit requirements, and any additional information that OSPI wants to pass through to each individual LEA. Before continuing with the iGrants application, each LEA is required to certify they understand and agree with all applicable assurances and requirements by e-signing and dating those assurances in iGrants. **(Key Control #2: Control Activities/Information and Communication)** The signatures of an authorized representative for the LEA and the CEO/Superintendent of the school district must be provided along with the UEI number, and without filling out these fields, the LEAs are not able to create budgets and finish applying for grant funds.

### (b) Risk Evaluation

To ensure LEA in the state receives a risk assessment on an annual basis, the CPR team uses interactive checklist on which all LEAs in the state are listed **(Key Control #3: Control Activities)**.

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The CPR team performs a risk assessment for each LEA in the state on an annual basis. This process begins in early July and concludes by mid-August. The review uses 12 performance data elements (consisting of 29 possible points) that may have a significant impact on a LEA's compliance with federal programs and receipt of federal funding. All data points are given a score, and the total score determines the given risk for that year. Based on this initial risk assessment, all program staff are able to identify if they have seen a pattern of non-compliance with a school district which may warrant being designated as a high risk in the program area. The CPR team uses the information gathered from risk assessment as well as feedback from various program specialists at OSPI to inform the monitoring schedule for the upcoming academic year.

## **Monitoring Activities-Program, fiscal & UG compliance:**A-133 vs UG

CPR monitors LEAs for program compliance, fiscal and UG compliance. CPR performs two types of reviews, on-site reviews and desk audits, with the LEA's risk assessment score informing which type of review they will perform. Onsite reviews are reserved for those LEAs that score higher on the risk assessment or require more flexibility than a desk audit can provide. CPR uses the same review-criteria for either type.

After CPR has finalized the monitoring list, they notify the LEAs and schedule a time to provide training to each LEA to prepare them for the upcoming review. A formal letter is then sent to each LEA between late September and early October with timelines and deadlines for submitting the information and documentation the CPR team needs to do the review and its scheduled review date. The CPR team allows six weeks for the LEA to provide the requested documentation.

### **Program Review:**

The CPR team works with program specialists at OSPI to monitor for program-specific requirements. The program specialists use a program specific monitoring checklist within EDS to ensure the LEA is in compliance with program requirements. Each program has a monitoring checklist that is tailored to that program and is updated each year. If OSPI requires additional information or documents they have a function within EDS that allows for communication with LEA's directly.

### **Fiscal Review:**

CPR works with OSPI's Fiscal Review Team (Team) to monitor each LEA to ensure the expenditures it made with federal funds were allowable and meet cost principles. To do this, the team-monitor uses a basic procedure. This includes, but is not limited to, obtaining an expenditure summary from the LEA for a particular federal program and comparing it to what the LEA claimed it spent in iGrants. The Team-monitor will then make a selection of payroll and other expenditures and examine them to determine whether the costs were allowable, authorized and supported. **(Key Control #4: Monitoring)**

### **Subrecipient Audits:**

OSPI informs LEAs of the requirement to receive a single audit in the general assurances signed by all sub-recipients and in the boilerplate funding application. It also restates the requirement in the accounting manual that it provides to each LEA.

The Team uses its centralized Audit Resolution Tracking spreadsheet (ART) to track which LEAs require a single audit and monitor the resolution of those LEAs that receive single audit findings. **(Key Control #5: Monitoring)**

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In the fall of each year, the Team obtains a schedule of expenditure of federal awards (SEFA) for each school district and education service district in the State. The Team records the SEFA expenditures on the ART to determine if a single audit is required (\$750,000 or more in total federal expenditures).

Team School Programs at SAO perform audits of school districts in accordance with Uniform Guidance each year. The Team monitors SAO's audit publications and updates the ART spreadsheet to ensure each subrecipient that required an audit received one.

If an LEA received a finding for an OSPI program, the Team documents that a resolution is required on the ART spreadsheet. The Team reviews the entity's response and the correction action plan. If the entity concurs with the finding and the corrective action plan is acceptable, they mail a management decision letter.

If the entity does not concur with the finding or if the corrective action plan is not acceptable, the Team mails a letter of notification (LON) and requests clarification from the LEA. If the LEA says it does not agree with the finding, the Team will grant the LEA 30 days to submit reasons/evidence for its disagreement. The Team will review the entity's response and documentation.

Regardless of the LEAs position, OSPI will issue a management decision letter within 180 days of receiving the audit report.

From our understanding of the internal controls and the feedback (Internal Control Document - Subrecipient Monitoring) from the Department we identified the following key controls:

## Summary of Key Controls

**Key Control #1:** The program contact and director of the program office is responsible for reviewing each profile and application page before it is launched in a given year to ensure that it is up to date and contains all required information. **(Control Activities/Information and Communication)**

**Key Control #2:** Before continuing with the iGrants application, each LEA is required to certify they understand and agree with all applicable assurances and requirements by e-signing and dating those assurances in iGrants. **(Control Activities/Information and Communication)**

**Key Control #3:** The CPR team performs a risk assessment for all LEAs and maintains a spreadsheet on which all LEAs in the state are listed to ensure all LEAs in the state receive a risk assessment on an annual basis **(Control Activities)**.

**Key Control #4:** The CPR teams use a monitoring checklist of program and fiscal requirements to document and perform the review, and to determine compliance and any corrective actions required. **(Monitoring)**

**Key Control #5:** The Fiscal Review Team uses its centralized Audit Resolution Tracking spreadsheet (ART) to track which LEAs require a single audit and monitor the resolution of those LEAs that receive single audit findings **(Monitoring)**.

**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 to determine if we can place reliance on the controls.

### C.7.PR.G - 84.010-Title I, Part A - OSPI

**Procedure Step:** N. Special Tests and Provisions #2 Access to Federal Funds for New or Significantly Expanded Charter Schools – Controls

**Prepared By:** ES, 10/13/2022

**Reviewed By:** MKH, 11/14/2022

|                      |
|----------------------|
| 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:

- Special Tests and Provisions #2 Access to Federal Funds for New or Significantly Expanded Charter Schools

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to Special Tests and Provisions #2 Access to Federal Funds for New or Significantly Expanded Charter Schools

To provide a preliminary control risk assessment based upon our understanding of the internal controls **for** Special Tests and Provisions #2 Access to Federal Funds for New or Significantly Expanded Charter Schools.

#### **Source:**

Gideon Belmaker, Financial Data Analyst

Amy Harris, Director of Federal Fiscal Policy and Grants

Michelle Matakas director, school apportionment and financial services

#### **Conclusion:**

- Special Tests and Provisions #2 Access to Federal Funds for New or Significantly Expanded Charter Schools

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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 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*

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*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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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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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 Special Tests and Provisions.

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

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

Note: This requirement only applies with respect to funds allocated to new, or significantly expanded, charter schools under a covered program in a State that has charter schools. A covered program means an elementary or secondary education program administered by ED under which the Secretary allocates funds to States on a formula basis, except that the term does not include a program or portion of a program under which an SEA awards subgrants on a discretionary, noncompetitive basis. Charter school has the same meaning as provided in Title IV, Part C, of the ESEA (Section 4310(2) of ESEA (20 USC 7221i(2))). With respect to an existing charter school LEA that has not significantly expanded its enrollment, an SEA must determine the school's eligibility and allocate Federal funds to the school in a manner consistent with applicable Federal statutes and regulations under each covered program.

If a State considers a charter school to be an LEA under a covered program, this requirement applies to the SEA or other State agency responsible for allocating funds under that program - either by formula or through a competition - to LEAs. If a State considers a charter school to be a public school within an LEA under a covered program, this requirement applies to the LEA. The requirements in this Supplement address an SEA's responsibilities with respect to eligible charter school LEAs. An LEA that is responsible for providing funds under a covered program to eligible charter schools must comply with these requirements on the same basis as an SEA.

**Compliance Requirements** - An SEA must ensure that a charter school LEA that opens for the first time or significantly expands its enrollment receives the funds under each covered program for which it is eligible. Significant expansion of enrollment means a substantial increase in the number of students attending a charter school due to a significant event that is unlikely to occur on a regular basis, such as the addition of one or more grades or educational programs in major curriculum areas. The term also includes any other expansion of enrollment that an SEA determines to be significant.

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Except as noted below, if a charter school LEA opens or expands by November 1, the SEA must allocate to the school the funds for which it is eligible no later than 5 months after the school first opens or significantly expands its enrollment; if a charter school LEA opens or significantly expands after November 1 but before February 1, an SEA must allocate to the school a pro rated portion of the funds for which the school is eligible on or before the date the SEA makes allocations to other LEAs under that program for the succeeding academic year; if a charter school LEA opens or expands after February 1, the SEA may, but is not required to, allocate to the school a pro rated portion of the funds for which the school is eligible.

An SEA must determine a new or expanding charter school LEA's eligibility based on actual enrollment or other eligibility data available on or after the date the charter school LEA opens or significantly expands. An SEA may not deny funding to a new or expanding charter school LEA due to the lack of prior-year data, even if eligibility and allocation amounts for other LEAs are based on prior-year data. An SEA may allocate funds to, or reserve funds for, an eligible charter school LEA based on reasonable estimates of projected enrollment at the charter school LEA. If an SEA allocates more or fewer funds to a charter school LEA than the amount for which the charter school LEA is eligible, based on actual enrollment or eligibility data, the SEA must make appropriate adjustments to the amount of funds allocated to the charter school LEA as well as to other LEAs under a covered program on or before the date the SEA allocates funds to LEAs for the succeeding academic year. For purposes of implementing the hold harmless protections in sections 1122(c) and 1125A(f)(3) of Title, Part A of ESEA for a new or expanding charter school LEA, an SEA must calculate a hold-harmless base for the prior year that, as applicable, reflects the new or expanding enrollment of the charter school LEA (Section 4306(c) of ESEA (20 USC 7221e(c))). For more detail, see pages 4-7 of the ESSA Fiscal Changes & Equitable Services guidance (November 2016) (<https://www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf>).

At least 120 days before the date a charter school LEA is scheduled to open or significantly expand its enrollment, the charter school LEA or its authorized public chartering agency must provide the SEA with written notice of that date. Upon receiving such notice, an SEA must provide the charter school LEA with timely and meaningful information about each covered program in which the charter school LEA may be eligible to participate, including notice of any upcoming competitions under the program. An SEA is not required to make allocations within 5 months of the date a charter school LEA opens for the first time or significantly expands if the charter school LEA, or its charter authorizer, fails to provide to the SEA proper written notice of the school's opening or expansion.

For a covered program in which an SEA awards subgrants on a competitive basis, the SEA must provide an eligible charter school LEA that is scheduled to open on or before the closing date of any competition a full and fair opportunity to apply to participate in the program. However, the SEA is not required to delay the competitive process in order to allow a charter school LEA that has not yet opened or expanded to compete (Section 4306 of ESEA (20 USC 7221e); 34 CFR sections 76.785 through 76.799).

**Audit Objective** - Determine whether new or significantly expanding charter schools received the amount of Federal formula funds for which they were eligible in a timely manner.

### **Suggested Audit Procedures:**

- a. Determine if the entity was responsible for providing Federal formula funds under the applicable covered program to any charter school LEAs/charter schools that opened for the first time or significantly expanded enrollment on or before November 1 of the academic year.*
- b. Determine if the entity was responsible for providing Federal formula funds under the applicable covered program to any charter school LEAs/charter schools that opened for the first time or significantly expanded enrollment between November 1 and February 1 of the academic year.*

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- c. Review the entity's procedures for allocating Federal formula funds under the applicable covered program to determine whether eligibility to participate in the program was based on enrollment or eligibility data from a prior year. If prior- year data were used for allocations, determine whether the entity properly based the new or expanding charter school LEA's/charter school's eligibility and allocation amount on actual eligibility or enrollment data for the year in which the school opened or expanded.*
- d. Review documentation to identify the opening or expansion date for each eligible charter school LEA/charter school that opened or significantly expanded its enrollment on or before November 1 of the academic year. Determine whether the charter school LEA/charter school was given access to all of the funds for which it was eligible, in the proper amount, within 5 months of the opening or expansion date (provided that SEA or LEA notification, data submission, and application requirements were met).*
- e. Review documentation to identify the opening or expansion date for each eligible charter school LEA/charter school that opened or significantly expanded its enrollment between November 1 and February 1 of the academic year. Determine whether the charter school LEA/charter school was given access to the pro rata portion of the funds for which the school was eligible, in the proper amount, on or before the date the SEA or LEA made allocations to other LEAs/public schools under the program for the succeeding academic year (provided that SEA or LEA notification, data submission, and application requirements were met).*
- f. Review documentation to determine whether the SEA or LEA made necessary adjustments to account for over- or under-allocations once actual eligibility and enrollment data became available.*
- g. Review documentation to determine whether the SEA applied section 4306(c) of the ESEA to calculate a hold-harmless base for the prior year that reflects the new or significantly expanded enrollment of the charter school LEA.*

### **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 July 13, 2022 we met with Gideon Belmaker, Financial Data Analyst; Michelle Matakas, Director, School Apportionment and Financial Services; and Amy Harris, Audit Liaison, to discuss how OSPI ensures charter schools receive Title I program funds for which they are eligible and the Office meets all requirements of the special provision. ***All charter schools in Washington State are considered their own LEA under state law.*** OSPI allocates funds to a district based on poverty percentages received from the Federal government determined by census data. If a new charter school is set to open for the first time, budgeted enrollments that are provided by the charter schools would be used.

Federal funds are awarded to charter schools at the same time all other LEAs receive their funding. The rules for charter schools getting funding are the same as any other LEA except there is no census data. Since allocations are based on census data LEA's that are not considered school district are not provided preliminary/final calculations by the federal grantor to OPSI. The local school district gets a certain amount of funding money taken out of its allocation based on the number of students attending a charter school if that student would otherwise be counted in the district for attending a non-charter schools. The term "sending district" refers to the home district that students in charter schools would otherwise be attending.

To calculate the allocation that a charter school receives OSPI creates an estimate using the number of free and reduced lunch price students in the charter

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schools and the sending districts. They create an estimated poverty ratio by totaling the number of free and reduced price lunch students within the boundaries of a sending district and dividing it by the total number of students within their LEA. This ratio is then applied to the money awarded to the sending district to determine the exact amount that the charter schools are eligible to receive, and reduce the sending district's grant awards by the same amount.

School districts and charter schools (since they are considered their own LEA) are required to have a county district code before receiving any state or federal subsidies. When the code is created, this information is shared with the apportionment office which then will be included in the allocation model for the relevant school year.

Marla Conwell, charter school engagement supervisor, OSPI, acts as a liaison between OSPI, charter schools and the Charter School Commission. To track new charter schools, she maintains a report that lists all charter schools in Washington state that includes associated school districts and opening date (used to identify new charter schools). This report is kept on a shared drive that Gideon is able to access. When Gideon starts the funding allocation process for the upcoming school year, he reviews this charter school report to identify new charter schools that are potentially eligible for federal funds that may need to be included in the funding allocation.

Gideon explained to us that each year, the Department of Education sends OSPI all of their preliminary/final allocations for Title I-A based on census data. Therefore, OSPI gets information directly from the federal grantor telling them what the preliminary/final allocations are for each LEA (school districts except Charter schools) prior to determining the 1% to be reserved for administration costs and the 7% for school improvement activities (*See. [Dept of Ed Email with Revised Final Fiscal Year 2021 Title I LEA Allocations](#)*). The amounts to be allocated to charter schools must be calculated and determined separately since charter schools are not included in the census; this is done after the state administration cost and state school improvement activities are calculated and removed from the allocation total to determine the remainder to be allocated to districts. The amounts to be allocated to charter schools are then determined based on the total formula children in the charter school, and the funding is moved from the district those formula children would have otherwise attended were they not attending the charter.

In order to determine the number of formula children in a charter, which will be used to calculate the Title I allocation given to the charter school, Gideon uses the "Additional LEA split Final" Excel spreadsheet, see tab "enrollment" at [Additional LEA split Final 08162021](#). *looks like you need a hyperlink here* This template uses the number of children enrolled in the free and reduced price lunch (FRPL) program (information available in the Comprehensive Education Data and Research Systems - CEDARS) at the charter school as a percentage of the total number of children enrolled in the FRPL program between both the charter and the associated district, and multiplies that percentage by the total number of census poverty children as reported by the feds for the associated district to determine the poverty estimate at the charter. New charter schools will use budgeted enrollment numbers until the second year. **(Key internal control #1 - Monitoring Activity)**

These poverty estimates are used to determine the Title I allocations for charter schools (*See. [Additional LEA split Final 08162021](#)*) which are then rolled up into the Title I-A Allocations Excel spreadsheet, see tab "2021-22 Final" *ns Excel spreadsheet, see tab "2020-21 Rev. Final at Title IA 2021-22 Final 08162021-original* that reflects consolidated admin and school improvement earmarking amounts, as well as allocations for districts, for that year. This spreadsheet is reviewed by Amy Harris, Director of Federal Fiscal Policy/Grants Management, and the program office to ensure the calculations are correct and complete. This same spreadsheet is used to track earmarking. **(Key internal control #2: - Control Activities)**

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As discussed in the activities allowed section, the charter schools submit their applications and budgets in iGrants the same as any other LEA, and after they are reviewed and approved, they receive their federal award as determined by these calculations. **(Key internal control #3: Control Activities)**

## **Key Internal Controls**

**Key internal control #1:** The Financial Data Analyst determines the poverty estimate at the charter school using census data provided by the Department of Education and the Free and Reduced Priced Lunch program participation to ensure charter schools receive the amount of federal formula funds for which they are eligible **(Monitoring Activity)**.

**Key internal control #2:** The Director of Federal Fiscal Policy/Grants Management and the program office review the poverty estimate in the Title I allocations spreadsheet to ensure it is correct prior to those amounts being awarded to charter schools **(Control Activities)**.

**Key internal control #3:** Program staff review and approve applications and budgets in iGrants, then release the federal award to the charter schools in order to ensure they are receiving federal formula funds in a timely manner **(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 to determine if we can place reliance on the controls.

## **C.7.PR.G - 84.010-Title I, Part A - OSPI**

***Procedure Step:*** N. Special Tests and Provisions #3 - Annual Report Card, High School Graduation Rate - Controls

***Prepared By:*** ES, 7/21/2022

***Reviewed By:*** MKH, 10/7/2022

|                     |
|---------------------|
| Purpose/Conclusion. |
|---------------------|

## **Purpose:**

To identify the key internal controls and test these controls to determine if the controls are in place and operating as intended for Special Tests and Provisions #3 - Annual Report Card, High School Graduation Rate.

To provide a final control risk assessment based upon our testing of the key internal controls for Special Tests and Provisions #3 - Annual Report Card, High School Graduation Rate.



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## **Source:**

Amy Harris, Director of Federal Fiscal Policy and Grants  
Lisa Ireland, Data Analyst,  
CEDARS Data Manual  
EDS Notification

## **Conclusion:**

- Special Tests and Provisions #3 - Annual Report Card, High School Graduation Rate

Based on our understanding of internal controls over Special Tests and Provision, we tested the key controls. Based on our testing, internal controls are in place and operating as intended to prevent material noncompliance with federal requirements. **Final risk assessment is 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.

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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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).

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 Special Tests and Provisions.

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

### **3. Annual Report Card, High School Graduation Rate**

**Compliance Requirements** An SEA and its LEAs must report graduation rate data for all public high schools at the school, LEA, and state levels using the four-year adjusted cohort rate and, at an SEA's or LEA's discretion, one or more extended-year adjusted cohort rates. Graduation rate data must be reported both in the aggregate and disaggregated by the subgroups in Section 1111(c)(2) of the ESEA, homeless status, status as a child in foster care using a four-year adjusted cohort graduation rate (and any extended-year adjusted cohort rates) (ESEA sections 1111(h)(1)(C)(iii)(II) and 8101(23),

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(25)(20 USC 6311(h)(1)(C)(iii)(II) and 7801(23), (25))). Except as noted below, only students who earn a regular high school diploma may be counted as a graduate for purposes of calculating graduation rates. The term “regular high school diploma” means the standard high school diploma that is awarded to the preponderance of students in the state and that is fully aligned with the state standards (but not to alternate academic achievement standards for students with the most significant cognitive disabilities) or a higher diploma. A regular high school diploma does not include a recognized equivalent of a diploma, such as a general equivalency diploma (GED), certificate of completion, certificate of attendance, or similar lesser credential (ESEA, Section 8101(43) (20 USC 7801(43))). An SEA may, but is not required to, award a state-defined alternate diploma for students with the most significant cognitive disabilities who take an alternate assessment aligned with alternate academic achievement standards. That diploma must be standards based, aligned with the state’s requirements for a regular high school diploma, and obtained within the time period for which the state ensures the availability of a free appropriate public education. If an SEA awards an alternate diploma, the SEA may count those students in its four-year and any extended-year adjusted cohort graduation rate, even if the student takes more than four years to receive the alternate diploma (ESEA, Section 8101(23)(A)(ii)(I)(bb), (25)(A)(ii)(I)(bb) (20 USC 7801(23)(A)(ii)(I)(bb), (25)(A)(ii)(I)(bb))).

To remove a student from the cohort, a school or LEA must confirm, in writing, that the student transferred out, emigrated to another country, transferred to a prison or juvenile facility, or is deceased. To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma. A student who is retained in grade, enrolls in a GED program, or leaves school for any other reason may not be counted as having transferred out for the purpose of calculating graduation rate and must remain in the adjusted cohort (ESEA sections 1111(h)(1)(C)(iii)(II) and 8101(23), (25) (20 USC 6311(h)(1)(C)(iii)(II) and 7801(23), (25))).

**Audit Objectives** Determine whether SEAs and LEAs have implemented appropriate policies and procedures for documenting the removal of a student from the adjusted cohort.

### **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.

*The specified audit objective is to determine whether SEAs have implemented appropriate policies and procedures for documenting the removal of a student from the regulatory adjusted cohort. The suggested audit procedure is to review SEA policies and procedures that ensure that LEAs are maintaining appropriate documentation to confirm when students have been removed from the regulatory adjusted cohort. We will not review and test the suggested audit procedures for LEAs since these are local entities and not direct to our audit.*

Mike Hutchinson, Benjamin Bostrom, And Elijah Stidham met with Amy Harris, Director of Federal Fiscal Policy and Grants, and Lisa Ireland, Data Analyst in Assessment and Student Information, on July 11th, 2022 to discuss controls over Special Test and Provision #3 - Annual Report Card, High School Graduation Rate. Lisa explained to us that each school district is given a specific deadline, usually in the second or third week of October to update their graduation data for

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the prior school year. This information is reported in the Comprehensive Education Data and Research System (CEDARS), which is a tool used by LEAs to submit and document data on courses, students, and teachers. CEDARS is accessible from the Education Data System (EDS), a centralized suite of web-based applications, and feeds data into a Tableau dashboard within EDS. The Tableau dashboard is a student level report that offers a look at withdrawal codes and student enrollment in other public institutions in Washington State. Embedded within the Tableau dashboard OSPI provides a guidebook and expectations on how to report and review relevant data. After the deadline, the application closes and cannot be updated further with new information from CEDARS. The graduation rate is then captured for OSPI reporting.

Rules on school district and educational service district responsibilities for reporting data are outlined in [OSPI's Washington Administrative Code \(WAC\) chapter 392-117](#). Sections pertaining to educational data as reported in CEDARS and the requirement to provide upon request documentation to support all data reported to OSPI are included in this WAC chapter. There is also a CEDARS reporting guidance handbook which has instructions on how to properly report data, adjust the cohorts, and use student activity codes. If any information in this handbook is changed a report is sent to the CEDARS stakeholders regarding the changes, which is then passed along to the appropriate vendors and LEA's before the changes take affect.

OSPI strictly follows the [ESSA Federal Guidelines](#) for the placement and inclusion/exclusion of students in an adjusted cohort. All students identified as members of a cohort group are included in the annual results. Students whose last reported status (as of the end of the cohort year in review) is as a completer, in negative status (dropout, unknown or a GED completer), or a student who is continuing their education are included in the adjusted cohort denominator for calculation.

Washington State is unique in that each school district operates under it's own local control. Due to this, OSPI does not have control over each district's individual student information centers and in return, does not have policies or procedures allowing OPSI to approve/deny a submitted school withdrawal of confirmed transfer outside of Washington. The state auditor's office, when auditing local school districts, do look at the confirmed transfer information closely. They require that districts provide proof of 'confirmation of transfer' for students submitted as confirmed transfers.

Below is an excerpt from the [CEDARS Reporting Guidance](#), Confirmed Transfers section on pg. 30 that provides the rules for which students may be submitted as a confirmed transfer. In this section it is stated that it is the responsibility of the sending school/district to ensure the request is valid and that the information will hold up to audit and review.

### **Confirmed Transfers**

During the school year, students move in and out of districts throughout the state, often without notifying the 'sending' district of where they will be enrolling in school once they have moved. This then presents the challenge to schools and districts attempting to locate these students, so they can report the student as a confirmed transfer and to ensure the student's educational records are forwarded, as appropriate.

Below are guidelines for determining confirmed transfers and the Valid Values to be used when submitting a confirmed transfer to Element C09 – School Withdrawal Code:

- T0 – Confirmed transfer to another school district within Washington

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- Student whose transcripts and/or student records have been requested by another school/district in Washington or the district can identify the student as enrolled in another school/district in Washington using our state level student reporting system
- Student whose transcript and/or student records have been requested by a local community/technical college high school completion program who is confirming enrollment
- T1 – Confirmed transfer from one school to another within the same district
  - The student has moved enrollment, changed schools, within the district and is actively enrolled and participating in education
- T2 – Confirmed transfer to private or Home school within Washington
  - Student's parent/guardian have filed a signed 'Intent to Provide Home-Based Instruction' with the school/district or the student's transcripts and/or student records have been requested by a private school in Washington along with information that the student is being enrolled in the private school
- T3 – Confirmed transfer out of Washington
  - Student whose transcripts and/or student records have been requested by a school/district outside of Washington,
  - Student was enrolled in the school/district as a foreign exchange student, their exchange term has ended, and the student has returned to their home country,
  - Student's parent/guardian is a member of the military and confirmation is received that the family has moved out of the country,
  - Student and their parent/guardian have moved out of the country for work purposes and confirmation is received that the family has moved out of the country, or
  - Student meets the district policy for confirmation of leaving the U.S. to return to their country of origin
- TM – Confirmed transfer to medical facility with confirmation of educational services
  - Student is in care of a medical facility and confirmation that the student is received that educational services are being provided

Confirming transfers for students who become enrolled in school outside of Washington public schools can be done in a variety of ways. Below are examples of information that would allow a student to be submitted with a confirmed transfer withdrawal code:

- Written request for records from enrolling school/district
- Faxed request for records from enrolling school/district
- Sending school/district may contact the school/district of reported enrollment and obtain verification of a student's enrollment

Aside from the transfer codes mentioned above, OSPI also has another transfer code that they can use for unconfirmed transfers (U3). The unconfirmed transfer code gets inputted whenever a student's enrollment is stopped with an unclear reason. These reasons are commonly attributed to families moving out of the LEA, moving to another state, military service, and more. For reporting purposes, any unconfirmed transfer codes are treated as dropouts until a reason can be provided otherwise.

Regardless of the manner in which the request for records or verification of enrollment is received, it is the responsibility of the sending school/district to ensure the request is valid and that the information will hold up to audit and review.

Lisa mentioned the specific deadline, the federal requirement to report annual graduation rates, and where to find guidance on reporting the adjusted cohort rate

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is communicated to all Educational Service District Superintendents, School District Superintendents High School and Middle School Principals, District Data Administrators, and CEDARS District Administrators through GovDelivery, which sends a notification in EDS, as well as in the form of an email (**Key internal control #1 - Information and Communication**). OSPI regularly provides LEA's with these policies and procedures for documenting the removal of a student from the regulatory adjusted cohort, OSPI provides districts with user guides and handbooks containing instructions on how to do so (**Key Control #2 - Information and Communication**). These resources include the CEDARS reporting guidance available on OSPI's website and Tableau user guides/bulletins made available in ESD; both of which are reviewed and updated annually by Lisa Ireland.

From our understanding of the internal controls (See. Internal Control Document - Special Tests and Provisions - Annual Report Card, High School Graduation Rate) and the feedback from the Department we identified the following key controls:

## Key Internal Controls Identified

**Key Control #1:** OSPI informs school districts of the requirement to report cohort data and the deadline to report it by in an annual notification sent out through GovDelivery (**Information and Communication**).

**Key Control #2:** To ensure OSPI provides LEA's with appropriate policies and procedures for documenting the removal of a student from the regulatory adjusted cohort, OSPI provides districts with user guides and handbooks containing instructions on how to do so. These documents are readily available to LEAs and the public on OSPI's website (**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 to determine if we can place reliance on the controls.

## C.7.PR.G - 84.010-Title I, Part A - OSPI

**Procedure Step:** N. Special Tests and Provisions #4 - Assessment System Security - Controls

**Prepared By:** BAB, 10/18/2022

**Reviewed By:** MKH, 12/5/2022

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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:

- Special Tests and Provisions #4 - Assessment System Security

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to Special Tests and Provisions #4 - Assessment System Security

To provide a preliminary control risk assessment based upon our understanding of the internal controls for Special Tests and Provisions #4 - Assessment System Security

**Source:**

Christopher Hanczrik, Director of Assessment Operations

Kimberly DeRousie, State Test Coordinator

Amy Harris, Director of Federal Fiscal Policy and Grants

**Conclusion:**

- Special Tests and Provisions #4 - Assessment System Security

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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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>**.

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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).

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 Special Tests and Provisions.

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## N. Special Tests and Provisions

### 4. Assessment System Security – (SEAs/LEAs)

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

**Audit Objectives** - Determine whether SEAs and LEAs have implemented policies and procedures regarding test security for the assessments.

### 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.

*The specified audit objective is to determine whether SEAs have implemented appropriate policies and procedures regarding test security for assessments. The suggested audit procedure is to review SEA policies and procedures that ensure the SEA and LEAs implement test security measures and verify that the SEA has implemented these policies and procedures. We will not review and test the suggested audit procedures for LEAs since these are local entities and not direct to our audit.*

We met with Christopher Hanczrik, Director of Assessment Operations; Kimberly DeRousie, State Test Coordinator; and Amy Harris, Audit Liaison on July 11, 2022 to gain an understanding of OSPI's policies and procedures for assessment system security.

Christopher and Kimberly explained that under state law, personal information in any files maintained for students in public schools is not subject to the Public Records act, per [RCW 42.56.230](#). Therefore, assessments developed by the state and the data collected by these assessments must be secure. [RCW 28A.655.070](#) tasks OSPI with developing academic learning requirements and assessments.

Every LEA in the state has a designated assessment coordinator called a District Test Coordinator who is responsible for acting on behalf of OSPI and developing an assessment security plan for that LEA. Ensuring assessment security is the responsibility of the District Test Coordinators, the School Test Coordinators, and all staff who have responsibility in the administration of state assessments or access to secure testing materials. OSPI has developed guidance on how to properly manage and administer assessments in compliance with the law, which is provided to the assessment coordinator through manuals, training modules, tools, templates, and other documents.

The test administration process is typically the same from year to year, but the guidelines on professional standards - which include assessment security - are reviewed and updated each year by the Assessment Operations Team (consisting of 5 people including Christopher and Kimberly) at OSPI, and are then posted to the Washington Comprehensive Assessment Program (WCAP) portal website prior to when test administration begins for the school year. The WCAP portal is

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a District Test Coordinators (DCs) access point for the Washington assessment system tools and resources. It includes information to support School Test Coordinators, Technology Coordinators, Test Administrators (proctors), and students and families. The guidelines are also updated throughout the year with new information, as needed. The manuals, training modules, and tools can all be found on the WCAP portal. **(Key internal control #1 - Information and Communication)**

After an LEA has conducted its assessments, the assessment coordinator for that LEA is responsible for submitting a security report to OSPI called a District Administration and Security Report (DASR). at the conclusion of the testing cycle. In previous years, the Assessment Operations team would receive the DASR reports and would then input them in a tracking spreadsheet, but were unable to identify whether or not there were Districts that performed assessments and did not submit the DASR. New protocols developed with the intent to conduct monitoring was to begin in the spring of 2020. This includes the following:

The Assessment Operations team works with the Assessment Analyst (who receives student level testing data from all districts) to identify a list of LEA's that administered each assessment. The Assessment Operations team then receives the DASR reports from the LEA's and records them in a DASR tracking spreadsheet. The Assessment Operations team then checks the list of LEA's that administered each assessment against the tracking spreadsheet that contains all DASRs received. If a report doesn't come in, communication is sent out to the assessment coordinator notifying them that their DASR is outstanding. There is a standard template this communication is based on, and it is altered to address whichever school district didn't submit a report. The district security report template includes an explanation of the requirements for ensuring assessment security and how to complete and submit the report. **(Key internal control #2 - Monitoring)**

The primary resource that puts forth the policies and procedures to follow on assessment security is called the Professional Standards and Security, Incident, and Reporting Guidelines - PIRG. The PIRG includes sections that explain, citing RCWS and WACs, the professional standards and ethical practices, duties and responsibilities, and policies and security requirements for administering assessments. It also covers how to respond to test security incidents, what to expect from the investigation process (in the event that an investigation must be done) and reporting resources. Previously, the LEAs were required to submit DASRs within five days of the state testing window had closed. For the audit period, this deadline was changed and The PIRG now states that a DASR "must be submitted to OSPI through ARMS, no more than ten business days after the conclusion of each test administration. Both superintendent and DAC signatures are required on this report."

There is also an assessment webpage on OSPI's [website](#) with links to resources for assessment coordinators, manuals, the WCAP portal, and contact information for additional help.

From our understanding of the internal controls and the feedback (Internal Control Document - Special Tests and Provisions - Assessment System Security) from the Department we identified the following key controls:

### **Key Controls Identified:**

**Key Control #1:** On an annual basis, the Assessment Operations Team creates and updates policies and procedures addressing assessment security based on state laws and requirements, and includes them in the Professional Standards and Security, Incident, and Reporting Guidelines (PIRG), which is available to districts through the WCAP portal (Information and Communication).

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**Key Internal Control #2:** The OSPI Assessment Operations Team uses a spreadsheet to record and track security reports (DASRs) they receive, and determine which reports have not been submitted so action can be taken (Monitoring).

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

**FY21 Finding Update:**

In FY21, OSPI received a finding (2021-021) in this area for not having adequate internal controls and not complying with federal requirements. We reviewed the CAP, see 2021-021 CAP.

**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.7.PR.G - 84.010-Title I, Part A - OSPI**

***Procedure Step:*** N. Special Tests and Provisions #5 - Oversight and Monitoring Responsibilities with respect to Charter Schools - Controls

***Prepared By:*** BAB, 3/23/2023

***Reviewed By:*** MKH, 4/24/2023

|                     |
|---------------------|
| 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:

- **Special Test & Provision 5 - Oversight and Monitoring Responsibilities with Respect to Charter Schools with Relationships with Charter Management Organizations**

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to **Special Test & Provision 5 - Oversight and Monitoring Responsibilities with Respect to Charter Schools with Relationships with Charter Management Organizations**.

To provide a preliminary control risk assessment based upon our understanding of the internal controls **Special Test & Provision 5 - Oversight and Monitoring**

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## Responsibilities with Respect to Charter Schools with Relationships with Charter Management Organizations.

### Source:

Charter School Commission Staff:

- Charmaine McCladdie - Temporary Executive Assistant
- Jess Saven Barton - Director of School Quality and Accountability
- Kara Lowe - Director of Operations
- Jessica De Barros - Interim Executive Director

OSPI Staff:

Amy Haris - Director of Federal Fiscal Policy and Grants Management

Jason Miller - Executive Director of Elementary Education, Early Learning, Special Programs & Federal Accountability

### Conclusion:

#### **Special Test & Provision 5 - Oversight and Monitoring Responsibilities with Respect to Charter Schools with Relationships with Charter Management Organizations**

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 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)

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- (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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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).

Record of Work Done:

### **Inherent Risk of Noncompliance**

#### **Step 1**

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 risks when designing our tests of compliance.

- This is a new special test in the compliance supplement
- The Department of Education has determined Charter Schools with Relationships to Charter Management Organization to be a high risk area.

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 20**

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 5. Oversight and Monitoring Responsibilities with respect to Charter Schools with Relationships with Charter Management Organizations**



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

**Compliance Requirements** As grantees, SEAs/LEAs are responsible for overseeing and monitoring subrecipients, including charter schools with relationships with Charter Management Organizations (CMOs). The SEA/LEA must: (1) evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining appropriate subrecipient monitoring (2 CFR section 200.331(b)); and (2) monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved (2 CFR section 200.331(d)). Charter schools with relationships with CMOs that receive federal grant funds must comply with statutes authorizing the applicable grant program, regulations, the terms and conditions of their grant awards, and relevant department-issued guidance. Additionally, under Title 2 of the Code of Federal Regulations Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grant Guidance), nonfederal entities that receive federal grants: (1) must establish and maintain effective internal controls over those funds and (2) should have internal controls that comply with the US Government Accountability Office (GAO) “Standards for Internal Control in the Federal Government” (Green Book), issued in November 1999 and updated in September 2014, or the “Internal Control – Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992 and updated in May 2013. The Green Book and the COSO Internal Control – Integrated Framework (COSO framework) provide specific requirements for assessing and reporting on controls in the federal government.

Additional requirements applicable to nonfederal entities receiving federal funds include:

- (1) the Code of Federal Regulations (CFR) requirements regarding conflicts of interest,
- (2) guidance regarding related-party transactions in generally accepted accounting principles, (3) the GAO Green Book and COSO framework guidance regarding segregation of duties applicable to charter schools with relationships with CMOs.

**Audit Objectives** Determine whether the SEA/LEA is fulfilling its oversight and monitoring responsibilities with respect to charter schools with relationships with CMOs and whether the SEA/LEA has effective internal controls to mitigate identified risks.

**Suggested Audit Procedures (SEA/LEA, depending on which entity is responsible for oversight and monitoring of charter schools with relationships with CMOs)**

- a. Determine if the entity has subrecipient monitoring policies and procedures that include a review of charter schools with relationships with CMOs, including procedures to assess the risk posed by conflicts of interest, related party transactions, and insufficient segregation of duties.
- b. Determine whether the entity's subrecipient monitoring policies and procedures with regard to charter schools with relationships with CMOs have been implemented.
- c. Review documentation of subrecipient monitoring of charter schools with relationships with CMOs, including review of monitoring reports and follow-up activities to track the correction of identified noncompliance, such as completion of corrective action plans.

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d. Determine whether the entity has internal controls designed to provide reasonable assurance that charter schools with relationships with CMOs have effective controls to mitigate financial risks, provide for accountability over federal funds, and mitigate performance risks.

### 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. charter schools

In discussions with OSPI and after the review of RCW 28A.710.070, we determined that this Special Test and Provision falls under the responsibility of the Washington State Charter School Commission (CSC).

On January 9, 2020, we met with the Charter School Commission to discuss their role in ensuring compliance with this Special Test. The following CSC staff were in attendance:

- Charmaine McCladdie - Temporary Executive Assistant
- Jess Saven Barton - Director of School Quality and Accountability
- Kara Lowe - Director of Operations
- Jessica De Barros - Interim Executive Director

OSPI Staff were also present during this meeting:

- Amy Harris - Director of Federal Fiscal Policy and Grants Management
- Jason Miller - Executive Director of Elementary Education, Early Learning, Special Programs & Federal Accountability

During this meeting, we were informed that the Charter School Commission does not perform fiscal monitoring or oversight of Title I, Part A funds. Per our understanding, OSPI remains responsible for subrecipient monitoring of the Title I, Part A program and is responsible for the direct pass through funds. We inquired with the Commission about the steps that they take to evaluate conflicts of interest, related party transactions and segregations of duties at charter schools with relationships to Charter Management Organizations (CMOs). Jessica De Barros informed us that the Commission oversees a lot of activity for each charter school, including those with relationships to charter management organizations. There are two Charter Management Organizations in Washington State: Impact (Puget Sound, Salish Sea, and Commencement Bay) and Summit (Atlas, Olympus, and Sierra).

We were informed that the first step of charter oversight begins in the contracting process with each charter school. **Each school that is part of a CMO has individual contracts with The Commission. A charter school representative and The Commission must both sign the contract, accepting applicable requirements, laws, and regulations. (Key Control #1 - Information and Communication).** Jessica De Barros informed us that the charter school contracts for each school are renewed in the last year of their term. All newly authorized charters receive a 5-year contract. Upon renewal, the Commission reserves the ability to renew a contract for less than the standard 5 years. Due to the ability to renew contracts in shorter terms, the Commission is able to renew contracts for a minimum of one year and a maximum of 5 years. All charter contracts, including a sample template can be found on the Commission website ([Contracts - WA](#))

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[Charter School Commission](#)).STP - contractThe Commission informed us that violation of the contract by the charter school is grounds for corrective action. The steps of corrective action are as follows: notice of inquiry, notice of perceived problems, corrective action, and revocation of the contract as a last resort option.

Following the contract execution, the Commission also conducts financial oversight for each charter school. Every charter school is required to provide quarterly financial reports to the commission and submit annual financial audits conducted by an independent CPA. All charter schools must complete an Annual Financial Statements Report (F-196) to OSPI each year. The F-196 report is reviewed by the Commission for accuracy. The Commission performs additional financial monitoring in regards to enrollment data and provides annual reports on annual financial audits conducted on charters.

The majority of work that the Commission performs in regards to the oversight of charter schools with CMOs falls under board oversight and monitoring. We were informed that the commission conducts rigorous oversight of the CMO boards for compliance with contracts, articles, bylaws, and applicable laws. **The Commission begins monitoring of charter boards by requiring that each board member annually submit personal financial affairs statements to the Commission (Key Control #2 - Monitoring).** The charter school boards must also alert the Commission to any changes in board membership by submitting updated board rosters, and must also submit resumes, assurance of public meeting training, personal financial affairs disclosures, and compliance with each school's conflict of interest policies. The Commission then follows up with each board by attending board meetings annually. **The Commission staff attend charter board meetings and review reports/minutes at least quarterly to evaluate each school for compliance with contracts and other applicable laws. (Key Control #3 - Monitoring)**

In response to our internal control request, [check the attachment C.7.22](#)the Commission provided us a document outlining all of the steps that they take in regards to charter school and CMO oversight; see ([Internal Controls Title I Part A Audit 022223](#)).

## **Summary of Key Controls:**

**Key Control #1** - Each school that is part of a CMO has individual contracts with the Commission. A charter school representative and The Commission must both sign the contract, accepting applicable requirements, laws, and regulations. **(Information and Communication).**

**Key Control #2** - The Commission begins monitoring of charter boards by requiring that each board member annually submit personal financial affairs statements to the Commission **(Monitoring).**

**Key Control #3** - The Commission staff attend charter board meetings and review reports/minutes at least quarterly to evaluate each school for compliance with contracts and other applicable laws. **(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 to determine if we can place reliance on the controls.

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## C.8.PR.G - 84.027/173-Special Education Cluster (IDEA) - OSPI

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

**Prepared By:** BAB, 8/29/2022

**Reviewed By:** MKH, 12/12/2022

### 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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

#### **Source:**

Cyndie Hargrave - Director of Special Education Program, OSPI

Tania May - Assistant Superintendent of Special Education, OSPI

Amy Harris - Director of Federal Fiscal Policy and Grant Management

#### **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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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).

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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).

### ----- **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.

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**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:

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



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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 circumstances in the following sections of this part:

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- (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 treated as a direct cost, a department should only request reimbursement for this type of cost if permitted under the terms of its grant

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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)<br/>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 <b>types</b> 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 <b>only</b> 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 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.

**Note: New provisions that have been added to UG:**

2CFR 200.215 – Never contract with the enemy (effective November 12, 2020)

2CFR 200.216 - Prohibition on certain telecommunications and video surveillance services or equipment (Effective August 13, 2020)

**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, to determine which activities and costs are allowed or unallowed. SEA's and LEA's allowable activities for use of grants. We identified the following from the compliance supplement:

**A. Activities Allowed or Unallowed**

See also Part 4, 84.000 ED Cross-Cutting Section.

**1. SEAs**

Allowable activities for SEAs are sub-granting funds to LEAs and State administration, and other State-level activities (see Section III.G.3, "Matching, Level of Effort, Earmarking – Earmarking," for a further description of these activities).

**2. LEAs**

- a. IDEA, Part B – An LEA may only use Federal funds under IDEA, Part B for the excess costs of providing special education and related services to children with disabilities. Special education includes specially designed instruction, at no cost to the parent, to meet the unique needs of a child with a disability, including instruction conducted in the classroom, in the home, in hospitals and institutions and in other settings, and instruction in physical

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education. Related services include transportation and such developmental, corrective and other supportive services as may be required to assist a child with a disability to benefit from special education. Related services do not include a medical device that is surgically implanted or the replacement of such device. A portion of these funds, under conditions specified in the law, may also be used by the LEA (1) for services and aids that also benefit non-disabled children; (2) for early intervening services; (3) to establish and implement high-cost or risk-sharing funds; and (4) for administrative case management. Excess costs are those costs for the education of an elementary school or secondary school student with a disability that are in excess of the average annual per student expenditure in an LEA during the preceding school- year. LEAs are required to compute the minimum average amount of per pupil expenditure separately for children with disabilities in its elementary schools and for children with disabilities in its secondary schools, and not on a combination of the enrollments in both. Appendix A to 34 CFR part 300 provides detailed guidance and an example for calculating the average per pupil expenditures and the minimum average amounts that the LEA must spend before using IDEA funds (20 USC 1401(8), (26) and (29); 20 USC 1413(a)(2) and (4); 34 CFR sections 300.16, 300.34, 300.39, 300.202, and 300.208).

b. IDEA Preschool – An LEA may use Federal funds under the Preschool Grants Program only for the costs of providing special education and related services (as described above) to children with disabilities ages three through five and, at a State’s discretion, providing a free appropriate public education to 2-year-old children with disabilities who will turn three during the school year (20 USC 1419(a); 34 CFR section 300.800).

Certain compliance requirements that apply to multiple ED programs are discussed once in the ED Cross-Cutting Section of this Supplement (page 4-84.000-1) rather than being repeated in each individual program. Where applicable, this section references the ED Cross-Cutting Section for these requirements.

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

See also Part 4, 84.000 ED Cross-Cutting Section.

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

2 CFR §300.202 *Use of Amounts*, states in part:

(a) General. Amounts provided to the LEA under Part B of the Act—

(1) Must be expended in accordance with the applicable provisions of this part;

(2) Must be used only to pay the excess costs of providing special education and related services to children with disabilities, consistent with paragraph

(b) of this section; and

(3) Must be used to supplement State, local, and other Federal funds and not to supplant those funds.

(b) Excess cost requirement—

(1) General.

(i) The excess cost requirement prevents an LEA from using funds provided under Part B of the Act to pay for all of the costs directly attributable to the education of a child with a disability, subject to paragraph (b)(1)(ii) of this section.

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(ii) The excess cost requirement does not prevent an LEA from using Part B funds to pay for all of the costs directly attributable to the education of a child with a disability in any of the ages 3, 4, 5, 18, 19, 20, or 21, if no local or State funds are available for non-disabled children of these ages. However, the LEA must comply with the non-supplanting and other requirements of this part in providing the education and services for these children.

(2) (i) An LEA meets the excess cost requirement if it has spent at least a minimum average amount for the education of its children with disabilities before funds under Part B of the Act are used.

(ii) The amount described in paragraph (b)(2)(i) of this section is determined in accordance with the definition of excess costs in §300.16. That amount may not include capital outlay or debt service.

(3) If two or more LEAs jointly establish eligibility in accordance with §300.223, the minimum average amount is the average of the combined minimum average amounts determined in accordance with the definition of excess costs in §300.16 in those agencies for elementary or secondary school students, as the case may be.

In addition, 2 CFR §300.208 *Permissive Use of Funds*, states in part:

(a) Uses. Notwithstanding §300.202, 302.203(b), and 300.162(b), funds provided to an LEA under Part B of the Act may be used for the following activities:

(1) Services and aids that also benefit non-disabled children. For the costs of special education and related services, and supplementary aids and services, provided in a regular class or other education-related setting to a child with a disability in accordance with the IEP of the child, even if one or more non-disabled children benefit from these services.

(2) Early intervening services. To develop and implement coordinated, early intervening educational services in accordance with §300.226.

(3) High cost special education and related services. To establish and implement cost or risk sharing funds, consortia, or cooperatives for the LEA itself, or for LEAs working in a consortium of which the LEA is a part, to pay for high cost special education and related services.

(b) Administrative case management. An LEA may use funds received under Part B of the Act to purchase appropriate technology for record keeping, data collection, and related case management activities of teachers and related services personnel providing services described in the IEP of children with disabilities, that is needed for the implementation of those case management activities.

### Indirect Costs

The Agency has recovered indirect costs via the attached Indirect Cost Plan: FY 2022 Indirect Cost Plan 2021-117. All SPED Indirect costs were captured under program index 26AN1. We ran a Web intelligence expenditure report (SPED FY22 Expenditures 6 2 2022) and determined that total indirect costs were \$376,446 out of \$264,685,384 total grant expenditures (less than 1%). **We determined indirect costs are not material to the program.**

### Material Expenditures

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, \$215,965,256.29 SPED FY22 Expenditures 6 2 2022

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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 review all of the Department's written policies and procedures related to the compliance area as part of gaining an understanding of internal controls related to Activities Allowed/Cost Principles. We were provided the following: Use of Funds IDEA Part Band Internal Control request letter - Activities Allowed-Cost Principles

### Understanding

During planning, we noted there was a previous audit finding, 2021-022 - The Office of Superintendent of Public Instruction did not have adequate internal controls over and did not comply with federal requirements to ensure payments to subrecipients were adequately supported for the Special Education program. During this gaining of understanding we will identify if the process has taken any corrective action.

On Friday, July 1 2022, we met with Cyndie Hargrave, Tania May, and Amy Harris to gain an understanding of the internal controls over the agency has in place to ensure expenditures are allowable and made in accordance with federal requirements.

Cyndie informed us that Fiscal staff make several tools available to ensure that LEAs are aware of the activities allowed/cost principles for IDEA Part B funds. These tools are published on the SpEd website and are as follows:

- IDEA Part B Budget Information link provided in iGrants on the district's profile page
- The Use of Funds: Individuals with Disabilities Education Act (IDEA) Part B bulletin
- Unlocking Federal and State program Funds to Support Student Success
- FAQs from the U.S. Department of Education on Appropriately Using Federal Funds for Conferences and Meetings

The Director of Operations and Fiscal Program Supervisor also provide technical assistance, conduct training, and present at ESD meetings and/or conferences on allowable uses of the Part B IDEA funds. **(Information and Communication)**

Cyndie stated that LEAs submit claims via the grants management claims system and SpEd fiscal staff do not have access to the claims system and rely on the grants management team to evaluate claims submissions.

OSPI serves as the pass-through for the LEAs on a reimbursement basis throughout the school year. Within iGrants, each sub-recipient must complete both the general assurances and specific Special Ed assurances, e-sign, and submit them as part of their application, which are then reviewed and approved by program and fiscal staff prior to sub-recipients receiving their preliminary awards. After receiving their preliminary awards, sub-recipients must submit budgets with expected activity expenditures by expense category. **Program and fiscal staff review the proposed budget requests to ensure that the identified expense categories are allowable per grant regulations and that they appear reasonable. (Key Control 1: Control Activities)**

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A sub-recipient can submit claims through the Grants Claim System, one of the applications accessible within the Education Data System (EDS). The sub-recipient inputs costs in the expenditure matrix based on the budget they submitted as part of the application approval process. The system will check what the sub-recipient has input against their budget information and will not let the LEA submit the claim *unless* funds were budgeted in the specific budget line items and funds are still available. Claims are processed at the end of the month. LEAs are not required to submit any supporting documentation with the reimbursement requests. LEAs considered high risk may be reviewed further and supporting documentation may be requested. Low risk LEAs will not have any further reviews prior to the reimbursement being processed and paid.

As districts complete their application and budget and the program staff approve them, this allows the budget to be exported to the claims system. Sub-recipients are then able to claim expenditures through sub-object coding within the Grants Claim System. **Hard edits in the Grants Claim System prevent LEAs from claiming reimbursement in unapproved budget categories and also prevent LEAs from claiming reimbursements in excess of approved budgets (Key Control #2: Control Activity).** Expenditure claims in any given category can exceed the budget for that category *by 10% of the total sub-award* without needing further approval. *However*, this will reduce the amount of available funds left for use in other categories because the sub-recipient's total spending still may not exceed 100% of their sub-award. If the amount claimed for any expenditure category varies more than 10% of the total sub award, the sub-recipient must initiate a budget revision in iGrants. Once approved by the OSPI program staff, the new budget will be exported to claims to allow the sub-recipient to claim the funds. If a sub-recipient attempts to exceed their sub-award, iGrants would reject the reimbursement request and report an error code. The Grants Claim System is directly linked to iGrants. It is not possible for a sub-recipient to submit a reimbursement request unless an approved budget has first been established and the general assurances page has been signed and agreed to by the LEA within iGrants.

**Fiscal monitoring is also done on sub-recipients (LEA's and ESD's) selected for monitoring each year to ensure funds expended were for allowable activities and were spent in accordance with cost principle requirements. (Key Control 3: Control Activity/Risk Assessment)** OSPI received a finding in 2021-022. This was a follow up finding from an issue identified in the FY20 SPED audit. Program staff did not perform adequate fiscal monitoring of LEAs. Instead of selecting samples from the entire population of reimbursement requests when performing fiscal monitoring, OSPI allowed the LEAs to select samples at their discretion and send supporting documents as they saw fit. The program developed and began piloting a new fiscal monitoring process based on the previous finding to increase fiscal documentation review of LEAs. For FY22, LEAs were monitored on-site by Cyndie and the Washington Integrated System of Monitoring (WISM) team. The monitoring of activities allowed by subrecipients will be looked at under [M. Subrecipient Monitoring - Controls]

From our understanding of the internal controls and the feedback (Internal Control request letter - Activities Allowed-Cost Principles) from the Department we identified the following key controls:

### Summary of Key Controls:

**Key Control #1:** Program and fiscal staff review and approve applications and budgets prior to awarding funds to ensure they only include allowable activities and costs. (Control Activities)

**Key Control #2:** Hard edits in the Grants Claim System prevent LEAs from claiming reimbursement in unapproved budget categories and also prevent LEAs from claiming reimbursements in excess of approved budgets (Control Activity).

**Key Control #3:** Each year, program staff perform fiscal monitoring on selected sub-recipients to ensure funds expended were for allowable activities and were spent in accordance with cost principle requirements. (Control Activity/Risk Assessment)

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

# State of Washington

## **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.8.PR.G - 84.027/173-Special Education Cluster (IDEA) - OSPI**

***Procedure Step:*** G. Level of Effort - Controls

***Prepared By:*** BAB, 9/7/2022

***Reviewed By:*** MKH, 9/8/2022

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 key internal controls the agency has established to prevent or detect noncompliance with level of effort requirements.

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

### **Source:**

- Amy Harris, Director of Federal Fiscal Policy and Grants Management  
Cyndie Hargrave, Special Education Director of Operations

### **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**

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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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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:**

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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).

### 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 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 reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement, to determine specific requirements for Level of Effort. The department advised that they receive the maintenance of financial support for special education and related services from the budget allotments authorized by the state legislature for special education funding. They follow the compliance guidelines to ensure that the LEA's and SEA's are in compliance.

## **Level of Effort**

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

#### *a. SEAs – Maintenance of State Financial Support*

- (1) A State may not reduce the amount of State financial support for special education and related services for children with disabilities (or State financial support otherwise made available because of the excess costs of educating those children) below the amount of State financial support provided for the preceding fiscal year. The Secretary reduces the allocation of funds under 20 USC 1411 for any fiscal year following the fiscal

## State of Washington

year in which the State fails to comply with this requirement by the amount by which the State failed to meet the requirement.

If, for any fiscal year, a State fails to meet the State-level maintenance of effort requirement, the financial support required of the State in future years for maintenance of effort must be the amount that would have been required in the absence of that failure (or waiver) and not the reduced level of the State's support.

(2) For any fiscal year for which the Federal allocation received by a State exceeds the amount received for the previous fiscal year and if the State pays or reimburses all LEAs within the State from State revenue 100 percent of the non-federal share of the costs of special education and related services, the SEA may reduce its level of expenditure from State sources by not more than 50 percent of the amount of such excess.

(3) For the purposes of establishing an LEA's eligibility for an award for a fiscal year, the SEA must determine that the LEA meets the eligibility standard.

### *b. LEAs – Local Maintenance of Effort*

#### (1) General

IDEA, Part B funds received by an LEA cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year. To meet this requirement, LEAs must meet (1) the eligibility standard and (2) the compliance standard. These standards are described in detail below in paragraphs b.(2) and (3), respectively.

#### (2) Eligibility Standard

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

- (i) Local funds only;
- (ii) The combination of State and local funds;
- (iii) Local funds only on a per capita basis; or
- (iv) The combination of State and local funds on a per capita basis.

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

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

(c) Expenditures made from funds provided by the Federal Government for which the SEA is required to account to the Federal

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Government or for which the LEA is required to account to the Federal Government directly or through the SEA may not be considered in determining whether an LEA meets the eligibility standard (34 CFR section 300.203(a)).

### (3) Compliance Standard

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

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

- (i) Local funds only;
- (ii) The combination of State and local funds;
- (iii) Local funds only on a per capita basis; or
- (iv) The combination of State and local funds on a per capita basis.

Expenditures made from funds provided by the Federal Government for which the SEA is required to account to the Federal Government or for which the LEA is required to account to the Federal Government directly or through the SEA may not be considered in determining whether an LEA meets the compliance standard.

### (4) Subsequent Years Rule

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

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

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

### (5) Consequence of Failure to Maintain Effort

## State of Washington

If an LEA fails to maintain its level of expenditures for the education of children with disabilities in accordance with 34 CFR section 300.203(b), the SEA is liable in a recovery action under Section 452 of the General Education Provisions Act (20 USC 1234a) to return to the Department of Education, using non-Federal funds, an amount equal to the amount by which the LEA failed to maintain its level of expenditures in accordance the compliance standard in that fiscal year, or the amount of the LEA's Part B subgrant in that fiscal year, whichever is lower.

(6) Adjustment to Local Fiscal Effort

For any fiscal year for which the Federal allocation received by an LEA exceeds the amount received for the previous fiscal year, the LEA may reduce the level of local or State and local expenditures by not more than 50 percent of the excess. If an LEA exercises this authority, it must use an amount of local funds equal to the reduction in expenditures under Section 1413(a)(2)(C)(i) to carry out activities authorized under the Elementary and Secondary Education Act (ESEA) of 1965. The amount of funds expended by the LEA for early intervening services counts toward the maximum amount of State and local expenditures that the LEA may reduce. However, if an SEA determines that an LEA is unable to establish and maintain programs of FAPE that meet the requirements of Section 1413(a) or the SEA has taken action against the LEA under Section 1416, the SEA shall prohibit the LEA from reducing its local or State and local expenditures for that fiscal year. If, in making its annual determinations, an SEA determines that an LEA is not meeting the requirements of Part B of the IDEA, including the targets in the State's performance plan, the SEA must prohibit the LEA from reducing its maintenance of effort.

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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 the Department provide their written policies and/or procedures, and internal controls related to Activities Allowed/Cost Principles. We obtained the following from the OSPI website: ([IDEA, Part B MOE Guidance Handbook](#)) and ([IDEA, Part B MOE Allowable Exceptions](#)) along with internal controls provided ([Internal Control request letter - Level of Effort](#))

### Understanding

On July 1, 2022, we met with Special Education Director of Operations, Cyndie Hargraves, Special Education Program Supervisor, and Amy Harris, Director of Federal Fiscal Policy and Grants Management and Audit Liaison to discuss Level of Effort requirements for Special Ed.

### **The Maintenance of Financial Support (MFS)**

We asked Cyndie how the agency ensures the required amount is spent on special education and related services and how it accounts for all state funds spent on those services.

The Maintenance of Financial Support (MFS) for special education and related services comes from the budget allotments authorized by the state legislature for special education funding. The Center for IDEA Fiscal Reporting (CIFR) has a tool that they use to manage and track MFS requirements. The Fiscal Program

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Supervisor initially contacts the following state agencies (agency contacts are provided in the spreadsheet template) in January to determine how much, if any, state funds were used for SpEd services:

- Center for Deaf and Hard of Hearing Youth (CDHY)
- Washington State School for the Blind (WSSB) – funds special education services provided to visually impaired youths ages birth to 21
- Health Care Authority (HCA) – funds school-based health care special education services as part of Medicaid
- Department of Social and Health Services (DSHS) Division of Vocational Rehabilitation (DVR)
- DSHS Division of Behavioral Health Recovery (DBHR)
- DSHS – provides funding to the Fircrest Residential Habilitation Center in Shoreline; 16-21 population
- DSHS Special Health Care Needs
- Department of Services for the Blind (DSB)

If the Fiscal Program Supervisor does not receive a response from the above mentioned state agencies, they will send a follow-up e-mail in February. The state agencies certify the amounts spent on special education services.

Yearly communication sent out to agencies each year, a tracking tool, and a letter sent explaining what they are looking for by Cyndie Hargrave. A sample of this Communication at ([State Agency MOE Email](#)) and ([2020-21 MFS Letter\\_HCA](#)) and Use of funds bulletin at ([2020-21 Agency MFS Reporting Template](#)). please make sure to sign off on

State funds are also appropriated for the Safety Net proviso grant that funds High Needs Individuals and services impacted by community situations (e.g. foster care, homelessness, transitory, and military populations). Safety Net funds services that exceed an LEA's available revenues. These funds are managed within the SpEd Operations Unit and will have the award data needed for the report.

The Fiscal Program Supervisor contacts the Supervisor of School District/ ESD Financial Reporting to determine how much of the state special education funds were provided to the LEAs. The Fiscal Program Supervisor verifies the amount of expenditures needed to meet MFS using the previous year's expenditures. Washington has never failed to meet its MFS obligation. Once the amounts are provided and reconciled, the report is provided to the Director of Operations and SpEd Assistant Superintendent for their reviews. **Their approvals are indicated in an email to the Program Supervisor who prepared and reconciled the report. (Key Control 1: Control Activities)** When complete, the report is sent to the Office of Financial Management (OFM) SpEd State Budget Officer for certification. OSPI must submit the MFS report to the federal grantor in mid-February each year as part of the Part B Annual State Application for the Special Ed cluster.

The state MFS amount reported each year is applicable to the closed prior school year - for example, the amount of state MFS reported in February 2019 as part of the State Application for the upcoming 2019-20 school year is what was spent during the 2017-18 school year.

### **Local Educational Service Agency (LEA) Maintenance of Effort (MOE)**

We asked Cyndie how OSPI determines that an LEA meets the MOE standard for receiving an award. She informed us that each year, the MOE calculator is used to determine if the LEA meets MOE. The MOE calculator was developed by the Center for IDEA Fiscal Reporting (CIFR) and is posted on the OSPI SpEd

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website. The instructions for its purpose and use are at: [MOE Calculator Instructions](#) Data from the Program to Resource report (found in the F-196) is pre-populated into the MOE calculator. There is a summary of the LEA's fiscal efforts and the previous FY which is used as a baseline to determine calculations. During the application process, **Special Education staff use a maintenance of effort calculator tool to ensure that the LEA meets eligibility standards for the maintenance of effort requirements, during application process and prior to approving their Special Ed funding applications. (Key Control 2: Control Activities)** If LEA doesn't meet criteria, then Cyndie contacts the LEA and they work through it with the LEA to meet MOE requirements. On OSPI website, under SPED, guidebook handbook on how to use calculator found on the website as well.

The eligibility standard is to determine whether or not the LEA *budgeted* at least the same amount as in previous years. Compliance is determined for the previous funding period, where LEAs must *expend* at least the same amount as in previous years. In the form package for IDEA, on page 2, there is a section that asks for the amounts to be budgeted by LEAs. This section must be completed, and if it is not, OSPI will contact the LEA. The information provided by the LEA gets plugged into the MOE calculator.

IDEA permits LEAs to meet MOE in one of the following areas:

- Total local funds,
- Total state and local funds,
- Local per capita funds, or
- State and local per capita funds.

### Summary of Key Controls

**Key Control #1:** The Program Supervisor compiles and reconciles the Maintenance of Financial Support Report that is reviewed by the Director of Operations and Assistant Superintendent to ensure the agency spends the required amount on Special Education and related services. **(Control Activities)**

**Key Control #2:** Special Education staff use a maintenance of effort calculator tool to ensure that the LEA meets eligibility standards for the maintenance of effort requirements, during application process and prior to approving their Special Ed funding applications. **(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 to determine if we can place reliance on the controls.

### C.8.PR.G - 84.027/173-Special Education Cluster (IDEA) - OSPI

**Procedure Step:** G. Earmarking - Controls

# State of Washington

**Prepared By:** BAB, 11/7/2022

**Reviewed By:** MKH, 12/12/2022

## 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 key internal controls the agency has established to prevent or detect noncompliance with earmarking requirements.

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

### **Source:**

Cyndie Hargrave, Special Education Director of Operations

Amy Harris, Director of Federal Fiscal Policy and Grants Management

Tania May, SPED Assistant Superintendent

### **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**

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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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 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, to determine specific requirements for Earmarking. We identified the following from the compliance supplement:

### **Earmarking**

Individual State grant award documents identify the amount of funds a State must distribute to its LEAs on a formula basis and the amount it can set aside for administration and other State-level activities under paragraphs 3.a. and b. below.

#### *a. IDEA, Part B (SEAs)*

(1) Funds Set Aside for State Administration: Each State may reserve, for each fiscal year, not more than the maximum amount the State was eligible to reserve for State administration under 20 USC 1411 for FY 2004, or \$800,000 whichever is greater. Administration includes the coordination of activities under this part with, and providing technical assistance to, other programs that provide services to children with disabilities. These funds may also be used for the administration of Part C of the IDEA if the SEA is the lead agency.

(2) Funds Set Aside for Other State-Level Activities: The maximum amount a State may reserve for other State-level activities in fiscal year 2007 and subsequent fiscal years is as follows: States, for which the amount reserved for State administration is greater than \$850,000 and the State reserves

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funds for the LEA risk pool, may reserve an amount equal to 10 percent of the State's allocation for fiscal year, adjusted cumulatively for inflation. States, for which the amount reserved for administration is greater than \$850,000 and the State does not reserve funds for the LEA risk pool, may reserve an amount equal to 9 percent of the State's allocation for fiscal year, adjusted cumulatively for inflation. States for which the amount reserved for State administration is less than or equal to \$850,000 and the State reserves funds for the LEA risk pool may reserve an amount equal to 10.5 percent of the State's allocation for fiscal year, adjusted cumulatively for inflation. States for which the amount reserved for administration is less than or equal to \$850,000 and the State does not reserve funds for the LEA risk pool may reserve an amount equal to 9.5 percent of the State's allocation for fiscal year, adjusted cumulatively for inflation. SEAs must use some portion of State-level activity funds for monitoring, enforcement, and complaint investigation, and to establish and implement the mediation process, including providing for the costs of mediators and support personnel.

These funds may also be used:

- (a) for support and direct services, including technical assistance and personnel preparation and professional development and training;
- (b) to support paperwork reduction activities, including expanding the use of technology in the individualized education plan (IEP) process;
- (c) to assist LEAs in providing positive behavioral interventions and supports and appropriate mental health services for children with disabilities;
- (d) to improve the use of technology in the classroom to enhance learning by children with disabilities;
- (e) to support the use of technology, including technology with universal design principals and assisting technology devices, to maximize accessibility to the general education curriculum for children with disabilities;
- (f) for development and implementation of transition programs;
- (g) for assistance to LEAs in meeting personnel shortages;
- (h) to support capacity-building activities and improve the delivery of services by LEAs to improve results for children with disabilities;
- (i) for alternative programming for children with disabilities who have been expelled from school, and services for children with disabilities in correctional facilities, children enrolled in State-operated or State-supported schools, and children with disabilities in charter schools;
- (j) to support the development of and provision of appropriate accommodations for children with disabilities, or the development and provision of alternative assessments that are valid and reliable for assessing the performance of children with disabilities; and
- (k) to provide technical assistance to schools and LEAs and direct services, including supplemental educational services, in schools or LEAs identified for improvement solely on the basis of the assessment results of the disaggregated group of children with disabilities.

(3) LEA Risk Pool: Each State has the option to reserve for each fiscal year 10 percent of the amount of funds the State reserves for other State-level activities: (a) to establish and make disbursements from the high-cost fund to LEAs; and (b) to support innovative and effective ways of cost-sharing by the State, by an LEA, or among a consortium of LEAs, as determined by the State in coordination with representatives from LEAs. For purposes of this provision, the term "LEA" includes a charter school that is an LEA, or a consortium of LEAs.

(4) Formula Subgrants to LEAs: Any funds under this program that the SEA does not retain for administration and other State-level activities shall be distributed to eligible LEAs in the State. An SEA must distribute to each eligible LEA the amount that the LEA would have received, from the fiscal year 1999 appropriation, if the State had distributed 75 percent of its grant for that year to LEAs. (This amount is based on the IDEA-B child count conducted on December 1, 1998.) The SEA must then distribute 85 percent of any remaining funds to those LEAs on the basis of the relative numbers

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of children enrolled in public and private elementary and secondary schools within the LEA's jurisdiction; and then distribute 15 percent of any remaining funds to those LEAs in accordance with their relative numbers of children living in poverty, as determined by the State educational agency.

*b. IDEA, Preschool Grants Program (Section 619) (SEAs)*

- (1) Reservation for State Activities. Each State may reserve, for each fiscal year, not more than the maximum amount of funds that the Secretary determines may be retained by the State for administration and other State-level activities.
  - (a) Funds Set Aside for State Administration: An SEA may use not more than 20 percent of the funds it is allowed to retain for State activities under 20 USC 1419(d) for the purposes of administering this program, including the coordination of activities under Part B of the IDEA with, and providing technical assistance to, other programs that provide services to children with disabilities. These funds may also be used for the administration of Part C of the IDEA.
  - (b) Funds Set Aside for Other State-Level Activities: SEAs shall use funds reserved for State activities that are not used for administration for:
    - (i) support services, which may benefit children with disabilities younger than 3 or older than 5 as long as those services also benefit children with disabilities aged 3 through 5;
    - (ii) direct services for children eligible for services under this program;
    - (iii) activities at the State and local levels to meet the performance goals established by the State;
    - (iv) supplementing other funds used to develop and implement a Statewide coordinated services system designed to improve results for children and families, including children with disabilities and their families, but not to exceed one percent of the amount received by the State under this program for a fiscal year;
    - (v) providing early intervention services (which must include an educational component that promotes school readiness and incorporates pre-literacy, language, and numeracy skills) in accordance with Part C of the IDEA to children with disabilities who are eligible for services under section 619 of the IDEA until such children enter, or are eligible under State law to enter, kindergarten; or
    - (vi) at the State's discretion, continuing service coordination or case management for families who receive services.
- (2) Formula Subgrants to LEAs. Any funds under this program that the SEA does not retain for administration and other State-level activities shall be distributed to eligible LEAs in the State.
  - (a) An SEA must distribute to each eligible LEA the amount the LEA would have received from the fiscal year 1997 appropriation if the State had distributed 75 percent of its grant for that year to LEAs.
  - (b) The SEA must then distribute 85 percent of any remaining funds to those agencies on the basis of the relative numbers of children enrolled in public and private elementary and secondary schools within the agency's jurisdiction; and then distribute 15 percent of any remaining funds to those agencies in accordance with their relative numbers of children living in poverty, as determined by the SEA.
  - (c) If an SEA determines that an LEA is adequately providing a FAPE to all children with disabilities aged 3 through 5 residing in the area served by that agency with State and local funds, the SEA may reallocate any portion of the funds under this program that are not needed by that LEA to provide a FAPE to other LEAs in the State that are not adequately providing special education and related services to all children with disabilities aged 3 through 5 residing in the areas they serve. The SEA may also retain those funds for use at the State level to the extent the State has not reserved the maximum amount of funds it is permitted to reserve for State-level activities.

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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.

#### Internal Control request letter - Earmarking

##### Understanding

We met with Cyndie Hargrave, Special Education Director of Operations and Amy Harris, Director of Federal Fiscal Policy and Grants Management on Friday July 1, 2022 to discuss Earmarking requirements for Special Ed. We asked how OSPI determines the maximum amounts they can reserve for administration and state-level activities, and the minimum amount required to be given as pass-through, for both the Part B and Preschool grants. Cyndie informed us that SPED staff simply follow what the federal grantor tells them in the grant award documents the amounts that OSPI must put aside. They use these amounts in yearly budget and expenditure tracking spreadsheets. Fiscal staff create the budget and tracking spreadsheets based on earmarking requirements laid out within the federal award documents to ensure they reserve the maximum amounts for administration and state level activities, and the minimum amount required to be given to pass-through entities. **(Control Activities)**

When new grants are issued for Special Ed, fiscal staff add the information to their budget and tracking spreadsheet and set aside funds for administrative costs and the Safety Net State Set-Aside. The remaining amounts are passed through to the LEAs. Federal grant regulations require an OSPI to pass-through 85% of grant funds to school districts.

LEAs are required to submit a spending budget with their application which is reviewed and approved by fiscal staff. Cyndie then completes the budget allocation that is launched into iGrants so the LEAs are aware of their budget for the year. We asked how OSPI ensures that that LEAs do not exceed their spending limits and Cyndie said there is no way to exceed their spending budget and the system will not allow them to process the expenditure. Cyndie and the budget team meet once a week to ensure that spending is on track according to the earmark. Additionally, Cyndie also meets with Tania May weekly to discuss any adjustments that might need to be made to the program spending.

##### Summary of Key Controls:

**Key Control #1:** Fiscal staff create their budget and tracking spreadsheet based on earmarking requirements laid out within the federal award documents to ensure they reserve the maximum amounts for administration and state level activities, and the minimum amount required to be given to LEAs. **(Control Activities)**

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

## 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 to determine if we can place reliance on the controls.

## C.8.PRG - 84.027/173-Special Education Cluster (IDEA) - OSPI

**Procedure Step:** H. Period of Performance - Controls

**Prepared By:** BAB, 8/26/2022

**Reviewed By:** MKH, 9/7/2022

### 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 key internal controls the agency has established to prevent or detect noncompliance with period of performance requirements.

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

#### **Source:**

Michelle Sartain, Grants Management Supervisor

Amy Harris, Director of Federal Fiscal Policy and Grants Management

Cyndie Hargrave, Special Education Director of Operations

#### **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*

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*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 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*

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*automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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



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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.   |

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

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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.

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. We identified the following from the: (use of funds idea part B bulletin) and ( link to internal control letter)

LEAs and SEAs must obligate funds during the 27 months, extending from July 1 of the fiscal year for which the funds were appropriated through September 30 of the second following fiscal year. This maximum period includes a 15-month period of initial availability plus a 12-month period for carryover. For example, funds from the fiscal year 2019 appropriation initially became available on July 1, 2019; and may be obligated by the grantee and subgrantee through September 30, 2021.

Title I, Part A – An LEA that receives \$50,000 or more in Title I, Part A funds may not carry over beyond the initial 15 months of availability more than 15 percent of its Title I, Compliance Supplement 2021 4-84.000-18 July 2021 ED Cross-Cutting Section ED Part A funds. An SEA may grant a waiver of the percentage limitation for an LEA once every three years if the LEA's request is reasonable and necessary or if supplemental appropriations for Title I, Part A become available for obligation.

CTE Program – In any academic year that a subrecipient does not obligate all of the amounts it is allocated under the Secondary and Postsecondary CTE programs for that year, it must return the unobligated amounts to the state to be reallocated under the Secondary and Postsecondary CTE programs, as applicable (Section 133(b) of the Carl D. Perkins Career and Technical Education Act of 2006 as amended by the Strengthening Career and Technical Education Act for the 21st Century Act (Perkins V).

Consolidated Administrative Funds – Under those ESEA programs that allow for the consolidation of administrative funds, such funds must be obligated within the period of availability of the program that the funds came from. Because expenditures in a consolidated administrative fund are not accounted for by specific federal programs, an SEA or LEA may use a first-in, first-out method for determining when funds were obligated, may attribute costs in proportion to the dollars provided, or may use another reasonable method.

## **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.

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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. Its response is at: ([Use of Funds IDEA Part B](#) & [Internal Control request letter - Period of Performance](#))

## Understanding

We met with Cyndie Hargraves, Special Education Director of Operations, Amy Harris, Director of Federal Fiscal Policy and Grants Management, and Michelle Sartain, Grants Management Supervisor on June 30, 2022 to discuss Period of Performance requirements for the Special Ed program.

Cyndie began by informing us that the period of performance for sub-recipient and sub-award grants is noted in iGrants and the grants claim system. LEAs and sub-award recipients will see this period of performance in their form packages. Effective dates for contracts/interagency agreements are noted in the contracts and record of contract. **(Information and communication)**

If a sub-recipient carries over funds from one grant year into the next grant year, those carryover funds are still considered funds from the first grant year and are accounted for separately. This is noted in the grant worksheets provided by grants management each month. Michelle Sartain will close the books for a fiscal year and send Cyndie the carryover amounts for each LEA. Once all carryover amounts are finalized, a notice goes out to the LEAs that carryover funds are available and that a budget revision is required to claim the funds. LEAs are notified about the carryover amounts on or around January of the following year. For example, any pass-through funds given to a sub-recipient from the grant award starting July 1, 2018 would be considered 2018-19 carryover in the 2019-20 funding period. Carryover funds are considered as a part of the available budget to spend for the current year, but are coded separately. The carryover funds are spent out prior to the current year's funds. The grant reports indicate the carryover amount from the previous year and the remaining carryover balance. The grants claim system automatically pays out the available carryover funds available and the obligation period is still open. Overall, districts are only allowed to claim expenditures that were obligated by August 31<sup>st</sup> of the second fiscal year, which is a month earlier than the end of the grant period to reduce risk of errors.

To ensure that obligations are liquidated no later than 90 days after the end of the funding period (i.e. December 30), OSPI sets the claim cut-off date at the end of November in the grants claim system. This cut-off date is a month earlier than the end of the funding period. **During the cut-off week, grants management sends out messages via the grants claims system to all districts reminding them to submit their last claims and mark them as "final". When the claim is marked final, the grant will be closed out. (Key Control #1 - Information and Communication)**

Grants management staff runs a monthly report in the grants claim system that shows the status of the subgrants for each award. This report is used to make sure there are no more open grants for the programs. If a grant was not closed and a claim was submitted after the cut-off date, the report will note the discrepancy. If there was a payment made using an expired project coding, OSPI will consult with the SpEd fiscal staff to determine further action. When grants become available, the Accounting Manager, establishes them in AFRS with a project code and the start and end dates of the award, which includes the liquidation period. **After the liquidation period ends, the Accounting Manager closes the project code in AFRS. (Key Control 2: Control Activities)** Additionally, The Director of Operations, Fiscal Program Supervisor, and Budget Analyst meet on a regular basis to evaluate the spending plan to ensure funds are spent out during the period of availability, reducing the likelihood of reversion of funds.

## Summary of Key Controls:

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**Key Control #1:** During the cut-off week, grants management sends out messages via the grants claims system to all districts reminding them to submit their last claims and mark them as "final". When the claim is marked final, the grant will be closed out. **(Information and Communication)**

**Key Control #2:** To ensure sub-recipients do not submit claims against projects that have closed, OSPI staff programmed their AFRS system to automatically close upon the period of performance end date. **(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 to determine if we can place reliance on the controls.

## C.8.PR.G - 84.027/173-Special Education Cluster (IDEA) - OSPI

**Procedure Step:** I. Suspension and Debarment - Controls

**Prepared By:** ES, 11/9/2022

**Reviewed By:** MKH, 12/12/2022

Purpose/Conclusion.\*

### **Purpose:**

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that procurement of goods and services are made in compliance with state law and the Common Rule and that covered transactions are not made with a debarred or suspended party.

To identify key internal controls the agency has established to prevent or detect noncompliance with procurement, suspension and debarment requirements.

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

### **Source:**

Cyndie Hargrave, Special Education Director of Operations

Amy Harris, Director of Federal Fiscal Policy and Grants Management

### **Conclusion:**

Based on our understanding of internal controls over Suspension and Debarment, we assessed preliminary control risk as low.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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*

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*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.]

## **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

## State of Washington

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.

(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.



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(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 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

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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**

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 Procurement / Suspension and Debarment. We identified the following from the contracts package which includes the suspension/debarment language and is required for access to grant funds.

**Compliance Requirement** - Acquisition of equipment and construction or alteration of facilities by the IDEA Part B programs must meet the prior approval requirements in, and be consistent with, the IDEA-specific requirements in 20 USC 1404 and 1412(a)(10)(B); and 34 CFR sections 300.144 and 300.718. Further, Part B programs must manage equipment and real property consistent with the requirements in 2 CFR sections 200.317 through 200.326, and follow 2 CFR parts 180 and 3485 with regard to 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 June 30, 2022, we met with Cyndie Hargrave, Special Education Director of Operations, and Amy Harris, Director of Federal Fiscal Policy and Grants Management to discuss the key internal controls the agency has in place to ensure it does not enter into a contract or subaward with a party that is suspended or debarred.

Sub-Recipients:

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OSPI uses iGrants to communicate federal identification elements and other required federal award information that be passed on to the subrecipients (LEAs). Mercedes Ekroth and Kim Hoss are the iGrants Administrators within OSPI who develop the form package profile pages for each federal program. Each program office is responsible for submitting an iGrants detail survey that includes form package information and a Word document with what they want to be included in the application pages. The program contact and director of the program office is responsible for reviewing each profile and application page before it is launched in a given year to ensure that it is up to date and contains all required information. These approvals are tracked on a form package master list detailing the program name, program contact, approval to launch, and launch date. The program offices are responsible for staying up to date on any compliance changes for their programs. Cyndie provides the Federal Award given by the federal grantor into iGrants to be included with every sub-grant award given to a sub-recipient. Additional federal award information and audit requirements are passed through to subrecipients through general assurances pages. Suspension and debarment language is included in the general assurances to ensure that subrecipients are aware of the audit requirements. **(Key Control #1 - Information and Communication.)**

Every subrecipient (LEA) must complete and sign the application (which is generally done by the Superintendent) and submit general assurances as part of their grant application for the upcoming year, certifying that they are neither suspended or debarred. **(Key Control #2 - Control Activity)** Subrecipients cannot proceed in iGrants or establish budget categories for reimbursement without agreeing to the assurances and requirements. There are also several pages within the award package in iGrants that provide this information to the sub-recipient. The "Profile Page" includes all key grant information, as well as references and materials intended to help subrecipients better understand the program. In addition to the form package profile page, OSPI informs the LEAs of additional federal requirements within iGrants through the General Assurances page. The General Assurances page contains information such as suspension and debarment requirements, single audit requirements, and any additional information that OSPI wants to pass through to each individual LEA. Before continuing with the iGrants application, each LEA is required to certify they understand and agree with all applicable assurances and requirements by e-signing and dating those assurances in iGrants. The signatures of an authorized representative for the LEA and the CEO/Superintendent of the school district must be provided along with the UEI number, and without filling out these fields, the LEAs are not able to create budgets and finish applying for grant funds.

Once the application is submitted to OSPI, program staff review the application, including the Certification and Assurances section, to ensure the information provided is complete and signed before the application is approved and funds are awarded. (Control Activities)

### **Summary of Key Controls:**

**Key Control #1** - Suspension and debarment language is included in the general assurances to ensure that subrecipients are aware of the audit requirements. **(Information and Communication.)**

**Key Control #2** - Every subrecipient (LEA) must complete and sign the application (which is generally done by the Superintendent) and submit general assurances as part of their grant application for the upcoming year, certifying that they are neither suspended or debarred. **(Control Activity)**

**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 to determine if we can place reliance on the controls.

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## C.8.PR.G - 84.027/173-Special Education Cluster (IDEA) - OSPI

***Procedure Step:*** M. Subrecipient Monitoring - Controls  
***Prepared By:*** ES, 11/9/2022  
***Reviewed By:*** MKH, 2/3/2023

### 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 key internal controls the agency has established to prevent or detect noncompliance with subrecipient monitoring requirements.  
To provide a preliminary control risk assessment based upon our understanding of the internal controls.

#### **Source:**

Debbie Crawford - Lead Federal Compliance Specialist  
Cyndie Hargrave - Special Education Director of Operations  
Jennifer Story - WISM Coordinator.  
Amy Harris - Director of Federal Fiscal Policy and Grants Management

#### **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)**

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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**

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 200.332(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

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 200.332(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

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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 200.331, .332, 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):

| <i>Subaward Contract Checklist</i>  |   |
|---|---|
| Element   | Element   |
| (i) Subrecipient name (which must match the name associated with its unique entity identifier); | (viii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;         |
| (ii) Subrecipient's unique entity identifier;   | (ix) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;  |
| (iii) Federal Award Identification Number (FAIN);   | (x) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA); |



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|   |   |
|---|---|
| (iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency; | (xi) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;  |
| (v) Subaward Period of Performance Start and End Date;  | (xii) Assistance Listings number and Title; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement; |
| (vi) Subaward Budget Period Start and End Date;   | (xiii) Identification of whether the award is R&D; and  |
| (vii) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;    | (xiv) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).   |

### 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

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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.

### **Note: New provisions that have been added to UG:**

2CFR 200.215 – Never contract with the enemy (effective November 12, 2020)

2CFR 200.216 - Prohibition on certain telecommunications and video surveillance services or equipment (Effective August 13, 2020)

## **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.

## **Understanding of Internal Controls**

Risk identified: During the FY21 single audit, the following findings were issued:

**2021-022** - The Office of Superintendent of Public Instruction did not have adequate internal controls over and did not comply with federal requirements to ensure payments to subrecipients were adequately supported for the Special Education program.

**2021-023** - The Office of Superintendent of Public Instruction did not have adequate internal controls over requirements to perform risk assessments for subrecipients of the Special Education program.

On July 1, 2022, we met with Amy Harris, Director of Federal Fiscal Policy and Grants Management, Cyndie Hargrave, Special Education Director of Operations, Jennifer Story, Program Specialist, and Debbie Crawford, Lead Federal Compliance Specialist, in order to gain an understanding of the internal control process and identify the key internal controls that are implemented for subrecipient monitoring related to SPED.

**Identification Elements:** We spoke with Cyndie and Jennifer regarding sub-recipient contracts and how OSPI ensures that all necessary information is included in the contract per 2CFR section 200.331(a)(2). To ensure all necessary information is included in the contract per 2CFR section 200.331(a)(2), OSPI uses iGrants to communicate federal identification elements and other required federal award information that be passed on to the subrecipients (LEAs). Mercedes Ekroth and Kim Hoss are the iGrants Administrators within OSPI who develop the form package profile pages for each federal program. Each program office is responsible for submitting an iGrants detail survey that includes form package information and a Word document with what they want to be included in the application pages. The program contact and director of the program office is responsible for reviewing each profile and application page before it is launched in a given year to ensure that it is up to date and contains all required information. **(Key Control #1: Control Activities/Information and Communication)** These approvals are tracked on a form package master list detailing the program name, program contact, approval to launch, and launch date. The program offices are responsible for staying up to date on any compliance changes for their programs. Cyndie provides the Federal Award given by the federal grantor into iGrants to be included with every sub-grant award given to a sub-recipient.

Each sub-recipient is then required to certify they understand and agree with all applicable assurances and requirements by e-signing and dating those assurances in iGrants. Subrecipients cannot proceed in iGrants or establish budget categories for reimbursement without agreeing to the assurances and requirements. There are also several pages within the award package in iGrants that provide this information to the sub-recipient. The "Profile Page" includes all key grant information, as well as references and materials intended to help subrecipients better understand the program. In addition to the form package profile page, OSPI informs the LEAs of additional federal requirements within iGrants through the General Assurances page. The General Assurances page contains information such as suspension and debarment requirements, single audit requirements, and any additional information that OSPI wants to pass through to each individual LEA. Before continuing with the iGrants application, each LEA is required to certify they understand and agree with all applicable assurances and requirements by e-signing and dating those assurances in iGrants. **(Key Control #2: Control Activities/Information and Communication)** The signatures of an authorized representative for the LEA and the CEO/Superintendent of the school district must be provided along with the UEI number, and without filling out these fields, the LEAs are not able to create budgets and finish applying for grant funds.

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## **Risk Assessments:**

We spoke with Cyndie and Jennifer regarding risk assessments performed for all sub-recipients. Jennifer walked us through the process that OSPI SPED is currently using to comply with 31 U.S.C 7501- 7507, Single Audit Act Amendments of 1996; 2 CFR Part 200 Subpart F, Audit Requirements, Uniform Administrative Requirements, Cost Principles , and Audit Requirements for Federal Awards; and 34 CFR Part 300 Subpart F, Monitoring, Enforcement, Confidentiality, and Program Information.

Jennifer explained WISM (Washington Integrated Sub-Recipient Monitoring) conducts annual reviews of the special education programs in Washington School Districts (LEAs), including Educational Service Agencies and Charter Schools. WISM is designed to ensure OSPI meets state supervision and oversight requirements for special education programs under state and federal law. Jennifer and the WISM team use two internal risk matrices to perform annual risk assessments of each LEA and determine the appropriate level of monitoring (**Key Control #3 - Risk Assessment**). One risk matrix is for fiscal risk assessment and the other contains risk criteria for programmatic risk. The WISM team meets annually, during the summer, to review and update the risk matrices and revisit indicators to determine if some risk factors should be weighted more or less heavily than others, changed, or removed altogether. Edits are then made to the risk matrices based on these meeting discussions. The risk matrices includes weighted risk indicators such as previous audit exceptions/findings, grant award dollar amount, new personnel, last time a monitoring visit was performed, size of the LEA, etc. Program staff enter LEA information into the risk matrix, the risk matrix then scores each LEA on a scale consisting of a total of 152.5 points, with the higher the score meaning the higher the risk. The WISM team intends to combine the risk matrices in the future into one consolidated risk assessment. Currently scores are calculate separately for fiscal and programmatic risk. The team will identify subrecipients that are at a higher fiscal risk and programmatic risk, noting if there is an overlap between the two groups. If there is an overlap, a combination review will be performed on the subrecipient, but if there is not overlap an independent review will be scheduled only in the high risk category.

Risk assessments are updated in May and finished in June. During the last week of June, Program staff meet to discuss the LEA's that have been identified as highest risk. Districts that receive a certain score become candidates for monitoring activities. Jennifer explained that just because an LEA scored high, does not necessarily mean they will be reviewed. Program staff discuss the Districts identified as high risk, taking into consideration whether or not OSPI is already in communication with them, if they were recently reviewed, etc. The selected LEAs are notified of upcoming monitoring at the end of August.

For FY22, 104 districts in total had some level of review. 30 districts were selected for fiscal monitoring only, 11 received programmatic reviews, 4 districts had combination reviews, 10 districts completed a self assessment, and 28 districts were worked with on CCEIS support.

## **Monitoring Activities:**

In FY22, the SPED team at OSPI moved away from their System Analysis Questionnaire for LEAs and moved to the Program Monitoring application within the Education Data System (EDS). LEAs were notified and provided a training video on how to use the system in August 2021 with the use of EDS for monitoring being launched in October. Jennifer explained two types of monitoring are performed on LEA's; on-site visits and desk reviews. The highest risk LEA's are selected for on site reviews, while the others receive a desk review. The WISM team uses a monitoring checklist of program and fiscal requirements to document and perform the review, and to determine compliance and any corrective actions required. (**Key Control #4 - Monitoring**)

Desk review includes document requests, such as support of monthly time and effort reports, expenditure reports, equipment inventory lists, policies and

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procedures, etc. all submitted through EDS. Assigned program supervisors review the different items submitted by the LEAs over the course of a two week period. The first week of the review is spent identifying missing items, compliance concerns, and asking additional compliance questions of the LEAs. During the second week of review, any issues would be shared with the LEA for additional documentation, clarification and response.

Once the team assigned to a review completes the sections, and indicates noncompliance, Jennifer (WISM coordinator) goes through and edits all information for completeness before forwarding it to Tania May for final review. Once the final review is completed on all compliance items, OSPI issues exit reports and recommendations for compliance items. There are different response due dates associated with compliance item and these items do not include student-level non-compliance issues. There is a separate correction system in place for student level non-compliance due to student privacy. The Educational Service Districts (ESDs) work with staff to ensure that every identified noncompliance issue is completed and resolved. System level issues get assigned a due date (usually 60 days) to provide documentation for issues. Monitoring doesn't close until issues are resolved. If the districts do not comply, OSPI will not process further applications from a school district.

### Subrecipient Audits:

OSPI informs LEAs of the requirement to receive a single audit in the general assurances signed by all sub-recipients and in the boilerplate funding application. It also restates the requirement in the accounting manual that it provides to each LEA.

Debbie Crawford, Lead Federal Compliance Specialist uses the centralized Audit Resolution Tracking spreadsheet (ART) to track which LEAs require a single audit and monitor the resolution of those LEAs that receive single audit findings. **(Key Control #5: Monitoring)** In the fall of each year, the Team obtains a schedule of expenditure of federal awards (SEFA) for each school district and education service district in the State. The Team records the SEFA expenditures on the ART to determine if a single audit is required (\$750,000 or more in total federal expenditures).

Team School Programs at SAO perform audits of school districts in accordance with Uniform Guidance each year. The Team monitors SAO's audit publications and updates the ART spreadsheet to ensure each sub-recipient that required an audit received one. If an LEA received a finding for an OSPI program, the Team documents that a resolution is required on the ART spreadsheet. The Team reviews the entity's response and the correction action plan. If the entity concurs with the finding and the corrective action plan is acceptable, they mail a management decision letter.

If the entity does not concur with the finding or if the corrective action plan is not acceptable, the Team mails a letter of notification (LON) and requests clarification from the LEA. If the LEA says it does not agree with the finding, the Team will grant the LEA 30 days to submit reasons/evidence for its disagreement. The Team will review the entity's response and documentation.

Regardless of the LEAs position, OSPI will issue a management decision letter within 180 days of receiving the audit report.

### Key Controls Identified:

**Key Control #1:** The program contact and director of the program office is responsible for reviewing each profile and application page before it is launched in a given year to ensure that it is up to date and contains all required information. **(Control Activities/Information and Communication)**

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**Key Control #2:** Before continuing with the iGrants application, each LEA is required to certify they understand and agree with all applicable assurances and requirements by e-signing and dating those assurances in iGrants. **(Control Activities/Information and Communication)**

**Key Control #3:** Jennifer and the WISM team use two internal risk matrices to perform annual risk assessments of each LEA and determine the appropriate level of monitoring. **(Risk Assessment)**

**Key Control #4:** The WISM team uses a monitoring checklist of program and fiscal requirements to document and perform the review, and to determine compliance and any corrective actions required. **(Monitoring)**

**Key Control #5:** The Fiscal Review Team uses its centralized Audit Resolution Tracking spreadsheet (ART) to track which LEAs require a single audit and monitor the resolution of those LEAs that receive single audit findings **(Monitoring)**.

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

## **SFY21 Finding Follow-Up**

In SFY21 we reported finding number 2021-022: The Office of Superintendent of Public Instruction did not have adequate internal controls over and did not comply with requirements to ensure payments to subrecipients were adequately check the finding number supported for the Special Education program. The Office submitted a CAP to OFM in response to finding 2021-022 with a completion date of December 2022

In SFY21 we also reported finding number 2021-023: The Office of Superintendent of Public Instruction did not have adequate internal controls over requirements to perform risk assessments for subrecipients of the Special Education Program.

In response to the audit recommendations, the Office Revised and expanded the form package Educational Service Districts (ESDs) are required to submit as part of year end reporting to include documentation related to the activities identified in the Coordinated Services Agreement (CSA), and factors for timely completion of form package and submission of year end reporting. The office also plans on implementing a revised process to review all documentation for compliance in the 2022-2023 school year. This work was completed in June 2022.

During our understanding meeting with SPED staff, we were informed that the ESDs have been trained on the use of the EDS system for subrecipient review, the changing requirements, and that the CSAs were being updated during the audit period. Cyndie Hargrave, Director of SPED informed us that instead of performing risk assessments on ESDs, the program was going to monitor every ESD starting in the 2022-2023 school year. During the audit period, no risk assessments were performed for ESDs, and the CAP has not been fully implemented.

See. [84.027 Special Education CAPs].

## **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.

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## C.12.PRG - 93.268-Immunization Cooperative Agreements - DOH

***Procedure Step:*** A-B. Salaries and Benefits Activities Allowed/Cost Principles - Controls  
***Prepared By:*** DT, 11/10/2022  
***Reviewed By:*** CCM, 11/10/2022

### 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 for Salaries and Benefits are charged to the Federal award are allowable and in accordance with the applicable cost principles.

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

#### **Source:**

- Jeff Arbuckle, External Audit Manager
- Kristina White, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Tawney Harper, Director, OFC of Immunization & Child Profile, Office of Immunizations

#### **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 are unallowable.



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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

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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.***

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,

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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

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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 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

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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.

### 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

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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;
- (w) §200.467 Selling and marketing costs;
- (x) §200.470 Taxes (including Value Added Tax); and
- (y) §200.474 Travel costs.

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## **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).

### 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)<br/>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 <b>types</b> 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 <b>only</b> 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 |
|--|--|

**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 any available program guidelines to determine which activities and costs are allowed or unallowed. We identified the following:

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

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1. Discretionary Section 317 cooperative agreements funds may be used to establish and maintain a preventive health service program, including:
  - a. Research into the prevention and control of diseases that may be prevented through vaccination;
  - b. Demonstration projects for the prevention and control of such diseases;
  - c. Public information and education programs for the prevention and control of such diseases;
  - d. Education, training, and clinical skills improvement activities in the prevention and control of such diseases for health professionals; and
  - e. Operational activities associated with the conduct of a successful immunization program (42 USC 247b(k)(1)).
2. The VFC program is intended primarily as a vaccine purchase and supply program for eligible children. VFC funds may be expended to support costs associated with the following:
  - a. VFC vaccine ordering;
  - b. VFC vaccine distribution for grantees that have not transitioned to a federally contracted vaccine distributor; and
  - c. Direct VFC program operations, such as provider recruitment and enrollment, overall VFC program coordination, vaccine management and accountability, VFC provider accountability and site visit assessments, and VFC program evaluation (42 USC 1396s).

### Indirect Costs

Indirect costs are documented in the SEFA Reconciliation (see, [Final Expenditures and SEFA Reconciliation](#)). Indirect costs are \$4,279,182, which is 3.08% ( $4,279,182/138,749,104=0.0308$ ) of the total grant expenditures, therefore not material. Indirect costs will not be included in our testing population.

### Material Expenditures

We identified the following expenditure activities that are directly charged to the program and are quantitatively material (more than 5%): [Final Expenditures and SEFA Reconciliation](#)

### 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.

### **Objects A & B - Salaries and Benefits:**

On September 8, 2022 we met with Jeff Arbuckle, Kristina White, and Tawney Harper to gain an understanding of internal controls over salaries and benefits charged to the Immunization Cooperative Agreements program. Immunizations salary and benefit time charges for an employee can be accounted for in one

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of two ways; as a semi-monthly timesheet or as a quarterly certification. If an employee charges multiple funding sources or programs, they must complete a timesheet. If an employee is to prepare timesheets, they must submit their time and effort by completing a time sheet each pay period, otherwise the employee is hard coded in the system and they do not need to submit time and effort; they must submit a quarterly certification stating that they only worked on one grant activity category. If an employee is identified as applicable for completing quarterly certifications, they are hard coded and program fiscal staff are responsible for updating the payroll office as needed. If the employee completes regular timesheets, then fiscal staff are responsible for updating the master index coding in the "Master List" which updates the Payroll department at the start of each grant period.

We requested a list of all employees who submitted a quarterly certification during FY22. The list included the employee's full names, personnel number, pay dates, and payroll amounts. We found that the total amount of payroll expenditures for employees that submitted a quarterly certification (\$238,583.79) was 0.17% (see, Immunizations Salaries and Benefits Population Analysis) of the total amount of expenditures for the Immunization grant. The amount is immaterial and we will pass on further testing for the quarterly certification employees.

For employees that submitted time sheets for the Immunization grant, we identified the following control:

### Employees Who Submit Time and Effort

Employees who submit their time and effort complete a time sheet every two weeks. Program fiscal staff are responsible for updating the "Master List" with coding for time and effort employees. The Master List is a shared document on the Department's SharePoint. Only assigned program fiscal staff are able to add and update coding. (Control Activities) Employees are unable to make changes to the coding or demographics on their time sheets. At the end of each pay period, the employee will electronically sign their time sheet. Following the employee's signature, their supervisor reviews the time sheet for accuracy and electronically signs to evidence their review. **(Key Control #1 - Control Activities)** The time keeper (Unit AA3 or backup) will review all time sheets and verify the following information; a) all hours are entered and accurate, b) all leave is accurate and approved, c) time sheets are signed and dated by employees and supervisors, and d) employees with Overtime, Comp, or Exchange time have completed required additional forms. The Unit AA3 will evidence their review by checking the "Verified by Attendance Keeper" check box and save the time sheets to the shared drive. (Control Activities) The Payroll unit runs a "time sheet errors" report which checks for errors such as improper coding. (Monitoring) This report is forwarded on to the timekeepers to resolve with program staff. Two days after the payroll cutoff, the Payroll department sends the time sheets in an Excel file to Office of Financial Management (OFM) to enter into HRMS. During this same time, payroll will convert the file to a PDF and save to the share drive drive in case the attendance keepers need to access them. Additionally, they perform a "signature audit" which is a report listing every time a time sheet was modified and by who.

### COVID-19 - IMT Payroll

Beginning January 2020, DOH activated their Incident Management Team (IMT) in response to COVID-19. The Office of Financial Management (OFM) gave the DOH Coronavirus Relief Funds in June of 2020. Because DOH did not receive the federal funds until June, they created a new timekeeping system for the IMT. Tawney Harper informed us that all Immunization staff that were IMT activated were allowed to charge their time to the Immunization grant. We

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reviewed an email from CDC confirming the approval of IMT staff coding to the Immunization grant.

## **Key Internal Controls Identified:**

**Key Internal Control #1:** A supervisor reviews an employee's time sheet for accuracy and electronically signs to evidence their review. **(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 to determine if we can place reliance on the controls.

## **C.12.PRG - 93.268-Immunization Cooperative Agreements - DOH**

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

***Prepared By:*** DT, 12/1/2022

***Reviewed By:*** CCM, 12/1/2022

|                      |
|----------------------|
| 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 for Communication Services are charged to the Federal award are allowable and in accordance with the applicable cost principles.

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable

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activities and cost principles.

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

## Source:

- Jeff Arbuckle, External Audit Manager
- Tawney Harper, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Greg Endler, Deputy Director - Health Promotion and Health Education

## Conclusion:

Based on our understanding of internal controls over Activities Allowed and Cost Principles - Communication Services, 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).



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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.

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

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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:

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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).

### **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)**

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- (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;

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.

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### 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 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:

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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;
- (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;

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- (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.

#### **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)**

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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)<br/>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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### 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 <b>types</b> 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 <b>only</b> 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.

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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.

**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.

|           |  |
|-----------|--|
| MTDC Base |  |
|-----------|--|

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| 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.
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.

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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**

#### **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 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. Discretionary Section 317 cooperative agreements funds may be used to establish and maintain a preventive health service program, including:*
  - a. Research into the prevention and control of diseases that may be prevented through vaccination;*
  - b. Demonstration projects for the prevention and control of such diseases;*
  - c. Public information and education programs for the prevention and control of such diseases;*
  - d. Education, training, and clinical skills improvement activities in the prevention and control of such diseases for health professionals; and*
  - e. Operational activities associated with the conduct of a successful immunization program (42 USC 247b(k)(1)).*
- 2. The VFC program is intended primarily as a vaccine purchase and supply program for eligible children. VFC funds may be expended to support costs associated with the following:*
  - a. VFC vaccine ordering;*
  - b. VFC vaccine distribution for grantees that have not transitioned to a federally contracted vaccine distributor; and*
  - c. Direct VFC program operations, such as provider recruitment and enrollment, overall VFC program coordination, vaccine management and accountability, VFC provider accountability and site visit assessments, and VFC program evaluation (42 USC 1396s).*

#### **Indirect Costs**

The indirect cost analysis is documented at A-B. Salaries and Benefits Activities Allowed/Cost Principles - Controls.

#### **Material Expenditures**

We identified the subobject CH activities are directly charged to the program and are quantitatively material (more than 5%):

## **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.

## Sub-Object CH - Communication Services

On November 30, 2022, we met with the following to gain an understanding of internal controls over allowable activities of expenditures coded to Subobject CH (Communication Services):

- Jeff Arbuckle, External Audit Manger
- Greg Endler, Deputy Director - Health Promotion and Heath Education, Office of Public Affairs
- Tawney Harper, Director, OFC of Immunization & Child Profile, Office of Immunizations

Greg explained that when DOH receives an A-19 with supporting documentation from a vendor, it gets sent to him or his team. They will start a review of the invoice and supporting documentation by comparing it to the contract deliverables. Greg informed us that the contract language includes the period of performance as a requirement. If there are no issues, the A-19 will get sent to the contracts manager for their review. If the vendor has not met all of the requirements for payment, the invoice is returned. The contract manager reviews the A-19 and supporting documentation to ensure it is for allowable activities prior to sending the A-19 to be processed for payment. This review is documented via email when it is sent to the contracts coordinator to initiate payment process in the Department's A-19 system, called "Service Central" (**Key Control #1 - Control Activities/Information and Communication**). Tawney informed us that management in OPEA regularly communicate with the Office of Immunization management if any issues arise and they will collectively determine corrective actions or other resolutions if needed.

We requested an Internal Control Letter from the Department but did not receive one.

## Key Internal Controls Identified:

**Key Control #1:** The contract manager reviews the A-19 and supporting documentation to ensure it is for allowable activities prior to sending the A-19 to be processed for payment. This review is documented via email when it is sent to contracts for payment (**Control Activities/Information and Communication**).

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

## 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 to determine if we can place reliance on the controls.

## C.12.PRG - 93.268-Immunization Cooperative Agreements - DOH

***Procedure Step:*** A-B. Payments to Providers Activities Allowed/Cost Principles - Controls

***Prepared By:*** DT, 12/6/2022

***Reviewed By:*** CCM, 12/9/2022

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 for Payments to Providers are charged to the Federal award are allowable and in accordance with the applicable cost principles.

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

### **Source:**

- Jeff Arbuckle, External Audit Manager
- Tawney Harper, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Kristina White, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Brittany Tybo, ONS Deputy Director & Business Operations Manager, Office of Nutrition Services
- Nancy Wallace, Fiscal Monitoring Unit Manager, Office of Financial Services

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## **Conclusion:**

We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.

The Department asserts that program staff review the A-19 and supporting documentation to ensure it's for allowable activities. However, the program staff do not document their review nor do they communicate their approval back to fiscal staff that they can proceed with payment. Therefore, we have concluded that there is a **design weakness** in this process and will not consider testing as a control.

The Department asserts that their Fiscal Monitoring process is a secondary control to ensure subrecipient expenditures are for allowable activities. After reviewing the policy and procedures for Fiscal Monitoring, we identified two issues in the design of the Department's fiscal monitoring process:

- The procedure states that any subrecipient receiving "less than \$100,000 in federal funds from DOH in a fiscal year are exempt from a fiscal monitoring review."
- Nancy Wallace, Fiscal Monitoring Unit Manager, informed us that there is no guidance for how many samples to pull, so the Fiscal Reviewer will judgmentally select them based on risk, high dollar amount, etc.

Because of these, we have concluded that there is a **design weakness** in the Department's Fiscal Monitoring and will **not** be testing it as a control.

Based on our understanding of internal controls over Activities Allowed and Cost Principles, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess **preliminary control risk as high and will report a finding for a material weakness at 2022-031 The Department of Health did not have adequate internal controls over and did not comply with requirements to ensure payments to providers were allowable, met cost principles, and were within the period of performance for the Immunization Coopera.**

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.

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)

**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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

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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.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)<br/>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 <b>types</b> 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 <b>only</b> 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:

## **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: Missing Info

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

- 1. Discretionary Section 317 cooperative agreements funds may be used to establish and maintain a preventive health service program, including:*
  - a. Research into the prevention and control of diseases that may be prevented through vaccination;*
  - b. Demonstration projects for the prevention and control of such diseases;*
  - c. Public information and education programs for the prevention and control of such diseases;*
  - d. Education, training, and clinical skills improvement activities in the prevention and control of such diseases for health professionals; and*
  - e. Operational activities associated with the conduct of a successful immunization program (42 USC 247b(k)(1)).*
- 2. The VFC program is intended primarily as a vaccine purchase and supply program for eligible children. VFC funds may be expended to support costs associated with the following:*
  - a. VFC vaccine ordering;*
  - b. VFC vaccine distribution for grantees that have not transitioned to a federally contracted vaccine distributor; and*
  - c. Direct VFC program operations, such as provider recruitment and enrollment, overall VFC program coordination, vaccine management and accountability, VFC provider accountability and site visit assessments, and VFC program evaluation (42 USC 1396s).*

#### Indirect Costs

The indirect cost analysis is documented at A-B. Salaries and Benefits Activities Allowed/Cost Principles - Controls.

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## Material Expenditures

We identified the subobject NB activities are directly charged to the program and are quantitatively material (more than 5%): Preliminary Expenditure Report

## 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.

### **Sub-Object NB - Pymts to Prvdrs for Direct Client Srvcs**

On August 23, 2022 we met with Jeff Arbuckle and Tawney Harper to gain an understanding of any changes to the Department's internal controls over expenditures coded to Object N (Grants, Benefits, and Client Services); SubObject NB - "Subrecipient Pass-Through".

Immunization subrecipients are divided into one of two groups: Consolidated Contracts ("Con-cons"), and Non-Consolidated Contracts ("Non-cons"). Consolidated contracts are awarded to Local Health Jurisdictions (LHJ's; "counties") and encompass all the federal awards passed through to that entity by the Department of Health. Under these agreements, all funding is consolidated into one contract. These contracts have separate statements of work for each federal program.

Subrecipients are awarded federal funds on a reimbursement basis only.

Payments to Local Health Jurisdictions (LHJ's; consolidated contracts):

LHJ's submit an A-19 payment voucher along with a summary level financial report (GL report) to the Department requesting reimbursement for expenditures incurred under all federal grants, including Immunizations. LHJ's submit their A-19 reimbursement request to the Office of Accounting and Grants (OAG) at the Department. Depending upon their risk level (assessed by the Department's Financial Operations at the time of each contract period), the Department imposes different requirements for each LHJ for their required supporting documentation. The Department maintains a Documentation Matrix, which outlines the requirements for submitting supporting documentation based on risk category, and expense type (see: A19 Documentation Standardization Matrix -January 2021).

There are varying requirements among Low, Moderate, and High Risk subrecipients for each of the following expense categories:

- Salaries & Wages

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- Fringe Benefits
- Equipment
- Materials and Supplies
- Travel Costs (In-State, and Out-of-State)
- Subcontracts
- Administrative/Indirect Costs
- Other Miscellaneous Expenses (as specified under the subaward)

When DOH receives an A-19, the Contract Managers reviews the A-19 and supporting documentation to ensure the goods/services billed by the subrecipient are delivered. Tawney or her staff review each reimbursement request, review and confirm the expenditures are allowable for reimbursement under the subrecipient's subaward terms and conditions, and save a copy of the submitted A-19 and supporting documentation to a shared network drive. As part of the Tawney and staff's review, they will recalculate the charges submitted by the subrecipient and ensure all costs are allowable and accurately determined. Each A-19 reimbursement request is reviewed prior to payment to ensure expenditures claimed by the subrecipient were incurred during the award period of performance. After this, they enter all subrecipient reimbursements into an Excel spreadsheet, which is tracked on a SharePoint site for each program. After approval, the A-19 for reimbursement, it is sent to Accounting for processing.

**Deficiencies identified:** The Department asserts that program staff review the A-19 and supporting documentation to ensure it's for allowable activities. However, the program staff do not document their review nor do they communicate their approval back to fiscal staff that they can proceed with payment. Therefore, we have concluded that there is a **design weakness** in this process and will not consider testing as a control.

## ***Fiscal Monitoring***

Since the Department does not review detailed documentation for all subrecipient reimbursement requests, the Department has a fiscal monitoring process in place to review the detailed support of selected reimbursement requests.

On August 31, 2022. We met with the following staff to discuss DOH's Fiscal Monitoring process:

- Jeff Arbuckle, External Audit Manager
- Tawney Harper, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Kristina White, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Brittany Tybo, ONS Deputy Director & Business Operations Manager, Office of Nutrition Services

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- Nancy Wallace, Fiscal Monitoring Unit Manager, Office of Financial Services

Nancy informed us that all contracts with subrecipients go through a risk assessment prior to being executed. The risk assessment provides a standard for how much supporting documentation DOH requires from the subrecipient during any monitoring activity conducted. DOH requires each subrecipient be monitored once every two years. The Fiscal Monitoring Unit will receive a report from IT that lists all of the subrecipients at that point in time and tracks when each were last monitored and update it when reviews are conducted (see, [FY22 List of Fiscal Monitoring Entities](#)). DOH will also prioritize which subrecipients need monitoring based on expenditures reported and when they were last monitored. DOH will then notify the subrecipient that they are going to conduct a fiscal review and send a template email about their specific risk level requirements.

During a review, DOH will use a standardized template (see, [Monitoring Report Tool](#)) to analyze that the supporting documentation for A-19's are sufficient for their risk level. The review covers personnel costs and vendor costs as well as any supporting documentation. DOH typically test 3 A-19's. If the subrecipient uses non-electronic timekeeping records, DOH will test all of the paper documents. DOH completes their report within 90 days of the site visit. If there is any corrective actions needed from the reviewed entity, DOH gives 60 days to complete them. If DOH will be questioning any costs, they will escalate them to management before sending them to the entity.

On November 8, 2022, we received a verified list of subrecipients that received funds during FY22 with their associated risk level (see, [Subrecipient List with Risk Level](#)).

We received a copy of the Federal Subrecipient Fiscal Monitoring Review Procedure (see, [Procedure - Fiscal Monitoring Review](#)). After reviewing the policy and procedures for Fiscal Monitoring, we identified two issues in the design of the Department's fiscal monitoring process:

- The procedure states that any subrecipient receiving "less than \$100,000 in federal funds from DOH in a fiscal year are exempt from a fiscal monitoring review."
- Nancy Wallace, Fiscal Monitoring Unit Manager, informed us that there is no guidance for how many samples to pull, so the Fiscal Reviewer will judgmentally select them based on risk, high dollar amount, etc.

Because of these, we have concluded that there is a **design weakness** in the Department's Fiscal Monitoring and will **not** be testing it as a control.

We requested an Internal Control Letter from the Department but did **not** receive one.

**Evaluation of Results:** Did you identify any control deficiencies? Yes.

1. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of



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noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.

2. The Department asserts that program staff review the A-19 and supporting documentation to ensure it's for allowable activities. However, the program staff do not document their review nor do they communicate their approval back to fiscal staff that they can proceed with payment. Therefore, we have concluded that there is a **design weakness** in this process and will not consider testing as a control.

The Department asserts that their Fiscal Monitoring process is a secondary control to ensure subrecipient expenditures are for allowable activities. After reviewing the policy and procedures for Fiscal Monitoring, we identified two issues in the design of the Department's fiscal monitoring process:

- The procedure states that any subrecipient receiving "less than \$100,000 in federal funds from DOH in a fiscal year are exempt from a fiscal monitoring review."
- Nancy Wallace, Fiscal Monitoring Unit Manager, informed us that there is no guidance for how many samples to pull, so the Fiscal Reviewer will judgmentally select them based on risk, high dollar amount, etc.

Because of these, we have concluded that there is a **design weakness** in the Department's Fiscal Monitoring and will **not** be testing it as a control.

Therefore, we assess the control risk as HIGH.

## Preliminary Control Risk Assessment

### Step 4

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). See, 2022-031 The Department of Health did not have adequate internal controls over and did not comply with requirements to ensure payments to providers were allowable, met cost principles, and were within the period of performance for the Immunization Coopera.

## C.12.PRG - 93.268-Immunization Cooperative Agreements - DOH

*Procedure Step:* C. Cash Management - Controls

*Prepared By:* DT, 2/8/2023

*Reviewed By:* CCM, 2/8/2023

Purpose/Conclusion.\*

Purpose:

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

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to cash management.

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

## Source:

- Jeff Arbuckle, External Audit Manager
- Kristina White, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Violet Byrns, Grants Manager, Office of Financial Services
- Tawney Harper, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Nicole Avelar, Health Services Consultant 4, Office of Immunizations
- Jolene Black, COVID Deputy & Business OPS Section Manager, Office of the Assistant Secretary

## 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

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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.

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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

(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

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(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.

(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**

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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).

## **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)<br/>where N = population<br/>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**

#### **Not subject to the CMIA Agreement**

We reviewed OFM's Cash Management Improvement Act Agreement between the State of Washington and The Secretary of the Treasury and determined that the Immunizations Grant exceeded the State's threshold but has been excluded from coverage because it is a non-cash program (see, [FY2022 OFM Treasury-State Agreement \(CMIA\)](#)).

We also reviewed Part 4 of the Compliance Supplement for any program-specific requirements and there are none.

#### **Awards to Subrecipients**

This program does have subrecipients. Payments are based on cost reimbursement.

## **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 sent the internal control letter request to the Department and received a response of the Department's identified controls over this requirement (see, [Internal Control Request Letter Responses](#)). We will take the response into consideration during our testing.

On June 13, 2022 the following staff from the Department of Health (DOH) and SAO met via Teams meeting to discuss the internal controls over cash management:

#### DOH

- Jeff Arbuckle, External Audit Manager
- Kristina White, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Violet Byrns, Grants Manager, Office of Financial Services

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- Tawney Harper, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Nicole Avelar, Health Services Consultant 4, Office of Immunizations
- Jolene Black, COVID Deputy & Business OPS Section Manger, Office of the Assistant Secretary

## SAO

- Cassandra Metzler, Assistant Audit Manager
- Darrien Trias, Auditor in Charge

The Department maintains a Grants Unit Desk Manual which includes procedures for completing draws (see, Federal Revenue Semi-Monthly Draw Procedure 2021 EK) (**Key Internal Control #1 - Control Activities/Information and Communication**).

The Department operates on a cost reimbursement basis. Draws are done twice a month for the Immunization Cooperative Agreement grant.

The draws are processed twice a month, Draw Date typically prior to the scheduled pay date. The Cost Allocation System (CAS) allocates indirect costs based on actual expenditures incurred in the previous month. Direct expenditures are obtained from AFRS reports summarizing federal expenditures by project number on a biennium-to-date basis. Indirect expenditures are obtained in the same manner, after the Cost Allocation System has processed the previous months' expenditures and applied the approved allocation rate. Julie Ball, Fiscal Analyst 4, uses the Grants Management System (GMS) to run a grants draw report for the draw that needs to be made. The GMS is an in-house Access database that uses the AFRS Data Distribution System (ADDS), which is extracted AFRS data. This system is updated on a daily basis and shows all direct and indirect costs (from CAS) as well as revenue already received (**Key Internal Control #2 - Control Activities/Information and Communication**). Julie then verifies the available balance in the federal system to the DOH remaining award balance on the Grants Draw Report. GMS automatically calculates a federal cash draw amount using cash expenditures and revenues transferred from AFRS (**Key Control #3 - Automated: Information and Communication**). The grants draw report shows what expenditures are to be drawn for the prior two weeks and will show the difference between prior revenue and current expenditures. Direct expenditures are captured up to the day before the report is run and indirect expenditures are captured through the previous fiscal month. To provide assurance that GMS accurately reflects AFRS expenditures, the Accounting office checks that ADDS reports balance to AFRS daily.

Julie uses the grants draw report produced from the GMS to calculate the draw amount by subtracting the revenue from the expenditures. She fills out the draw summary sheet which includes the amount, the date, the grant doc number, and the account numbers to be drawn from. She accesses the DOH cash journal log and batch log spreadsheets to obtain a Cash Journal (CJ) number and a batch number to assign to the draw. The cash journal log is maintained by the Revenue Team on the Revenue Unit network drive, and the batch log is maintained by the Accounting Team on the Financial Services drive. Julie logs into



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the Payment Management System (PMS) to input the information from the draw summary sheet. She then submits the draw request in PMS where she prints a confirmation. She creates a Journal Voucher (JV) in AFRS toolbox using the same information as the draw summary sheet and then submits it. The grants draw report, draw summary, confirmation and the JV are combined to create the draw packet. Julie forwards the draw packet to a Health Service Consultant 3 (HSC3) or a Grants Manager, who performs a review and comparison of all the information and signs and dates if everything is correct and properly supported (**Key Internal Control #4 - Control Activities/Monitoring**).

## **Key Internal Controls Identified:**

**Key Internal Control #1:** The Department maintains a Grants Unit Desk Manual which includes procedures for completing draws. (**Control Activities/Information and Communication**)

**Key Internal Control #2:** A fiscal analyst uses the grants draw report from GMS to track, calculate and reconcile the draw amount. (**Control Activities/Information and Communication**) KC 2

**Key Control #3 (Automated):** GMS automatically calculates a federal cash draw amount using cash expenditures and revenues transferred from AFRS. (**Information and Communication**)

**Key Internal Control #4:** The Grants Manager or HSC3 reviews all draw packets after submission to ensure they are accurate and complete then signs the draw packet to evidence their review. (**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 to determine if we can place reliance on the controls.

## **C.12.PRG - 93.268-Immunization Cooperative Agreements - DOH**

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**Procedure Step:** H. Period of Performance - Controls

**Prepared By:** DT, 12/6/2022

**Reviewed By:** CCM, 12/9/2022

## 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 key internal controls the agency has established to prevent or detect noncompliance with period of performance requirements.

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

### Source:

- Jeff Arbuckle, External Audit Manager
- Kristina White, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Violet Byrns, Grants Manager, Office of Financial Services
- Tawney Harper, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Teresa Deming, Financial Operations Supervisor, Office of Financial Services
- Kaja Kadima, Budget Analyst 3, Office of Financial Services

### Conclusion:

We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.

The Department asserts that program staff review the A-19 and supporting documentation to ensure it's during the period of performance. However, the program staff do not document their review nor do they communicate their approval back to fiscal staff that they can proceed with payment. Therefore, we have concluded that there is a **design weakness** in this process and will not consider testing as a control.

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The Department asserts that their Fiscal Monitoring process is a secondary control to ensure subrecipient expenditures are during the period of performance. After reviewing the policy and procedures for Fiscal Monitoring, we identified two issues in the design of the Department's fiscal monitoring process:

- The procedure states that any subrecipient receiving "less than \$100,000 in federal funds from DOH in a fiscal year are exempt from a fiscal monitoring review."
- Nancy Wallace, Fiscal Monitoring Unit Manager, informed us that there is no guidance for how many samples to pull, so the Fiscal Reviewer will judgmentally select them based on risk, high dollar amount, etc.

Because of these, we have concluded that there is a **design weakness** in the Department's Fiscal Monitoring and will **not** be testing it as a control.

Based on our understanding of internal controls over Activities Allowed and Cost Principles, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess **preliminary control risk as high and will report a finding for a material weakness at 2022-031** The Department of Health did not have adequate internal controls over and did not comply with requirements to ensure payments to providers were allowable, met cost principles, and were within the period of performance for the Immunization Coopera.

## 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.*

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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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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,

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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.***

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)).

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### §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).

| 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   | On the date on which the State or  |

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|  |   |
|--|---|
| personal services.   | 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 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.

In SFY22, DOH received additional Immunization funding for COVID related expenditures. To ensure an accurate and complete understanding of the period of performance for these different fund sources, we requested the Department provide a table outlining the period of performance for each award and award year, see [FY22 Period of Performance Table](#).

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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.

On August 2, 2022 the following staff from the Department of Health (DOH) and SAO met via Teams meeting to discuss the internal controls over period of performance:

#### DOH

- Jeff Arbuckle, External Audit Manager
- Kristina White, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Violet Byrns, Grants Manager, Office of Financial Services
- Tawney Harper, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Cheryl Moore, Health Services Consultant 3, Office of Financial Services

#### SAO

- Darrien Trias, Auditor in Charge

At the beginning of a new federal fiscal year, the grants team creates a work order for new master index coding to be added to AFRS in order to track the period of performance requirement. At the end of a federal fiscal year award period, the grants team will request that the closing award year coding be closed within AFRS to ensure no additional expenditures are applied to the closed award year. DOH explained that the coding is determined by their master index and cannot use a charge code that is outside the period of performance. The Department ensures this by entering the start and end date for funds being used. DOH also added that an error report is generated if any coding is used for different projects or one that is not open yet.

The A-19s are received by program. The Program Manager reviews expenditures submitted by subrecipients on A-19s to ensure all costs are allowable and are within the period of performance. After this, they enter all subrecipient reimbursements into an Excel spreadsheet, which is tracked on a SharePoint site for each program. The Grants Manager, or another Grants Unit staff member, will e-sign the A-19 prior to payment to evidence their review. As part of their review, the Grants Manager or Grants Unit staff member will verify that the expenditures claimed by the subrecipient were incurred during the award period of performance. This is one of the same internal controls that will be tested during our testing of Activities Allowed/Unallowed and Allowable Costs/Cost Principles.



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**Deficiencies identified:** The Department asserts that program staff review the A-19 and supporting documentation to ensure it's during the period of performance. However, the program staff do not document their review nor do they communicate their approval back to fiscal staff that they can proceed with payment. Therefore, we have concluded that there is a **design weakness** in this process and will not consider testing as a control.

## ***Fiscal Monitoring***

Since the Department does not review detailed support when approving A-19s, the Department has a fiscal review process for subrecipients to ensure reimbursements are adequately supported with detailed documentation to meet period of performance requirements. See [A-B. Payments to Providers Activities Allowed/Cost Principles - Controls](#) for fiscal review process details.

We received a copy of the Federal Subrecipient Fiscal Monitoring Review Procedure (see, ). After reviewing the policy and procedures for Fiscal Monitoring, we identified two issues in the design of the Department's fiscal monitoring process:

- The procedure states that any subrecipient receiving "less than \$100,000 in federal funds from DOH in a fiscal year are exempt from a fiscal monitoring review."
- Nancy Wallace, Fiscal Monitoring Unit Manager, informed us that there is no guidance for how many samples to pull, so the Fiscal Reviewer will judgmentally select them based on risk, high dollar amount, etc.

Because of these, we have concluded that there is a **design weakness** in the Department's Fiscal Monitoring and will **not** be testing it as a control.

**Evaluation of Results:** Did you identify any control deficiencies? Yes.

1. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.

2. The Department asserts that program staff review the A-19 and supporting documentation to ensure it's during the period of performance. However, the program staff do not document their review nor do they communicate their approval back to fiscal staff that they can proceed with payment. Therefore, we have concluded that there is a **design weakness** in this process and will not consider testing as a control.

The Department asserts that their Fiscal Monitoring process is a secondary control to ensure subrecipient expenditures are during the period of performance. After reviewing the policy and procedures for Fiscal Monitoring, we identified two issues in the design of the Department's fiscal monitoring process:

- The procedure states that any subrecipient receiving "less than \$100,000 in federal funds from DOH in a fiscal year are exempt from a fiscal monitoring review."
- Nancy Wallace, Fiscal Monitoring Unit Manager, informed us that there is no guidance for how many samples to pull, so the Fiscal Reviewer will judgmentally select them based on risk, high dollar amount, etc.

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Because of these, we have concluded that there is a **design weakness** in the Department's Fiscal Monitoring and will **not** be testing it as a control. Therefore, we assess the control risk as HIGH.

## **Preliminary Control Risk Assessment**

### **Step 4**

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). See, 2022-031 The Department of Health did not have adequate internal controls over and did not comply with requirements to ensure payments to providers were allowable, met cost principles, and were within the period of performance for the Immunization Coopera.

## **C.12.PRG - 93.268-Immunization Cooperative Agreements - DOH**

*Procedure Step:* L. Reporting - Controls

*Prepared By:* DT, 7/28/2022

*Reviewed By:* CCM, 8/2/2022

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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

### **Source:**

- Jeff Arbuckle, External Audit Manager
- Kristina White, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Violet Byrns, Grants Manager, Office of Financial Services
- Tawney Harper, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Nicole Avelar, Health Services Consultant 4, Office of Immunizations

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- Jolene Black, COVID Deputy & Business OPS Section Manger, Office of the Assistant Secretary

## **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.*

#### **AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

##### **Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282)**

**(Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

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**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

**(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).

### **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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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**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.*

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**

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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)<br/>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**

We reviewed the scope of work per the grant agreement and Part 4 of the Compliance Supplement and determined there are no specific requirements for Reporting.

DOH is required to submit an SF-425 report. This report is generated and submitted annually for the close of the grant cycle.

**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.

On June 13, 2022 the following staff from the Department of Health (DOH) and SAO met via Teams meeting to discuss the internal controls over SF-425 reporting:

### DOH

- Jeff Arbuckle, External Audit Manager
- Kristina White, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Violet Byrns, Grants Manager, Office of Financial Services
- Tawney Harper, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Nicole Avelar, Health Services Consultant 4, Office of Immunizations
- Jolene Black, COVID Deputy & Business OPS Section Manager, Office of the Assistant Secretary

### SAO

- Cassandra Metzler, Assistant Audit Manager
- Darrien Trias, Auditor in Charge

The Department maintains a instructions on how to submit a Federal Financial Report (see, FFR Federal Instructions)Instructions.

For SFY22, The Department received one Notice of Agreement (NOA) that includes a five year cooperative agreement with a one year budget period. Each year the Department receives a new NOA they need to submit an SF-425 annually, confirmed by CDC guidelines (see, CDC General Terms and Conditions).Frequency of Submission The Finance Office handles the SF-425 processing and is required to submit the final report 90 days after the award period ends.

The Department explained that DOH receives an NOA for grant awards in a generic email box for the Grants Department. The monitor of the email box then forwards the NOA on to the assigned analyst. The analyst looks at the FFR requirements in the NOA and starts an Excel spreadsheet where they can track the progress of reporting and total award spent. A Fiscal Analyst uses unique account coding to identify grant expenditures and revenue recorded in AFRS to generate accurate accounting data to complete the SF-425 annually. (**Key Internal Control #2 - Control Activities**) Month two after the close of period is when cost allocation is completed and the SF-425 can be drafted. Approximately 70-80 days after the close of the period, a Fiscal Analyst completes a draft SF-425 in the Grants Management System with data from AFRS. The draft SF-425 is then given to a Grants Manager or a Health Service Consultant 3 (HSC3) with any additional work sheets for review. The only staff that have access to approve the SF-425 are grants managers and HSC3s. PMS does not allow the same person to submit and approve at the same time. The analyst fills out the information in PMS and notifies the HSC3 to review and approve the report in PMS. The electronic approval is documented in PMS and the Department saves a copy (**Key Internal Control #3 - Control Activities**).

### **Key Internal Controls Identified:**

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**Key Internal Control #1:** A Fiscal Analyst uses unique account coding to identify grant expenditures and revenue recorded in AFRS to generate accurate accounting data to complete the SF-425 annually. **(Control Activities)**

**Key Internal Control #2:** The Grants Manager or HSC3 reviews the FFR for accuracy before releasing the report. **(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 to determine if we can place reliance on the controls.

## C.12.PRG - 93.268-Immunization Cooperative Agreements - DOH

**Procedure Step:** N. Special Tests and Provisions - Controls

**Prepared By:** DT, 3/28/2023

**Reviewed By:** CCM, 3/28/2023

|                      |
|----------------------|
| 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:

- **Control, Accountability, and Safeguarding of Vaccine**
- **Record of Immunization**

To provide a preliminary control risk assessment based upon our understanding of the internal controls **Control, Accountability, and Safeguarding of Vaccine** and **Record of Immunization**.

### Purpose

### **Source:**

- Jeff Arbuckle, External Audit Manager
- Kristina White, Director, OFC of Immunization & Child Profile, Office of Immunizations



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- Tawney Harper, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Jolene Black, COVID Deputy & Business OPS Section Manger, Office of the Assistant Secretary
- Janel Jorgenson, Vaccine & Registry Integration Section Manager, Office of Immunizations

## **Conclusion:**

- Control, Accountability, and Safeguarding of Vaccine
- Record of Immunization

Based on our understanding of internal controls over Special Tests and Provisions, we assessed preliminary control risk as low and then tested the key controls. Based on our testing, internal controls are in place and operating as intended to prevent material noncompliance with federal requirements. **Final risk assessment is 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.

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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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).

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 Special Tests and Provisions.

We reviewed Part 4 of the Compliance Supplement for any program specific requirements:

**Special Test 1 Control, Accountability, and Safeguarding of Vaccine:** Effective control and accountability must be maintained for all vaccine under the VFC program. Vaccine must be adequately safeguarded and used solely for authorized purposes (42 USC 1396s). This includes administration only to VFC program-eligible children, as defined in 42 USC 1396s(b)(2)(A)(i) through (A)(iv), regardless of the child's parent's ability to pay (42 USC 1396s(c)(2)(C)(iii)).

We also reviewed the CDC's program requirements (see, <https://www.cdc.gov/vaccines/covid-19/vfc-vs-covid19-vax-programs.html>) which specifies the requirement that: Awardees must conduct and record VFC compliance site visits covering areas of provider details, eligibility, documentation, storage and handling (per unit and site wide), and inventory management with each VFC provider every 24 months.

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**Special Test 2 Record of Immunization:** A record of vaccine administered shall be made in each person's permanent medical record (or in a permanent office log or file to which a legal representative shall have access upon request) (42 USC 300aa-25), which includes:

- a. Date of administration of the vaccine;
- b. Vaccine manufacturer and lot number of the vaccine; and
- c. Name and address and , if appropriate, the title of the health care provider administering the vaccine.

## 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.

The two special tests are overseen by the same agency representatives and have a lot of overlap in procedures and personnel so we will cover both special tests in this section.

We reviewed DOH's public website where all information for new and continued providers is located (page titled "[Childhood Vaccine Program](#)"). The website has policies and procedures for the Vaccine program including written guidelines for accountability reporting, which requires monthly reconciliation of physical inventory as well as vaccines administered during reporting period for all providers. (See, [Vaccine Accountability Overview](#)) (**Key Control #1 - Information and Communication**)[Policies and Procedures](#)

### **Special Test #1 - Control, Accountability, and Safeguarding of Vaccine & Special Test #2 - Record of Immunization**

On June 16, 2022 the following staff from the Department of Health (DOH) and SAO met via Teams meeting to discuss the internal controls over Special Test #1 and #2:

#### DOH

- Jeff Arbuckle, External Audit Manager
- Kristina White, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Tawney Harper, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Jolene Black, COVID Deputy & Business OPS Section Manger, Office of the Assistant Secretary
- Janel Jorgenson, Vaccine & Registry Integration Section Manager, Office of Immunizations

#### SAO

- Cassandra Metzler, Assistant Audit Manager
- Darrien Trias, Auditor in Charge

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The Department maintains a Desk Manual which includes procedures to ensure compliance for Special Tests 1 & 2 (see, [PSS Desk Manual](#))(**Key Internal Control #2 - Control Activities/Information and Communication**).

Providers are split into 9 regions, which are assigned to a Health Services Consultant at DOH. Providers must agree to comply with the VFC program requirements by signing a provider agreement that is a replica of the CDC's template. The Department of Health is responsible for approving and submitting all provider vaccine orders before they are sent to the CDC for fulfillment. The Health Services Consultant is responsible for approving vaccine orders. Before an order is approved, the Health Services Consultant checks that the request is reasonable and reviews the system to confirm the provider is up to date and in compliance with their monthly accountability reporting (**Key Control #3 Control Activities**). Accountability reporting consists of three reports: 1) Doses administered, 2) Inventory reconciliation, and 3) Temperature log. The doses administered report includes detail of how many doses were given the previous month, to which age group, and the lot number of the vaccines given. Should a provider report that a public vaccine was given to someone 19 years or older, the Health Services Consultant works on a corrective action plan with the provider to ensure it doesn't happen again. The inventory reconciliation report shows any manual adjustments to the provider's inventory made the previous month. Finally, the temperature log details the fridge and/or freezer temperature for the previous month. The daily maximum and minimum temperatures are recorded by a data logger that needs to be reset each day for accuracy. The Health Services Consultant can usually point out when a data logger has not been reset because the same max/min temperature will be reported for consecutive days. The second set of temperatures are reported by the provider and consist of two readings; one in the morning and one in the afternoon. The temperature log is faxed or e-mailed to DOH, while the doses administered report and inventory reconciliation report are submitted in the Immunization Information System (IIS). If a provider shows a pattern of inaccurate temperature logs and/or they are losing vaccines due to improper storage, DOH has an Assurance Coordinator who investigates the matter. If a provider is not up to date on their accountability reporting, the order will be placed on hold by the Health Services Consultant and approved once they are back in compliance.

A site visit is required once every 24 months for all approved providers. DOH trains all regional teams (contracted to the local health jurisdictions) and has a DOH site visit trainer to keep procedures standardized. In addition to site visits, local health departments are tasked to:

- Enroll new providers into the Washington Childhood Vaccine Program
- Process disenrollment paperwork and facilitate vaccine transfer/removal
- Conduct follow-up site visits
- Conduct AFIX (Assessment, Feedback, Incentive, and Exchange) visits at 25% of enrolled providers

Janel explained that the 9 Local Health Jurisdictions (LHJ's) are staffed by 9 reviewers and a couple of DOH staff who perform the site visits.

All site visits are completed using the CDC compliance visit tool and tracked in the Provider Education Assessment and Reporting system (PEAR), which is the federal government's (CDC) nationwide online reporting system. PEAR's "Program Overview" home page shows a list of providers due for site visits along with links to the total number of providers due for a visit in the current SFY, number of providers that are overdue for a visit, and number of providers that will become overdue if not visited in this period. Site visits must be entered into PEAR within 5 days but are usually entered by the reviewer in real time. Only rare cases where the reviewer does not have internet access are they permitted to use a written copy which they must enter into PEAR once internet is restored. Site visits include a variety of areas, including determining whether providers ensure the vaccine is properly safeguarded and used only for eligible children for authorized purposes. Providers enrolled in the Vaccines for Children (VCF) program are required to put all vaccine records in the patient's permanent medical record. Part of the site visit consists of testing 10 records within the past 6 months to confirm that the provider is documenting vaccine records into the patient's

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permanent medical record. If the provider has not vaccinated 10 VCF patients in the last 6 months, the site reviewer will extend the window to include the past 12 months. During a site visit, reviewers use a standardized checklist (see, [2021 Compliance Visit Reviewer Guide PEAR 08.09.2021 \(1\)](#) ) to ensure the compliance requirements for Special Tests 1 and 2 are met (**Key Internal Control #4 - Control Activities**). [Compliance Visit Reviewer Guide](#)

At the beginning of every new budget period, in July, the regional representatives run reports for their region and submit a plan of which sites they will visit each month. These plans are reviewed by the Site Visit Coordinator to ensure no sites that will be due for visits are missing from each region's site visit project schedule. This ensures that every provider receives a visit every 12 months. Based off of these plans the Department runs these reports at the beginning of every month to identify which visits have been conducted and any overdue visits. Then, the Site Visit Coordinator reviews this data and compiles a "Site Visit Status Report" (for an example see, [May Site Visit Status Report Upcoming Meetings Updates](#)) and shares the information with regional representatives and their supervisors. (**Key Internal Control #5 - Monitoring**). The "Site Visit Status Report" details who conducted the visit, how many visits were completed and if there are any visits that need to be conducted for the month.

### **Key Internal Controls Identified:**

**Key Internal Control #1:** The Department posts on the public facing website written guidelines and policies/procedures for the VFC program, accessible by all providers, to ensure providers understand the federal requirements for compliance.

**Key Internal Control #2:** The Department maintains a Desk Manual which includes procedures to ensure compliance for Special Tests 1 & 2.

**Key Internal Control #3:** A Health Services Consultant reviews the accountability report to ensure the provider is in compliance prior to approving a vaccine order.

**Key Internal Control #4:** The regional representative of DOH that completes the site visit utilizes the required CDC compliance visit guide tool to ensure the vaccine is properly safeguarded, used only for eligible children for authorized purposes, and that required immunization information was entered in to the permanent medical record.

**Key Internal Control #5:** DOH LHJ Coordinator runs a report at the beginning of each month to identify visits that have been conducted and any overdue visits. The DOH LHJ Coordinator e-mails this report to their supervisor and the LHJ's that complete the site visits that includes a "Site Visit Status Report" to ensure that the visits are completed when due and completed every 24 months.

**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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## C.14.PRG - 93.323-Epidemiology and Laboratory Capacity for Infectious Diseases

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

***Prepared By:*** LS, 12/6/2022

***Reviewed By:*** CCM, 12/7/2022

### 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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

#### **Source:**

Jeff Arbuckle, Audit Liaison

Maria Bojorquez, Finance Supervisor

Cindy Domingo, Health Services Consultant

Lisa Devall, Health Services Consultant

Mary Craig, Health Services Consultant

Mary Clark, Financial Operations Manager

Michelle Chung, Management Analyst

#### **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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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, 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.

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**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)**

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.

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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 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

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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)**

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

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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.

#### **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

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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**

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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| Population Size   | Assurance Needed and/or Expected Deviations |                          |                                 |
|---|---|--------------------------|---------------------------------|
|   | Low   | Moderate                 | High                            |
| <i>Formula (rounded up)<br/>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 <b>types</b> 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 <b>only</b> 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**

##### Indirect Costs

Indirect costs are documented in the SEFA Reconciliation (see, [ELC SEFA Reconciliation](#)). For more details regarding indirect costs see [A-B. Activities Allowed/Cost Principles - Controls Indirect Costs](#).

##### Material Expenditures

We identified the SubObject NB expenditure activities that are directly charged to the program and are quantitatively material (more than 5%): [SFT22 ELC Expenditure and Revenue Final](#)

### **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.

## **Sub-Object NB - Pymts to Prvdrs for Direct Client Srvcs**

On October 5, 2022 we met with the following DOH staff to gain an understanding of any changes to the Department's internal controls over expenditures coded to Object N (Grants, Benefits, and Client Services); SubObject NB - "Subrecipient Pass-Through".

- Jeff Arbuckle, Audit Liaison
- Maria Bojorquez, Finance Supervisor
- Cindy Domingo, Health Services Consultant
- Lisa Devall, Health Services Consultant
- Mary Craig, Health Services Consultant
- Mary Clark, Financial Operations Manager
- Michelle Chung, Managment Analyst

ELC subrecipients are divided into one of two groups: Consolidated Contracts ("Con-cons"), and Non-Consolidated Contracts ("Non-cons"). Consolidated contracts are awarded to Local Health Jurisdictions (**LHJ's**; "counties") and encompass all the federal awards passed through to that entity by the Department of Health. Under these agreements, all funding is consolidated into one contract. These contracts have separate statements of work for each federal program.

Subrecipients are awarded federal funds on a reimbursement basis only.

Payments to Local Health Jurisdictions (LHJ's; consolidated contracts):

LHJ's submit an A-19 payment voucher along with a summary level financial report (GL report) to the Department requesting reimbursement for expenditures incurred under all federal grants, including Immunizations. LHJs submit their A-19 reimbursement request to the Office of Accounting and Grants (OAG) at the Department. Depending upon their risk level (assessed by the Department's Financial Operations at the time of each contract period), the Department imposes different requirements for each LHJ for their required supporting documentation. The Department maintains a Documentation Matrix, which outlines the requirements for submitting supporting documentation based on risk category, and expense type (see: [A19 Documentation Standardization Matrix -January 2021](#)).

There are varying requirements among Low, Moderate, and High Risk subrecipients for each of the following expense categories:

- Salaries & Wages
- Fringe Benefits

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- Equipment
- Materials and Supplies
- Travel Costs (In-State, and Out-of-State)
- Subcontracts
- Administrative/Indirect Costs
- Other Miscellaneous Expenses (as specified under the subaward)

When DOH receives an A-19, the Contract Managers reviews the A-19 and supporting documentation to ensure the goods/services billed by the subrecipient are delivered. Mary or her staff review each reimbursement request, review and confirm the expenditures are allowable for reimbursement under the subrecipient's subaward terms and conditions, and save a copy of the submitted A-19 and supporting documentation to a shared network drive. As part of the Mary and staff's review, they will recalculate the charges submitted by the subrecipient and ensure all costs are allowable and accurately determined. Each A-19 reimbursement request is reviewed prior to payment to ensure expenditures claimed by the subrecipient were incurred during the award period of performance. **(Key Control #1 - Control Activities) This control will apply to both Allowable Costs/Cost Principles and Period of Performance.** After this, they enter all subrecipient reimbursements into an Excel spreadsheet, which is tracked on a SharePoint site for each program. After approval, the A-19 for reimbursement, it is sent to Accounting for processing.

We requested an Internal Control Letter from the Department but did not receive one.

### **Key Internal Controls Identified:**

**Key Internal Control #1:** An appointed program staff member will review and sign the A-19 prior to payment to ensure the payment is for allowable activity and was incurred during the period of performance **(Key Control #1 - 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 to determine if we can place reliance on the controls.

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## C.14.PRG - 93.323-Epidemiology and Laboratory Capacity for Infectious Diseases

***Procedure Step:*** A-B. Activities Allowed/Cost Principles - Controls Salaries and Benefits

***Prepared By:*** LS, 12/5/2022

***Reviewed By:*** CCM, 12/7/2022

### 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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

#### **Source:**

Jeff Arbuckle, Audit Liaison

Maria Bojorquez, Finance Supervisor

Cindy Domingo, Health Services Consultant

Lisa Devall, Health Services Consultant

Mary Craig, Health Services Consultant

Mary Clark, Financial Operations Manager

Michelle Chung, Managment Analyst

#### **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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

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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.

### 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)<br/>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 <b>types</b> 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 <b>only</b> 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. |
|----------------------|

### **Salaries and Benefits**

### **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**

#### **Indirect Costs**

Indirect costs are documented in the SEFA Reconciliation (see, [ELC SEFA Reconciliation](#)). For more details regarding indirect costs see [A-B. Activities Allowed/Cost Principles - Controls Indirect Costs](#).

#### **Material Expenditures**

We identified the Object A/B activities that are directly charged to the program and are quantitatively material (more than 5%): [SFT22 ELC Expenditure and Revenue Final](#).

### **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.

### **Objects A & B - Salaries and Benefits:**

On October 5, 2022 we met with the following DOH staff to gain an understanding of internal controls over salaries and benefits charged to the ELC program.

- Jeff Arbuckle, Audit Liaison
- Maria Bojorquez, Finance Supervisor
- Cindy Domingo, Health Services Consultant
- Lisa Devall, Health Services Consultant
- Mary Craig, Health Services Consultant
- Mary Clark, Financial Operations Manager
- Michelle Chung, Managment Analyst

ELC salary and benefit time charges for an employee can be accounted for in one of two ways; as a semi-monthly timesheet or as a quarterly certification. If an employee charges multiple funding sources or programs, they must complete a timesheet. If an employee is to prepare timesheets, they must submit their time and effort by completing a time sheet each pay period, otherwise the employee is hard coded in the system and they do not need to submit time and effort; they must submit a quarterly certification stating that they only worked on one grant activity category. If an employee is identified as applicable for completing quarterly certifications, they are hard coded and program fiscal staff are responsible for updating the payroll office as needed. If the employee completes regular timesheets, then fiscal staff are responsible for updating the master index coding in the "Master List" which updates the Payroll department at the start of each grant period.

We requested a report of all employees that submitted a quarterly certification and a report with all payroll costs incurred during our audit period. Upon analyzing these reports, we found that the quarterly certifications totaled \$1,207,255 of the total payroll costs of \$54,168,209. This equates to 2.23% of payroll expenditures (see [Payroll SWSA Sampling with Stratification tabs](#)). Because this falls well below our materiality threshold of 5%, we will scope out quarterly certifications from any further work and focus our understanding on employees that submit time and effort.

### **Employees Who Submit Time and Effort**

Employees who submit their time and effort complete a time sheet every two weeks. Program fiscal staff are responsible for updating the "Master List" with coding for time and effort employees. The Master List is a shared document on the Department's SharePoint. Only assigned program fiscal staff are able to add and update coding. (Control Activities) Employees are unable to make changes to the coding or demographics on their time sheets. At the end of each

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pay period, the employee will electronically sign their time sheet. Following the employee's signature, their supervisor reviews the time sheet for accuracy and electronically signs to evidence their review. **(Key Control #1 - Control Activities)** The time keeper (Unit AA3 or backup) will review all time sheets and verify the following information; a) all hours are entered and accurate, b) all leave is accurate and approved, c) time sheets are signed and dated by employees and supervisors, and d) employees with Overtime, Comp, or Exchange time have completed required additional forms. The Unit AA3 will evidence their review by checking the "Verified by Attendance Keeper" check box and save the time sheets to the shared drive. (Control Activities) The Payroll unit runs a "time sheet errors" report which checks for errors such as improper coding. (Monitoring) This report is forwarded on to the timekeepers to resolve with program staff. Two days after the payroll cutoff, the Payroll department sends the time sheets in an Excel file to Office of Financial Management (OFM) to enter into HRMS. During this same time, payroll will convert the file to a PDF and save to the share drive drive in case the attendance keepers need to access them. Additionally, they perform a "signature audit" which is a report listing every time a time sheet was modified and by who.

### **Key Internal Controls Identified:**

**Key Internal Control #1:** A supervisor reviews an employee's time sheet for accuracy and electronically signs to evidence their review. **(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 to determine if we can place reliance on the controls.

### **C.14.PRG - 93.323-Epidemiology and Laboratory Capacity for Infectious Diseases**

**Procedure Step:** A-B. Activities Allowed/Cost Principles - Controls Other Professional Services and Supplies and Materials

**Prepared By:** LS, 1/5/2023

**Reviewed By:** CCM, 1/5/2023

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## 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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

### **Source:**

Jeff Arbuckle, External Audit Manger

Maria Bojorquez, Finance Supervisor

Mary Clark, Financial Operations Manager

Cindy Domingo, Health Services Consultant

Kristina White, Director Office of Accounting and Grants

### **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:

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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.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate



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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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)<br/>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 <b>types</b> 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 <b>only</b> 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

#### Indirect Costs

Indirect costs are documented at A-B. Activities Allowed/Cost Principles - Controls Indirect Costs.

#### Material Expenditures

We identified the SubObject CZ and SubObject EA expenditure activities that are directly charged to the program and are quantitatively material (more than 5%): SFT22 ELC Expenditure and Revenue Final

## **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.

Upon inquiry with the Department, we found that both SubObject CZ and EA use the same internal control process over allowable activities of expenditures. Therefore we decided to combine the understanding of these two areas.

#### **Sub-Object CZ - Other Professional Services and Sub-Object EA Supplies and Materials**

On December 15, 2022, we met with the following DOH staff to gain an understanding of internal controls over allowable activities of expenditures coded to Subobjects CZ and EA:

- Jeff Arbuckle, External Audit Manger
- Maria Bojorquez, Finance Supervisor
- Mary Clark, Financial Operations Manager
- Cindy Domingo, Health Services Consultant
- Kristina White, Director Office of Accounting and Grants

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Mary explained that when DOH receives an A-19 with supporting documentation from a vendor, it gets sent to her or her team. They will start a review of the invoice and supporting documentation by comparing it to the contract deliverables. Mary informed us that the contract language includes the period of performance as a requirement. If there are no issues, the A-19 will get sent to the contracts manager for their review. If the vendor has not met all of the requirements for payment, the invoice is returned. The contract manager reviews the A-19 and supporting documentation to ensure it is for allowable activities prior to sending the A-19 to be processed for payment. This review is documented via email when it is sent to the contracts coordinator to initiate payment process in the Department's A-19 system, called "Service Central" (**Key Control #1 - Control Activities/Information and Communication**).

We requested an Internal Control Letter from the Department but did not receive one.

## **Key Internal Controls Identified:**

**Key Control #1:** The contract manager (for CZ) or the program manager (for EA) reviews the A-19 and supporting documentation to ensure it is for allowable activities prior to sending the A-19 to be processed for payment. This review is documented via email when it is sent to contract coordinator (for CZ) or accounting (for EA) for payment (**Control Activities/Information and Communication**).KC1 Wording

**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 to determine if we can place reliance on the controls.

## **C.14.PRG - 93.323-Epidemiology and Laboratory Capacity for Infectious Diseases**

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

**Prepared By:** SNK, 2/28/2023

**Reviewed By:** CCM, 3/2/2023

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## 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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

### **Source:**

-

- Jeff Arbuckle, External Audit Manger
- Kristina White, Director Office of Accounting and Grants
- Vesna Agina, Cost Allocation 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.

#### **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:

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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.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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)<br/>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 <b>types</b> 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 <b>only</b> 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**

# State of Washington

## 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

#### Material Expenditures

We identified Indirect Cost expenditure activities that are directly charged to the program and are quantitatively material (more than 5%). For additional detail see: ELC SEFA Reconciliation DOH uses a cost allocation plan to ensure the indirect cost rate for ELC is met every year. See: G3-7390-2020 WA Dept. of Health RA

#### Indirect Costs

We requested and received the Cost Allocation System Manual from Vesna Agina on January 12, 2023. See: CAS Processing Manual 05 2022

## 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.

#### Indirect Costs

- On December 15, 2022 Jeff Arbuckle provided us a CAS overview document and a old SAO write up which DOH asserted explained the process that is used each fall to develop the proposal for the upcoming state fiscal year. It begins with a request for the indirect rate (provisional final). They submit actuals for the previous period and estimate anticipated future cost by identifying any increases or decreases in the upcoming period for each division. It is sent to Health and Human Services Department (HHS) for review and approval. HHS then sends DOH the State and Local Rate Agreement, which documents the rates (**Key Control #1- Information and Communication**). Once the State and Local Rate Agreement is received and authorized to charge up to these rates, the rates go into a stand alone cost allocation system. The cost allocation system and associated rates on the chart of accounts is updated monthly. State fiscal year-to-date totals are tracked as well.

The ADDS data extract provides the source of accounting transaction data to CAS. This extract selects allowable direct and indirect expenditures based on pre-criteria including GL Accounts 6505 accrual and 6510 cash and allowable objects, sub-objects. The extract is used to calculate indirect allocations. In general, CAS separates all of the months accounting transactions into three pots.

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- Modified Total Direct Cost base (MTDC)
- Pass-through base
- Ignored by CAS

The calculations made by CAS are based on the allowable costs (A and B above) multiplied by the assigned CAS rate as listed in the Chart of Accounts (COA) for each division. CAS uses the percentages that are listed in the Chart of Account line of coding. Finally, CAS creates an electronic JV with the calculated indirect amounts summarized at the appropriation index level. This JV is sent to and is posted in AFRS, so this calculated amount becomes a real expenditure. CAS retains detailed data specific to each line coding.

The Modified Total Direct Costs (MTDC) is a provisional rate which cannot be over-earned. A lower rate is used to correct direct spending. The rate cannot exceed the provisional rate, but it can be less than it. When divisions meet monthly to look at indirect earnings, management will analyze and approve an adjustment on the chart of accounts if they think it'll over-earn.

**Key Control #1-** HHS will send DOH the State and Local Rate Agreement, which shows the approved indirect rates that DOH may use during the year **(Information and Communication)**.

On January 12, 2023 we met with the following DOH staff to gain an understanding of internal controls over allowable activities of indirect costs:

- Jeff Arbuckle, External Audit Manager
- Kristina White, Director Office of Accounting and Grants
- Vesna Agina, Cost Allocation Manager

During this meeting, Vesna, Cost Allocation Manager, informed us that after a month close usually mid-month the following month (in example, January's Reports would be completed mid February) she runs reports out of DOH's Cost Allocation System (**CAS**). After CAS is run, the FOMs and budget managers look at the reports to make sure that they are accurate. If there are any discrepancies identified, they will review CAS and re-run it for that month. Once the reports are review, Vesna reconciles them to AFRS and confirm DOH is on track to meet their indirect cost rate for the year. If during this review, she identifies that DOH is not on track to meet the indirect cost requirement. She will notify the various divisions, who will then work out a plan to modify their divisional indirect costs to ensure DOH will meet the requirement. Each division has their own indirect cost percentage to meet to ensure DOH as a whole will meet the requirement by the end of the year. Lastly, towards the end of the fiscal year DOH run a report from CAS system and complete a review of the report to ensure they did not go over our approved rate.

\*Note: Vesna became the Cost Allocation Manager in May 2022.\*

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**Key Control #1-** HHS will send DOH the State and Local Rate Agreement, which shows the approved indirect rates that DOH may use during the year (Information and Communication).

**Key Control #2-**On a monthly basis, the Cost Allocation Manager pulls report out of CAS and reconciles to AFRS to ensure DOH is on track to meet their indirect cost requirements. (Control Activities/Monitoring)

We requested an Internal Control Letter from the Department but did not receive one.

### **Key Internal Controls Identified:**

-

**Key Control #1-** HHS will send DOH the State and Local Rate Agreement, which shows the approved indirect rates that DOH may use during the year (Information and Communication).

**Key Control #2-**On a monthly basis, the Cost Allocation Manager pulls report out of CAS and reconciles to AFRS to ensure DOH is on track to meet their indirect cost requirements. (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 to determine if we can place reliance on the controls.

### **C.14.PRG - 93.323-Epidemiology and Laboratory Capacity for Infectious Diseases**

**Procedure Step:** C. Cash Management - Controls

**Prepared By:** LS, 2/10/2023

# State of Washington

**Reviewed By:**

CCM, 2/13/2023

Purpose/Conclusion.:

**Purpose:**

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

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to cash management.

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

**Source:**

Kristina White, Director, Office of Accounting and Grants  
Violet Byrns, Grants Manager, Office of Financial Services  
Jeff Arbuckle, External Audit 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

# State of Washington

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.

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

## State of Washington

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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

(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.



## State of Washington

- (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.

(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.**

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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)<br/>where N = population<br/>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

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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

#### Not subject to the CMIA Agreement

We reviewed OFM's Cash Management Improvement Act (CMIA) Agreement between the State of Washington and The Secretary of the Treasury and determined that the ELC does not meet the threshold required to be included in the CMIA.

#### Awards to Subrecipients

The Department of Health made awards to subrecipients in SFY22. Total funds (direct and indirect) expended for this program through the end of SFY22 (including fiscal year close) were \$329,794,203. Subrecipient expenditures in SFY22 were \$102,546,326; 31.09% of total grant expenditures (see:[ELC SEFA Reconciliation](#)).

## 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 sent the internal control letter request to the Department on September 20, 2022 (see [Internal Control request letter - Cash Management](#)). The Department responded that the controls for cash draws are the same as the WIC and Immunization federal programs being reviewed during this audit period. The Department requested we reference the response provided for those programs.

On September 28, 2022 the following staff from the Department of Health (DOH) and SAO met via Teams meeting to discuss the internal controls over cash management:

#### DOH

- Jeff Arbuckle, External Audit Manager
- Kristina White, Director, Office of Accounting and Grants
- Violet Byrns, Grants Manager, Office of Financial Services

#### SAO

- Cassandra Metzler, Assistant Audit Manager
- Laura Shackley, Auditor in Charge

The Department maintains a Grants Unit Desk Manual which includes procedures for completing draws (see, [Federal Revenue Semi-Monthly Draw Procedure 2021 EK](#)) (**Key Internal Control #1 - Control Activities/Information and Communication**).

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The Department operates on a cost reimbursement basis. Draws are done twice a month for the ELC grant.

The draws are processed twice a month, typically prior to the scheduled pay date. The Cost Allocation System (CAS) allocates indirect costs based on actual expenditures incurred in the previous month. Direct expenditures are obtained from AFRS reports summarizing federal expenditures by project number on a biennium-to-date basis. Indirect expenditures are obtained in the same manner, after the Cost Allocation System has processed the previous months' expenditures and applied the approved allocation rate. Both the direct and indirect expenditures are automatically uploaded into GMS.

Julie Ball, Fiscal Analyst 4, uses the Grants Management System (GMS) to run a grants draw report for the draw that needs to be made. The GMS is an in-house Access database that uses the AFRS Data Distribution System (ADDS), which is extracted AFRS data. This system is updated on a daily basis and shows all direct and indirect costs (from CAS) as well as revenue already received (**Key Internal Control #2 - Control Activities/Information and Communication**). Julie then verifies the available balance in the federal system to the DOH remaining award balance on the Grants Draw Report. GMS automatically calculates a federal cash draw amount using cash expenditures and revenues transferred from AFRS (**Key Control #3 - Automated: Information and Communication**). The grants draw report shows what expenditures are to be drawn for the prior two weeks and will show the difference between prior revenue and current expenditures. Direct expenditures are captured up to the day before the report is run and indirect expenditures are captured through the previous fiscal month. To provide assurance that GMS accurately reflects AFRS expenditures, the Accounting office checks that ADDS reports balance to AFRS daily.

Julie uses the grants draw report produced from the GMS to calculate the draw amount by subtracting the revenue from the expenditures. She fills out the draw summary sheet which includes the amount, the date, the grant doc number, and the account numbers to be drawn from. She accesses the DOH cash journal log and batch log spreadsheets to obtain a Cash Journal (CJ) number and a batch number to assign to the draw. The cash journal log is maintained by the Revenue Team on the Revenue Unit network drive, and the batch log is maintained by the Accounting Team on the Financial Services drive. Julie logs into the Payment Management System (PMS) to input the information from the draw summary sheet. She then submits the draw request in PMS where she prints a confirmation. She creates a Journal Voucher (JV) in AFRS toolbox using the same information as the draw summary sheet and then submits it. The grants draw report, draw summary, confirmation and the JV are combined to create the draw packet. Julie forwards the draw packet to a Health Service Consultant 3 (HSC3) or a Grants Manager, who performs a review and comparison of all the information and signs and dates if everything is correct and properly supported (**Key Internal Control #4 - Control Activities/Monitoring**).

## **Key Internal Controls Identified:**

**Key Internal Control #1:** The Department maintains a Grants Unit Desk Manual which includes procedures for completing draws. (**Control Activities/Information and Communication**)

**Key Internal Control #2:** A fiscal analyst uses the grants draw report from GMS to track, calculate and reconcile the draw amount. (**Control Activities/Information and Communication**)

**Key Control #3 (Automated):** GMS automatically calculates a federal cash draw amount using cash expenditures and revenues transferred from AFRS (**Information and Communication**).

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**Key Internal Control #4:** The Grants Manager or HSC3 reviews all draw packets after submission to ensure they are accurate and complete then signs the draw packet to evidence their review. **(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 to determine if we can place reliance on the controls.

### **C.14.PR.G - 93.323-Epidemiology and Laboratory Capacity for Infectious Diseases**

***Procedure Step:*** I. Suspension and Debarment - Controls

***Prepared By:*** LS, 12/13/2022

***Reviewed By:*** CCM, 12/20/2022

|                      |
|----------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with suspension and debarment requirements.

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

#### **Source:**

Brad Halstead- Finance Assistant Manager

Alyce Benge- Director of Contracts and Procurement

# State of Washington

Cindy Domingo- Health Services Consultant

Maria Bojorquez- Finance Supervisor

Mary Clark- Financial Operations Manager

Kristina White- Director, Office of Accounting and Grants

Jeff Arbuckle- Audit Liaison

## **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 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).

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## 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:

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.*

## State of Washington

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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.]

### **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).

#### 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.

(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

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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 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.

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(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. |
|----------------------|

### Suspension and Debarment

#### 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 Procurement / 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

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environment, risk assessment, control activities, information and communication, and monitoring) as documented in our Overall COSO Evaluation step.

We provided the Department with an Internal Control document on November 14, 2022 ([Internal Control request letter - Suspension & Debarment](#)). The Department responded by stating that suspension and debarment is a centralized process at DOH, therefore we could refer to prior responses.

On November 29, 2022 we met with the following DOH staff to gain an understanding of suspension and debarment:

Brad Halstead- Finance Assistant Manager  
Alyce Bengel- Director of Contracts and Procurement  
Cindy Domingo- Health Services Consultant  
Maria Bojorquez- Finance Supervisor  
Mary Clark- Financial Operations Manager  
Kristina White- Director, Office of Accounting and Grants  
Jeff Arbuckle- Audit Liaison

We first asked to gain a brief understanding of the types of contracts maintained for the ELC program at the Department. There are two types of contracts for ELC subrecipients which include consolidated contracts ("con-cons") and non-consolidated contracts ("non-cons"). Consolidated contracts are awarded to Local Health Jurisdictions (LHJs) and encompass all the federal awards passed through to them by the Department of Health, including ELC (the contract "consolidates" all federal awards into one document). Consolidated contracts typically have a three year contract term and period of performance. These contracts have a separate statement of work for each federal program. Funding provided to LHJs for the ELC Program is part of the funding package the Department has with the LHJs. Non-consolidated contracts are awarded to non-profits and tribes, and these cover ELC funds only and most typically have a contract term and period of performance of one year. Additionally, the Department may enter into non-subrecipient, interagency, or vendor contracts for the use of other goods and services applicable to ELC program objectives.

Prior to beginning the contracting process, a scope of work is sent to the Fiscal Monitoring Unit (FMU) which will first review the entity and contract purpose in order to make a subrecipient determination. Brad explained that this process occurs anytime the Department is creating a contract involving federal funds as a way to ensure that all applicable federal language is included in the contract and its general terms and conditions. Once subrecipient status is determined, it is sent for further processing by the program.

Contracts for non-profits and tribes (non-consolidated contracts) as well as contracts for local health jurisdictions (consolidated contracts) first start with the ELC program staff. Subject matter experts (SMEs) in the program put together the statement of work, along with the funding formula, which is determined by ELC program management. This information is put into something called a CPAR - contract processing action request. After the CPAR is reviewed and approved by staff in various roles, it is sent to the Department budget unit to verify expenditure coding and assign a contract number prefix and then onto staff in contracts management for the actual creation of the contract. The suspension and debarment clause is included in each contract with a ELC subrecipient by way of a boilerplate. Contract management creates the contract documents based on these pre-existing boilerplates, and this unit is responsible for making sure all the

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required terms and conditions are in the contract, including the suspension and debarment clause. The contract is sent to the subrecipient, who, by signing the contract, certifies they are not debarred or suspended, proposed for debarment or suspension, or voluntarily excluded from participating in transactions (**Key Control 1 - Information and Communication**).

After the contract has been signed by the subrecipient/contractor certifying they have met the suspension and debarment requirements, the contract manager will review the contract. After ensuring the contract has been signed by the subrecipient, the contract manager will sign the contract, indicating their review (**Key Control 2- Control Activities**).

We also asked Brad how the Department ensures that they meet the suspension and debarment requirement for "covered transactions" include (contracts for goods and services equal to or in excess of \$25,000). He said that this is achieved by way of boilerplate language in the contract, same as subrecipient agreements, and that by signing the contract, the contractor certifies they are not debarred or suspended, proposed for debarment or suspension, or voluntarily excluded from participating in transactions (**Key Control 1 - Information and Communication**).

As a secondary control, the Contracts Unit also checks the System for Award Management (SAM), which is a federal database used to maintain active exclusions or debarment actions/sanctions against a business or entity. DOH reviews this database for its proposed contractors and subrecipients who may potentially be awarded federal funds, in order to verify there are no active exclusions that federally suspend or otherwise prevent that entity from receiving a federal contract. The SAM database is reviewed prior to awarding the entity a contract, and the search reports are retained in the physical procurement files at DOH. Brad confirmed that the SAM checks are done only at contract execution and not at contract amendment or other periodic times.

### **Key Internal Controls Identified:**

**Key Control 1 - Information and Communication:** DOH contracts include boilerplate language in the contract, same as subrecipient agreements, and that by signing the contract, the recipient/contractor certifies they are not debarred or suspended, proposed for debarment or suspension, or voluntarily excluded from participating in transactions.2nd KC?

**Key Control 2 - Control Activities:** The contract manager verifies that the subrecipient or contractor has signed the contract, which includes the boilerplate suspension and debarment certification. The contract manager will then sign the contract, ensuring that the suspension and debarment requirement has been met.

**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 to determine if we can place reliance on the controls.

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## C.14.PRГ - 93.323-Epidemiology and Laboratory Capacity for Infectious Diseases

***Procedure Step:*** L. Reporting - Controls

***Prepared By:*** CL, 12/16/2022

***Reviewed By:*** LS, 1/4/2023

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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

### **Source:**

Jeff Arbuckle, Audit Liaison  
Mary Craig, Health Services Consultant  
Heather Drummond, COVID 19 Vaccine Director  
Shae Purdue, Health Services Consultant  
Emily Brown, Health Services Consultant  
Michelle Chung, Management Analyst  
Cindy Domingo, ELC Grant Coordinator  
Violet Byrns, Grants Manager  
Judy Edwards, Budget Analyst III  
Mary Clark, Management Analyst  
Maria Bojorquez, PHOCIS Finance Supervisor  
Lisa DeVall, Health Services Consultant  
Amanda Nelsen, Administrative Operations Manager

### **Conclusion:**

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

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## 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.*

#### **AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

##### **Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282)**

**(Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance**

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***Supplement Addendum*) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 *Compliance Supplement* when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

***(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).

### **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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

**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;



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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.***

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 |
|-----------------|---|
|-----------------|---|

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|   | Low                             | Moderate                 | High                            |
|---|---------------------------------|--------------------------|---------------------------------|
| <i>Formula (rounded up)<br/>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**

We have reviewed the scope of work per the grant agreements and program guidelines and determined that the Department is required to report to the Centers for Disease Prevention and Control (CDC) in their RedCap reporting system. Each grant award requires a monthly fiscal report, the Enhancing Detection (ED) and Enhancing Detection Expansion (EDE) awards have a Quarterly reporting of test results requirement. The Reopening Schools award has a monthly test volume data reporting requirement.

### **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.

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We requested the Department provide us with their internal controls over Reporting on September 20, 2022 (See. [Internal Control request letter - Reporting](#)) and the Department did not provide a response.

On October 3, 2022 we met with Jeff Arbuckle, Mary Clark, Maria Bojorquez, Cindy Domingo elc grant coordinator, Violet Byrns grants manager, Judy Edwards Budget Analyst III and Lisa Devall.

The forms in RedCap are designed to cover the specific reporting requirements for each separate award. There are three basic types of reporting in RedCap: Fiscal, Workplan (which is quarterly updates of milestones established by the Department in their grant application), and Performance, which is based on CDC measures.

## **Fiscal Reporting**

Maria and Judy explained the basics of the fiscal reports. The fiscal reports are due on the 5th of each month after the month in question closes. Since the fiscal month is not closed by the 5th, Judy pulls the current expenditures from WebI shortly before the due date to prepare the RedCap report and includes a note that the report is not based on final numbers. She then updates the prior month's report to final since that period has since closed. These reports are not reviewed internally before Judy submits them to the CDC.

On October 3, 2022 we requested the Department provide us with any CDC guidance for preparing the reports, as well as internal written procedures and samples of the reports (see: [RedCap Reporting GuideEDE Reporting](#)).

## **Testing Reporting**

On October 25, 2022 we met with Jeff Arbuckle, Mary Craig, Heather Drummond, Shae Purdue, Emily Brown, Michelle Chung, Cindy Domingo, Mary Clark, Maria Bojorquez, Lisa DeVall and Amanda Nelsen to discuss how the Department gathers the testing data it reports to the CDC.

## **Reopening Schools**

Michelle explained the for Reopening Schools the CDC sends out a template each month to be completed and returned. There are three types of tests that are reported, and data for each type comes from a different source:

- For PCR tests, the Department works with a vendor, Health Commons, whom they refer to as their implementation partner. Other vendors (labor support partners) may perform the testing in schools, or the schools may test in house with support from Health Commons. Health Commons compiles testing data and reports it back to the Department.
- For Antigen tests, schools report using simplereport, which is a website set up by the CDC, and the Department is able to pull the data from the site.
- For Over the Counter tests, the Department reports the number of tests it sent to each school in the Notes column of the template, but it has no way of tracking how many tests were used or what the results were.

## **CICT**

For ED and EDE the Department reports monthly on performance measures related to Case Investigation and Contact Tracing (CICT). The data for these reports are collected from Contact Tracing.

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On November 3 we met with the team responsible for collecting and reporting the CICT data. When a Covid case is identified in the Washington Disease Reporting System (WDRS), it is entered into the Case Risk and Exposure Surveillance Tool (CREST). Epidemiologists at DOH follow contact tracing protocols and enter the results of their investigations into CREST. Each month Eun Ji Sim, Epidemiologist, pulls a sql query from CREST in the report template format. Eun Ji send the report to Kedo Baye for review. Kedo compares the data to the front end of CREST and emails Eun Ji to confirm that the data is correct (**Monitoring**). Eun Ji then sends the data to Ansen Ortega, Health Services Consultant, on the grants team for entry into RedCap. Ansen manually enters the data into RedCap and asks a colleague to verify that the entries match the source data. The data in RedCap is compared to prior periods to verify month over month consistency, and if there appears to be a discrepancy Ansen will email Eun Ji for verification. If the Department determines that the report was incorrect after entry into RedCap, Ansen emails the CDC to adjust the entry.

We requested additional details for controls and received additional feedback at [RE ELC Reporting Controls Inquiry](#) and [SAO Response\\_Reopening Schools Reporting Responses 11-16-22 \(002\)](#) from which we refined the detail for the key internal controls.

### **Key Internal Controls Identified:**

#### **Monthly Fiscal Reporting**

**Key Internal Control #1:** Judy Edwards, Budget Analyst III, uses specific account coding that was set up in the chart of accounts to identify different funding types so that DOH can track accuracy of what's reported or tracking funding types individually.

**Key control #2**– Barbara Eichart, Finance Supervisor, reviewed Judy Edward's data entered to verify that data is accurate after the report has been submitted. After Barb's review if there were adjustments that need to be made, she would email or send a teams message to Judy and then Judy would fix the next month's report entry to reflect this. These reviews are performed by the 5<sup>th</sup> of the following month.

#### **Reopening Schools Testing Reporting**

**Key Control #3** – Michelle Chung, School Testing Supervisor, Emily Brown, School Testing Coordinator, and/or Shae Purdue, School Testing Coordinator compare data received from Health Commons against the template to ensure that all the school districts are included in the reported data so that it completely captures PCR testing across the state for the reporting period. The total number of tests was also double checked per school district to ensure accuracy. Vendors provided weekly data reports that not only provided back up-documentation of testing across the state but also helped ensure quality control.

**Key Control #4** – DOH, School Testing Team meets twice a week and is in regular email correspondence with HealthCommons to follow up on any issues or questions regarding quality control including reporting.

**Key Control #5** - To ensure DOH's distribution of testing supplies including at home (OTC) tests to schools is accurate and efficient, the Testing Team has created a unique system and process to streamline distribution from order request entry to physical delivery. The system utilizes the web application SmartSheet to collect testing supply requests, approval, and finally distribution using our contracted logistics partners.

**Key Control #6** - Prior to the data report being submitted, the School Testing Team reviews the data collected from both the Surveillance Team and Health

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Commons using various quality control strategies as noted above to ensure accuracy and completeness, which is then further reviewed for completeness by the grants support team prior to submission.

### Case Investigation and Contact Tracing (CICT)

**Key Control # 7-** Eun Ji Sim, Epidemiologist II, sends the report to Kedo Baye, Epidemiologist I, who reviews the report by comparing to data pulled from the front end of CREST and emails Eun Ji back to verify the report is correct.

**Key Control #8 -** After Ansen Ortega, Health Services Consultant II, manually enters the data into RedCap he sends it to Lisa Devall, Health Services Consultant III, and/or Cindy Domingo, Health Services Consultant IV for review. They review and spot check totals to ensure accuracy.

**Evaluation of Results:** Did you identify any control deficiencies? No

### 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.14.PR.G - 93.323-Epidemiology and Laboratory Capacity for Infectious Diseases

**Procedure Step:** M. Subrecipient Monitoring - Controls

**Prepared By:** SNK, 4/6/2023

**Reviewed By:** CCM, 4/7/2023

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 key internal controls the agency has established to prevent or detect noncompliance with subrecipient monitoring requirements.

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

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## **Source:**

- Jeff Arbuckle-External Audit Manager
- Kristina White-Director-Office of Accounting and Grants
- Nancy Wallace- Fiscal Monitoring Unit Manager, Office of Financial Services
- Mary Clark-Financial Services Manager- Office of Financial Services
- Maria Bojorquez- Financial Operations Manager-Office of Financial Services

## **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 200.332(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.

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**(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 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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**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 200.332(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>**.
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).

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 200.331, .332, 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

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Subaward contracts must include the following elements per federal requirements per 2 CFR section 200.331(a)(1):

| <i>Subaward Contract Checklist</i>  |   |
|---|---|
| Element   | Element   |
| (i) Subrecipient name (which must match the name associated with its unique entity identifier);           | (viii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;   |
| (ii) Subrecipient's unique entity identifier;   | (ix) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;  |
| (iii) Federal Award Identification Number (FAIN);   | (x) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);   |
| (iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency; | (xi) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;  |
| (v) Subaward Period of Performance Start and End Date;  | (xii) Assistance Listings number and Title; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement; |
| (vi) Subaward Budget Period Start and End Date;   | (xiii) Identification of whether the award is R&D; and  |
| (vii) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;    | (xiv) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).   |

### 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;

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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).

### 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

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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**

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 an internal control letter for this area, but DOH did not provide.

### *Contracts and Awards*

On January 11, 2023, we met with the following staff to discuss DOH's contracts and award process:

- Jeff Arbuckle-External Audit Manager
- Kristina White-Director-Office of Accounting and Grants
- Nancy Wallace- Fiscal Monitoring Unit Manager, Office of Financial Services
- Mary Clark-Financial Services Manager- Office of Financial Services
- Maria Bojorquez- Financial Operations Manager-Office of Financial Services

DOH utilizes boilerplate templates and statement of work to ensure that all required information is included in a new award. Prior to a new award being granted, Contracts staff review and ensure the federal elements are contained in the contracts. Once the program has submitted their Statement of Work (SOW), contracts will add that to their boilerplate and then complete the process to get the contracts out for signature. This review is demonstrated on the adobe sign portion of the contract when a contracts specialist has created it/uploaded it. It's then sent to the subrecipient for their review and signature. Once the subrecipient signs it, it's returned to contract for final signature.

**Key Control #1-** The contracts specialist ensure the federally required language is present in each subrecipient contract or amendment as witnessed by their final signature of approval (**Control Activities/ Monitoring**)

### *Risk Assessments*

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On January 11, 2023, we met with the following staff to discuss DOH's risk assessment:

- Jeff Arbuckle-External Audit Manager
- Kristina White-Director-Office of Accounting and Grants
- Nancy Wallace- Fiscal Monitoring Unit Manager, Office of Financial Services
- Mary Clark-Financial Services Manager- Office of Financial Services
- Maria Bojorquez- Financial Operations Manager-Office of Financial Services

Prior to a contract being awarded to a subrecipient, DOH's FMU requires a risk assessment is completed by program prior to the contract moving from FMU to the contract's office. For subrecipient's who have a consolidated contract, the risk assessment would have been completed prior to the original contract being accepted. Consolidated contracts can last a few years and no new risk assessment is required until DOH enters into a new consolidated contract with the subrecipient. This risk assessment will take into account the results of the most recent audit of the subrecipient, their policies and procedures and budget. DOH staff awarding a new contract confirms a risk assessment was completed prior to awarding the new contract. FMU is responsible for reviewing and approving the risk assessment as well as notifying the subrecipient of their risk level. Completed risk assessments are signed by the Management Analyst 5 who approved the risk assessment.

**Key Control #2**-The Fiscal Monitoring Management Analyst 5 or Fiscal Monitoring Manager who reviews the contract confirms the risk assessment was completed prior to approving the contract. (**Control Activities/Risk Assessment**)

## *Fiscal Monitoring*

Since the Department does not review detailed documentation for all subrecipient reimbursement requests, the Department has a fiscal monitoring process in place to review the detailed support of selected reimbursement requests (**Key Control #3 - Control/Monitoring Activities**).

On August 31, 2022. We met with the following staff to discuss DOH's Fiscal Monitoring process:

- Jeff Arbuckle, External Audit Manager
- Tawney Harper, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Kristina White, Director, OFC of Immunization & Child Profile, Office of Immunizations
- Brittany Tybo, ONS Deputy Director & Business Operations Manager, Office of Nutrition Services
- Nancy Wallace, Fiscal Monitoring Unit Manager, Office of Financial Services

Nancy informed us that all contracts with subrecipients go through a risk assessment prior to being executed. The risk assessment provides a standard for how much supporting documentation DOH requires from the subrecipient during any monitoring activity conducted. DOH requires each subrecipient be monitored once every two years. The Fiscal Monitoring Unit will receive a report from IT that lists all of the subrecipients at that point in time and tracks when each were

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last monitored and update it when reviews are conducted (see:C.12.29 FY22 List of Fiscal Monitoring Entities ). DOH will also prioritize which subrecipients need monitoring based on expenditures reported and when they were last monitored. DOH will then notify the subrecipient that they are going to conduct a fiscal review and send a template email about their specific risk level requirements. This fiscal monitoring schedule is maintained by the Fiscal Monitoring Manager.

During a review, DOH will use a standardized template (see:C.12.30 Monitoring Report Tool ) to analyze that the supporting documentation for A-19's are sufficient for their risk level. The review covers personnel costs and vendor costs as well as any supporting documentation. DOH typically test 3 A-19's. If the subrecipient uses non-electronic timekeeping records, DOH will test all of the paper documents. DOH completes their report within 90 days of the site visit. If there is any corrective actions needed from the reviewed entity, DOH gives 60 days to complete them. If DOH will be questioning any costs, they will escalate them to management before sending them to the entity.

**Key Control #3-** The Fiscal Monitoring Managers maintains a schedule to ensure all subrecipients received their fiscal monitoring visits every two years.**(Control Activities)**

### *Programmatic Monitoring*

On February 22, 2023, we met with the following staff to discuss DOH's Programmatic Monitoring process:

- Jeff Arbuckle-External Audit Manager
- Mary Clark-Strategic Financial Investment Manager
- Maria Borjorquez-Financial Operations Manager
- Chelsea Evans-Management Analyst 5
- Cindy Domingo-Health Services Consultant 4
- Nancy Wallace-Fiscal Monitoring Unit Manager

During this meeting, Cindy explained that during FY22 even though DOH had one process in place, it became better coordinated and documented started in March 2022. Programmatic monitoring consists of review of the subrecipient work plan and review of performance measures. Subrecipient works plans are reviewed on a quarterly basis, this review takes a look at if the subrecipient is on track to meeting the goals of the work plan, discussions around if there has been staff changes, if the subrecipient needs more budget and if they will be able to meet the work plan goals in the documented timeframe. Starting in May 2022, DOH implemented quarterly meetings with subrecipient along with the review of the work plans to ensure subrecipients are getting the necessary support. Beyond the work plan review, DOH also completes a review of performance measures for each subrecipient. The Center for Disease control defines these performance measures depending on the project as well as the timeline for review also depends on the project. Most core ELC projects are reviewed on an annual basis, however the project that were specific to COVID such as return to school are review on a monthly basis. Starting in March 2022, DOH fiscal staff began using a tracking spreadsheet to track when reviews for each subrecipient were due, prior to March 2022 the tracking was managed in RedCap. Redcap is

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an older DOH system where core ELC reports are directly submitted while COVID ELC programs reports are submitted via emails. The tracking of these review is completed by all fiscal staff.

**Key Control #4-**DOH fiscal staff ensure all subrecipient's complete their quarterly review of work plans and performance measures on time by maintaining a tracking spreadsheet. ( **Monitoring/Control Activities**)

On March 20,2023, we met with the following staff to discuss DOH's Programmatic Monitoring process over the ELC Enhanced Detection (ED) Funds:

- Jeff Arbuckle-External Audit Manager
- Cindy Domingo-Health Services Consultant 4
- Jacky Hoang-Management Analyst 3
- Amanda Nelsen-Administrative Operations Manager

During this meeting, Jacky informed us that all 35 Local Health Jurisdictions (LHJ) were subrecipients who received ED funds during FY22 DOH requires all 35 LHJ to provide quarterly reports for every quarter where the spent ED funds. These quarterly reports discuss how the LHJ manages quarantine, isolation and contact testing. In addition, how the LHJ are providing language appropriate materials and how they are working and their relationship is with the tribes and farmers. The quarterly reports are due from the LHJ one month after the quarter end, DOH emails a reminder to all the LHJ a month before the report is due and if the report is not completed by due date, DOH will withhold funds from the LHJ until the report is received. In order to ensure all LHJ complete their report for quarters where they spend funding, Jacky maintains a spreadsheet that track the spend of each LHJ for each month to make sure they submit their required quarterly report.

**Key Control # 5-** DOH contracts manager maintains a tracking spreadsheet to ensure all LHJs complete required quarterly report if they spent ED funds during the quarter.( **Monitoring/Control Activities**)

### *Audit Monitoring*

DOH staff have six months from the time of an subrecipient's audit being issued to review the audit and issue a management decision for any findings that pertain to ELC. On January 11, 2023, we met with the following staff to discuss DOH's audit monitoring process to ensure review are completed timely:

- Jeff Arbuckle-External Audit Manager
- Kristina White-Director-Office of Accounting and Grants
- Nancy Wallace- Fiscal Monitoring Unit Manager, Office of Financial Services

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- Mary Clark-Financial Services Manager- Office of Financial Services
- Maria Bojorquez- Financial Operations Manager-Office of Financial Services

During this meeting, Kristina informed us that Cherryl Moore-Health Services Consultant 3-Office of Financial Services, maintains and manages a tracking spreadsheet which documents the subrecipients who were required to have an audit completed and when their audit was completed. Based on this spreadsheet, she reaches out to the subrecipients to get a copy of their audit and then upon receipt reviews it. If she runs into issues getting copies of the audits from the subrecipients she will pull it from the federal clearinghouse. Once she receives copies of the audits, she will review and if she identifies any issues she will inform program staff who will complete the management decision process, prior to the six month deadline. Each program has their own tracking spreadsheet for audits with identified issues and the deadlines associated with each management decision process.

**Key Control #6-** Cherryl Moore-Health Services Consultant 3 maintains and manages a tracking spreadsheet for subrecipient audits to ensure audit review and management decision are issued timely. **(Control Activities/Monitoring)**

## Summary of Key Controls

**Key Control #1-** The contracts specialist ensure the federally required language is present in each subrecipient contract or amendment as witnessed by their final signature of approval **(Control Activities/ Monitoring)**

**Key Control #2-**Prior to a contract being awarded, singular or consolidated, DOH staff completes a risk assessment of the subrecipients to ensure they are properly monitored to ensure compliance with grant requirements **(Control Activities/Risk Assessment)**

**Key Control #3-** The Fiscal Monitoring Managers maintains a schedule to ensure all subrecipients received their fiscal monitoring visits every two years.**(Control Activities)**

**Key Control #4-**DOH fiscal staff ensure all subrecipient's complete their quarterly review of work plans and performance measures on time by maintaining a tracking spreadsheet.**( Monitoring/Control Activities)**

**Key Control # 5-** DOH contracts manager maintains a tracking spreadsheet to ensure all LHJs complete required quarterly report if they spent ED funds during the quarter.**( Monitoring/Control Activities)**

**Key Control #6-** Cherryl Moore-Health Services Consultant 3 maintains and manages a tracking spreadsheet for subrecipient audits to ensure audit review and management decision are issued timely. **(Control Activities/Monitoring)**

**Evaluation of Results:** Did you identify any control deficiencies? **No**



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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 to determine if we can place reliance on the controls.

## **D.1.PR.G - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS**

***Procedure Step:*** A-B. Activities Allowed/Cost Principles - Controls - NA Direct Payments to Clients

***Prepared By:*** TF, 10/19/2022

***Reviewed By:*** AMG, 10/21/2022

|                      |
|----------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

### **Source:**

Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)

Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager

Meenu Thapar, Grant & Internal Control Manager

Sarah Garcia, WorkFirst Program Manager

Tameka Maxwell, Federal Accounting and Reporting Manager

### **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 are unallowable.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

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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.***

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,

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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

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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 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

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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.

### 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

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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;
- (w) §200.467 Selling and marketing costs;
- (x) §200.470 Taxes (including Value Added Tax); and
- (y) §200.474 Travel costs.



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## **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).

### 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)<br/>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 <b>types</b> 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 <b>only</b> 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 |
|--|--|

**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 any available program guidelines to determine which activities and costs are allowed or unallowed. We identified the following:

From Part Four of the Compliance Supplement (April 2022):

1. States

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### a. Federal Only

(1) Funds may be used for expenditures for activities that are not permissible under 42 USC 601, but for which the state was authorized to use Title IV-A or IV-F funds under prior law. The previously authorized activities must have been included in a state's approved state AFDC plan, JOBS plan, or Supportive Services plan, as in effect on September 30, 1995, or at the state's option, on August 21, 1996. Examples of such activities are authorized juvenile justice and foster care activities (42 USC 604(a)(2); 45 CFR section 263.11(a)(2)).

(2) A state may transfer up to 30 percent of its total of current fiscal year funds (not prior fiscal year funds carried into the current fiscal year) received under the SFAG to carry out programs under the Social Services Block Grant (Title XX) (Assistance Listing 93.667) and/or the Child Care and Development Block Grant (Assistance Listing 93.575). However, no more than 10 percent may be transferred to Title XX, and such amounts may be used only for programs or services to children or their families whose income is less than 200 percent of the poverty level. Neither TANF contingency funds under 42 USC 603(b) nor pandemic emergency assistance funds under 42 USC 603(c) (Pub. L. No. 117-2) may be transferred under this authority (42 USC 604(d)). The poverty guidelines are issued each year in the Federal Register and HHS maintains a website that provides the poverty guidelines (<https://aspe.hhs.gov/poverty-research>). When transferred, the funds are subject to the rules of the program to which they are transferred (within statutory restrictions) and should be audited under that program. Please refer to Part IV Item 1, "Transfers out of TANF."

### b. Federal Only and Commingled Federal/State

Funds may not be used to provide medical services other than pre-pregnancy family planning services (42 USC 608(a)(6)).

### c. Federal Only, Commingled Federal/State, Segregated State, Separate State Program

(1) A state may use funds in any manner reasonably calculated to accomplish the purposes of the program, including providing low-income households with assistance in meeting home heating and cooling costs (42 USC 604(a)(1) and 45 CFR section 263.11(a)(1)). As specified in 42 USC 601 and 45 CFR section 260.20, the TANF program has the following purposes (Note: In the following sections of this program supplement, these are referenced as TANF purposes 1, 2, 3, and 4, respectively):

- (a) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- (b) End dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- (c) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
- (d) Encourage the formation and maintenance of two-parent families.

(2) A state may use funds for programs to prevent and reduce the number of out-of-wedlock pregnancies, including programs targeted to law enforcement officials, the educational system, and counseling services that provide education and training of women and men on the problem of statutory rape (42 USC 602(a)(1)(A)(v) and (vi)).

(3) A state may use funds to make payments or provide job placement vouchers to state-approved public and private job placement agencies providing employment placement services to individuals receiving assistance under TANF (42 USC 604(f)).

(4) A state may use funds to implement an electronic benefits transfer system (42 USC 604(g)).

(5) A state may use funds to carry out a program to fund individual development accounts (42 USC 604(h)(2); 45 CFR sections 263.20 through 263.23) established by individuals eligible to receive assistance under TANF (42 USC 604(h); 45 CFR Part 263, Subpart C).

(6) A state may contract with charitable, religious, and private organizations to provide administrative and programmatic services and may provide beneficiaries of assistance with certificates, vouchers, or other forms of disbursement that are redeemable with such organization (42 USC 604a(b), 42 USC 604a(k), and 45 CFR section 260.34). However, funds provided directly to participating organizations may not be used for inherently religious activities, such as worship, religious instruction, or proselytization (42 USC 604a(j); 45 CFR section 260.34(c)).

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- d. Prohibition on Use of Federal TANF and State MOE funds for Juvenile Justice Services  
See IV, "Other Information," for area of risk of non-compliance for juvenile justice services.

### Indirect Costs

The program is funded by Health and Human Services, Administration for Children and Families (ACF) and is part of the public assistance cost allocation plan defined in Subpart E of CFR Part 95. 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. The DSHS Centralized Cost Allocation System is reviewed at [DSHS Centralized Cost Allocation](#).

### Material Expenditures

We identified the following expenditure activities (see tab labeled "Subobject" at [TANF Final Expenditures](#)) that are directly charged to the program and are quantitatively material (more than 5%):

|     |   |                   |        |
|-----|---|-------------------|--------|
| A/B | Salaries/Benefits                       | \$ 27,479,075.35  | 7.38%  |
| ER  | Other Contractual Services              | \$ 28,268,021.01  | 7.59%  |
| NA  | Direct Payments to Clients              | \$ 190,873,763.79 | 51.26% |
| NB  | Pymts to Prvdrs for Direct Client Srvcs | \$ 117,374,888.67 | 31.52% |

Objects A/B comprise about 7.38% of total grant expenditures. We identified a material portion, 82.23% (\$22,596,411.97 out of \$27,479,075.35) were allocated through the RMTS cost allocation method of Salaries/Benefits (see tab labeled "RMTS" at [TANF Final Expenditures](#)) . These expenditures will be tested centrally for Economic Services Administration (ESA) grants at [DSHS Centralized RMTS](#). The remaining salaries and benefits charges were not material to the grant.

*We will focus our understanding in this section specifically on the TANF Transfer and Subobject NA - Direct Payments to Clients.*

### 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 with their internal controls over Activities Allowed, Subobject NA see [Internal Control Request Letter - Activities](#)



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### Allowed-Cost Principles NA.

On October 18, 2022, we met with the following staff to gain an understanding over the internal controls for Activities Allowed, Subobject NA:

- Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)
- Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager
- Meenu Thapar, Grant & Internal Control Manager
- Sarah Garcia, WorkFirst Program Manager
- Tameka Maxwell, Federal Accounting and Reporting Manager

### **TANF Transfer**

Each federal fiscal year, TANF may transfer up to 30% to CCDF and SSBG, with not more than 10% to SSBG. Meenu Thapar, Grant and Internal Controls Manager stated that they receive bills from DCYF requesting reimbursement for expenditures. The Department only transfers TANF funds to DCYF based on the reimbursement request and internal analysis to ensure the amounts are accurate and within transfer limits. Tameka runs allotment reports by budget unit and program index to review spending, budgets, and allotments of TANF transfers. **On a monthly basis, the Federal Accounting & Reporting Manager (Tameka Maxwell) runs an allotment report to ensure that transfers of TANF funds to DCYF do not exceed federal limits. (Key Control #1 - Monitoring)** Meenu is responsible for preparing and filing the quarterly ACF-196R report that includes line items for TANF transfers to CCDF and SSBG. She noted that when submitting the claim in AFDC, the federal reporting system, there are warning screens if the amount of TANF transfers exceeds the limits. Meenu also verifies the amount to be reported via email with DCYF each quarter and attaches the email chain within the claim workbook. **On a quarterly basis, the Grant & Internal Control Manager (Meenu Thapar) verifies the percentage and total transfers to CCDF and SSBG that is reported on the ACF-196R to ensure that TANF transfers do not exceed federal limits. (Key Control #2 - Monitoring/Control Activities)**

### **Subobject NA - Direct Payments to Clients (Program Index F1111)**

We analyzed Subobject NA by Program Index (see tab labeled "PT by PI for NA" at TANF Final Expenditures).

- Program Index F1111 comprised \$168,190,760.27 or 88.12% of Subobject NA.

The amount of cash assistance a client receives is set up in ACES 3G based on WAC 388-478-0020 payment standards.

| Assistance Unit Size | Payment Standard | Assistance Unit Size | Payment Standard |
|----------------------|------------------|----------------------|------------------|
| 1                    | 417              | 6                    | 1,009            |
| 2                    | 528              | 7                    | 1,165            |
| 3                    | 654              | 8                    | 1,289            |
| 4                    | 771              | 9                    | 1,416            |

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|   |     |            |       |
|---|-----|------------|-------|
| 5 | 888 | 10 or more | 1,539 |
|---|-----|------------|-------|

We met with Sarah Garcia, WorkFirst Program Manager to gain an understanding of the internal controls and procedures for ensuring NA expenditures are allowable and correct. Sarah stated that program index F1111 is family grants (cash assistance for TANF). The allowability of direct grants to clients is determined based on the client's eligibility for the TANF program as determined in the ACES system. Financial Service Specialists (FSS) and WorkFirst Program Specialists (WFPS) enter data into ACES from interactive client applications and interviews for TANF. Once eligible, ACES determines the payment standard, or monthly amount, that will be assigned to the assistance unit (AU) unless the AU is in a sanction status (reducing the maximum monthly payment amount) or over the income requirements as noted above. First month payments are prorated if beginning eligibility is after the first day of the month. The Department performs a mid-certification review after six months, although Sarah noted that for much of FY22, that review was waived due to COVID-related guidance.

Direct payments to clients were processed through the community services offices (CSO's), using primarily Electronic Benefits Transfer (EBT) cards with the remainder through electronic fund transfers or warrants. Since EBT payments make up almost all issuances, we will focus our understanding on this method of payment. Once the local CSO financial worker inputs the information into the ACES, the ACES system calculates the benefit amount and transmits a file to the FIS EBT System in a batch process that posts the benefits, demographics, and card file. When a client is determined eligible by ACES, the client is issued an EBT card at the local office or by mail. Direct payments of TANF Cash Assistance are made to the EBT card. The amount of cash assistance that is loaded onto the EBT card is determined by the ACES Online System based on the AU household circumstances in ACES using the payment standard defined by WAC 388-478-0020. This payment standard amount cannot be changed manually. Sarah explained that the payment standard has changed over the last couple of years. On July 1, 2021, benefits were increased by 15 percent, and on July 1, 2022, the maximum household size was increased from 8 to 10 people. After a client has been determined as eligible for TANF, ACES automatically calculates the correct benefit amount based on the information provided during the eligibility process, and issues the payment. **(Key Control #3 - Automated - Control Activities)**

### **Subobject NA - PEA (Program Index F1112)**

We analyzed Subobject NA by Program Index (see tab labeled "PT by PI for NA" at [TANF Final Expenditures](#)).

- Program Index F1112 comprised \$22,683,002.45 or 11.88% of Subobject NA.

Sarah explained that the Department made a one-time mass issuance of PEA benefits to all households with eligible children in May 2022 according to [WAC 388-436-0065](#). To be eligible, in the month of issuance, the household must:

1. Have at least one qualifying child as defined in [WAC 388-404-0005](#).
2. Be active, eligible, and receiving at least one of the following benefits:
  1. Temporary Assistance for Needy Families (TANF),
    2. State Family Assistance (SFA),
    3. Basic Food (including Transitional Food Assistance)
    4. Food Assistance Program.
3. Have a reported household income at or below 75% of the federal poverty level.

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4. Be a Washington resident.

Recipient were not required to apply for PEAFF benefits and the benefit is based on the amount of eligible children in the home. The Department provided a one-time benefit of \$127 per eligible child. Sarah added that any household with children that became eligible for PEAFF during May 2022, but after the initial issuance, also received the payment within one day of becoming eligible. **ACES 3G automatically determined eligibility based on PEAFF criteria to ensure that only households with eligible children received a one-time issuance during May 2022 of \$127 per eligible child. (Key Control #4 - Automated Control Activities).**

### **Summary of Key Controls:**

#### **TANF Transfer**

**Key Control #1** - On a monthly basis, the Federal Accounting & Reporting Manager (Tameka Maxwell) runs an allotment report to ensure that transfers of TANF funds to DCYF do not exceed federal limits. **(Monitoring)**

**Key Control #2** - On a quarterly basis, the Grant & Internal Control Manager (Meenu Thapar) verifies the percentage and total transfers to CCDF and SSBG that is reported on the ACF-196R to ensure that TANF transfers do not exceed federal limits. **(Monitoring/Control Activities)**

#### **Subobject NA - Direct Payments to Clients (Program Index F1111)**

**Key Control #3** - After a client has been determined as eligible for TANF, ACES automatically calculates the correct benefit amount based on the information provided during the eligibility process, and issues the payment. **(Automated - Control Activities)**

#### **Subobject NA - PEAFF (Program Index F1112)**

**Key Control #4** - ACES 3G automatically determined eligibility based on PEAFF criteria to ensure that only households with eligible children received a one-time issuance during May 2022 of \$127 per eligible child. **(Automated 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 to determine if we can place reliance on the controls.

### **D.1.PR.G - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS**

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**Procedure Step:** A-B. Activities Allowed/Cost Principles - Controls - NB Payments to Providers

**Prepared By:** AMG, 2/28/2023

**Reviewed By:** MKH, 3/1/2023

## 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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

### Source:

Meenu Thapar, Grant and Internal Control Manager

Summer Garcia, Staff Services and Operations Consultant

Tameka Maxwell, Federal Accounting and Reporting Manager

CCDF - Audit

### Conclusion:

Since the issue to the payments for childcare has not been corrected at the Department of Children, Youth and Families We determined the childcare service expenditures funded with TANF funding in AFRS are unreliable. As a result in the DCYF CCDF audit, we could not trace the federal funds to a level of expenditure adequate to establish whether DCYF spent TANF funds in accordance with federal and state regulations. We will be questioning all \$67,699,429 in federal program costs for childcare payments that the Department incurred during the audit period. We will be issuing a finding, see 2022-035 The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with requirements to ensure payments to child care providers paid with Temporary Assistance for Needy Families funds were allowable an

Based on our understanding of internal controls over Activities Allowed and Cost Principles, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess **preliminary control risk as high and will report a finding for a material weakness**. No internal control testing is necessary in this instance.

## 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

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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.

### 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)<br/>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 <b>types</b> 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 <b>only</b> 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:

#### States

##### a. Federal Only

- (1) Funds may be used for expenditures for activities that are not permissible under 42 USC 601, but for which the State was authorized to use Title IV-A or IV-F funds under prior law. The previously authorized activities must have been included in a State's approved State AFDC plan, JOBS plan, or Supportive Services Plan, as in effect on September 30, 1995, or at the State's option, on August 21, 1996. Examples of such activities are authorized juvenile justice and foster care activities (42 USC 604(a)(2); 45 CFR section 263.11(a)(2)).
- (2) A State may transfer up to 30 percent of its total current fiscal year funds (not prior fiscal year funds carried into the current fiscal year) received

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under the SFAG to carry out programs under the Social Services Block Grant (Title XX) (CFDA 93.667) and/or the Child Care and Development Block Grant (CFDA 93.575). However, no more than 10 percent may be transferred to Title XX, and such amounts may be used only for programs or services to children or their families whose income is less than 200 percent of the poverty level. Neither contingency funds under 42 USC 603(b) nor emergency contingency funds under 42 USC 603(c) (Pub. L. No. 111-5) may be transferred under this authority (); (42 USC 604(d)). The poverty guidelines are issued each year in the Federal Register and HHS maintains a website that provides the poverty guidelines (<http://aspe.hhs.gov/poverty/index.shtml>). When transferred, the funds are subject to the rules of the program to which they are transferred (within statutory restrictions) and should be audited under that program.

b. Federal Only and Commingled Federal/State

Funds may not be used to provide medical services other than pre-pregnancy family planning services (42 USC 608(a)(6)).

c. Federal Only, Commingled Federal/State, Segregated State, Separate State Program

(1) A State may use funds in any manner reasonably calculated to accomplish the purposes of the program, including providing low-income households with assistance in meeting home heating and cooling costs (42 USC 604(a)(1) and 45 CFR section 263.11(a)(1)). As specified in 42 USC 601 and 45 CFR section 260.20, the TANF program has the following purposes (Note: In the following sections of this program supplement, these are referenced as TANF purposes 1, 2, 3, and 4, respectively):

- (a) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- (b) End dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- (c) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
- (d) Encourage the formation and maintenance of two-parent families.

(2) A State may use funds for programs to prevent and reduce the number of out-of-wedlock pregnancies, including programs targeted to law enforcement officials, the educational system, and counseling services that provide education and training of women and men on the problem of statutory rape (42 USC 602(a)(1)(A)(v) and (vi)).

(3) A State may use funds to make payments or provide job placement vouchers to State-approved public and private job placement agencies providing employment placement services to individuals receiving assistance under TANF (42 USC 604(f)).

(4) A State may use funds to implement an electronic benefits transfer system (42 USC 604(g)).

(5) A State may use funds to carry out a program to fund individual development accounts (42 USC 604(h)(2); 45 CFR sections 263.20 through 263.23) established by individuals eligible to receive assistance under TANF (42 USC 604(h); 45 CFR part 263, subpart C).

(6) A State may contract with charitable, religious, and private organizations to provide administrative and programmatic services and may provide beneficiaries of assistance with certificates, vouchers, or other forms of disbursement that are redeemable with such organization (42 USC 604a(b), 42 USC 604a(k), and 45 CFR section 260.34). However, funds provided directly to participating organizations may not be used for inherently religious activities, such as worship, religious instruction, or proselytization (42 USC 604a(j); 45 CFR section 260.34(c)).

d. Prohibition on Use of Federal TANF and State MOE funds for Juvenile Justice Services – See IV, “Other Information,” for area of risk of non-compliance for juvenile justice services.

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### Indirect Costs

The program is funded by Health and Human Services, Administration for Children and Families (ACF) and is part of the public assistance cost allocation plan defined in Subpart E of CFR Part 95. 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. The DSHS Centralized Cost Allocation System is reviewed 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%), see tab titled "Object".

|     |   |                   |        |
|-----|---|-------------------|--------|
| A/B | Salaries/Benefits                       | \$ 27,479,075.35  | 7.38%  |
| NA  | Direct Payments to Clients              | \$ 190,873,763.79 | 51.26% |
| NB  | Pymts to Prvdrs for Direct Client Srvcs | \$ 117,374,888.67 | 31.52% |

Objects A/B comprise about 7.38% of total grant expenditures. We identified a material portion, 6.24% (\$23,228,255.27/372,361,771.93 (total grant expenditures)) see tab labeled "Payroll AB" at [TANF Final Expenditures](#) of Salaries and Wages were allocated through the RMTS cost allocation method. These expenditures will be tested centrally for Economic Services Administration (ESA) grants at [DSHS Centralized RMTS](#). The remaining salaries and benefits charges were not material to the grant.

Object E comprises about 8.77% of grant expenditures and Object N comprises about 83.43% of grant expenditures. After identifying material objects for the grant, we analyzed expenditures by SubObject, see tab labeled "Subobject" at [TANF Final Expenditures](#). We determined that the activities that were material were Subobject ER which comprises 7.59% of total grant expenditures. We identified the payments the Department made to other state agencies and non-state agencies. The payments to the non-state agencies was approx. \$3 million which is less than 5% of total state expenditures, see [TANF Final Expenditures](#). We determined Subobject ER was not direct and material to the TANF Program.

Subobject NA comprising of 51.26% (See, [A-B. Activities Allowed/Cost Principles - Controls - NA Direct Payments to Clients](#)) of total grant expenditures and Subobject NB comprising of 31.52% of total grant expenditures.

Our testing in this procedure will focus on how DSHS ensures expenditures for Subobject NB are allowable and accurate. We reviewed the NB line items with the Summer Garcia, Meenu Thapar, and Tameka Maxwell on November 7, 2022 to determine which activities had similar activities and controls structure. Based off the conversation, we determined DCYF expended over 10% of the TANF grant. We considered this to be material to the TANF program and will be reviewing this during the TANF audit. We reviewed all additional activities at the Department and determined all programs and like wise activities are not material to the program, see [TANF Final Expenditures](#).

During our DCYF CCDF audit, the Department of Children, Youth and Families expended \$260,552,978.94 is payments to child care. the TANF grant is considered a large portion of these funds. During SFY22 DSHS incurred \$67,699,429 in childcare service related expenditures, see [TANF SEFA and DCYF Payments](#) with TANF funds for child care services that were funded at least partially with federal TANF grant funds, see [A-B. Activities Allowed/Cost](#)

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Principles: Provider Payments - ControlsDCYF Activities Allowed Payment to Providers.

Since the issue to the payments for childcare has not been corrected at the Department of Children, Youth and Families We determined the childcare service expenditures funded with TANF funding in AFRS are unreliable. As a result in the DCYF CCDF audit, we could not trace the federal funds to a level of expenditure adequate to establish whether DCYF spent TANF funds in accordance with federal and state regulations. We will be questioning all \$67,699,429 in federal program costs for childcare payments that the Department incurred during the audit period. We will be issuing a finding, see 2022-035 The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with requirements to ensure payments to child care providers paid with Temporary Assistance for Needy Families funds were allowable an.

## D.1.PRG - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS

**Procedure Step:** E. Eligibility - Controls

**Prepared By:** AMG, 8/11/2022

**Reviewed By:** MKH, 8/12/2022

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 identify key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to eligibility of participants.

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

### **Source:**

Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)

Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager

Sarah Garcia, WorkFirst Program Manager

Lance Krull, Senior Data and Information Administrator

Rick Meyer, External Audit Compliance Manager

### **Conclusion:**

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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:

- 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

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### (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.**

***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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Record of Work Done.

## **Inherent Risk of Noncompliance**

### **Step 1**

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 risks when designing our tests of compliance.

- The compliance requirements are complex and involve a relatively large degree of subjectivity by the Department in interpreting and carrying out the objectives of the program.
- Multiple customer service offices (CSOs) are responsible for determining eligibility.

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**

From Part Four of the Compliance Supplement (April 2022):

### **Eligibility for Individuals**

The state or tribal plan provides the specifics on the state or tribal area's definition of financially needy which the state or tribal area uses in determining eligibility. Whenever used in this section, "assistance," has the meaning in 45 CFR section 260.31(a) of the TANF regulations for states and 45 CFR section 286.10 of the tribal TANF regulations for federally recognized tribes operating an approved tribal TANF program. Plan and eligibility requirements must comply with the following federal requirements:

#### **a. States**

##### **(1) Federal Only, Commingled Federal/State, Segregated State, and Separate State Program**

(a) Only a financially needy family that consists of, at a minimum, a minor child living with a parent or other caretaker relative, or a pregnant woman may receive TANF "assistance" or most MOE-funded benefits, services, or "assistance" regardless of the TANF purpose that the expenditure is reasonably calculated to accomplish (see III.A.1.c, "Activities Allowed or Unallowed – Federal Only, Commingled Federal/State, Segregated State, Separate State Program"). The child must be less than 18 years old, or, if a full-time student in a secondary school (or the equivalent level of vocational or technical training), less than 19 years old. (With respect to segregated or separate state MOE funds, the state could use the definition for minor child given in section 419(2) of the Social Security Act or some other definition applicable in state law provided the state can articulate a rational basis for the age it chooses.) Financially "needy" means financially eligible according to the state's quantified income and resource (if applicable) criteria to receive the benefit (42 USC 602 and 602(a)(1)(B)(iii), 42 USC 609(a)(7)(B)(IV), and 42 USC 608(a)(1),

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619(2); 45 CFR section 263.2(b)(2)). See III.G.2.1, “Matching, Level of Effort, Earmarking – Level of Effort – Maintenance of Effort,” for the limited MOE pro-family exception to this requirement.

Note: A state may continue to provide federally funded (Federal Only) TANF “assistance” pursuant to 42 USC 604(a)(2) using the financial eligibility criteria contained in the state’s approved AFDC, EA, JOBS, or Supportive Services plan as of September 30, 1995 (or at state option, as of August 21, 1996). A state may also continue this assistance notwithstanding the family composition requirement described above. (See III.A.1.a(1), “Activities Allowed or Unallowed.”)

Only the financially “needy” are eligible for services, benefits, or “assistance” pursuant to TANF purpose 1 or 2 (see III.A.1.c., “Activities Allowed or Unallowed – Federal Only, Commingled Federal/State, Segregated State, Separate State Program”) (42 USC 601(a)(1) and (2); 45 CFR sections 260.20(a) and (b)). Financially “needy” for TANF and MOE purposes means financial deprivation (i.e., lacking adequate income and resources). For example, a needy family or a needy parent is one who is financially eligible according to the state’s quantified financial eligibility criteria (income and resource (if applicable) standards, April 12, 1999, Federal Register (64 FR 17825), 45 CFR section 263.2(b)(3)).

States may choose to use federal only TANF funds to provide benefits that do not constitute “assistance” to the non-needy pursuant to TANF purpose 3 or 4 only (see III.A.1.c, “Activities Allowed or Unallowed – Federal Only, Commingled Federal/State, Segregated State, Separate State Program”) (42 USC 601(a)(3) and (4); 45 CFR sections 260.20(c) and (d)). States may also choose to use MOE funds to provide certain pro-family non-assistance benefits to the non-needy under TANF purpose 3 or 4 (see III.G.2.1, “Matching, Level of Effort, Earmarking – Level of Effort – Maintenance of Effort,” for the limited MOE pro-family exception to this requirement).

(b) Qualified aliens, as defined in 8 USC 1641(b), are the only non-citizens who may receive a TANF public benefit, as defined in 8 USC 1611(c)), using federal TANF or commingled funds. Qualified aliens are lawful permanent residents, asylees, refugees, aliens paroled into the United States for at least one year, aliens whose deportations are being withheld, aliens granted conditional entry, Cuban/Haitian entrants, and certain battered aliens. Victims of severe forms of trafficking and certain family members are also eligible for federally funded or administered public benefits and services to the same extent as refugees.

Qualified aliens, nonimmigrants under the Immigration and Nationality Act, and individuals paroled into the United States for less than a year are the only noncitizen groups that are eligible for a non-commingled state or local MOE-funded public benefit, as defined in 8 USC 1621(c). Aliens that are not lawfully present in the United States may also be eligible for a state or local MOE-funded public benefit if the state has enacted a law after August 22, 1996, affirmatively providing for such eligibility (8 USC 1621(d)). All expenditures must meet all MOE requirements at 45 CFR Part 263, Subpart A. See III.G.2.1, “Matching, Level of Effort, Earmarking – Level of Effort – Maintenance of Effort.”

States have the authority to decide whether or not to provide a federal TANF-funded public benefit or a MOE-funded public benefit to otherwise qualified aliens (including nonimmigrants and individuals paroled in the US for less than a year in the case of a non-commingled state or local MOE-funded public benefit) (8 USC 1612(b)(1) and 8 USC 1622(a)). If a state has decided not to help eligible aliens, then the state may not deny eligibility to refugees, asylees, aliens whose deportation has been withheld, Amerasians, and Cuban/Haitian entrants for a period of five years after the date of entry into the United States or the date asylum or withholding of deportation was granted. Also, such states may never deny eligibility to



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legal permanent residents who have worked 40 qualifying quarters after December 31, 1996, and have not received any federal means-tested public benefit during such period (once the five-year bar has expired for a qualified alien entering the United States on or after August 22, 1996, as described in the next paragraph), or to aliens who are veterans, members of the military on active duty, and their spouses and unmarried dependents (8 USC 1612(b)(2)(A)(ii) 8 USC 1621(2)(B) and (C), 8 USC 1622(b)(1)-(3)). In other words, Congress did not give states the authority to deny eligibility to all eligible aliens. If the state elects to help all otherwise eligible aliens (as described in the preceding two paragraphs), then this paragraph does not apply.

Unless exempt under 8 USC 1613(b), qualified aliens, as defined in 8 USC 1641(b), entering the United States on or after August 22, 1996, are not eligible for a federal means-test public benefit (e.g., federally funded TANF assistance), as defined in 8 USC 1611(c), for a period of five years (8 USC 1613(a)). The five-year bar begins either on the date of the alien's entry into the United States as a qualified alien or on the date the alien residing in the United States becomes a qualified alien, whichever is later. If the alien entered the United States on or after August 22, 1996 but does not have an immigration status that qualifies (as defined in 8 USC 1641(b)), the individual is not eligible for a federal public benefit (as defined in 8 USC 1611(c)). The following qualified aliens are exempt from the five-year bar: refugees, asylees, aliens whose deportation is being withheld, Amerasians, Cuban/Haitian entrants, as well as veterans, members of the military on active duty, and their spouses and unmarried dependent children (8 USC 1613(b)).

If a noncash federal or state and local public benefit meets the specifications in the Attorney General's Final Order (Order No. 2353-2001 published January 16, 2001, at 66 FR 3613), then the state may provide the benefit regardless of immigration status (8 USC 1611 (b)(1)(D) and 8 USC 1621(b)(4)).

### (2) Federal Only and Commingled Federal/State

(a) Any family that includes an adult or minor child head of household or a spouse of the head of household who has received assistance under any state program funded by federal TANF funds for 60 months (whether or not consecutive) is ineligible for additional federally funded TANF assistance. However, the state may extend assistance to a family on the basis of hardship, as defined by the state, or if a family member has been battered or subjected to extreme cruelty. In determining the number of months for which the head of household or the spouse of the head of household has received assistance, the state must not count any month during which the adult received the assistance while living in Indian country or in an Alaskan Native Village and the most reliable data available with respect to that month (or a period including that month) indicate at least 50 percent of the adults living in Indian country or in the village were not employed (42 USC 608(a)(7); 45 CFR sections 264.1(a), (b), and (c)).

(See III.G.3, "Matching, Level of Effort, Earmarking – Earmarking," for testing the limits related to the number of exemptions.)

(b) A state may not provide assistance to an individual who is under age 18, is unmarried, has a minor child at least twelve weeks old, and has not successfully completed high school or its equivalent unless the individual either participates in education activities directed toward attainment of a high school diploma or its equivalent, or participates in an alternative education or training program approved by the state (42 USC 608(a)(4); 45 CFR section 263.11(b)).

(c) A state may not provide assistance to an unmarried individual under 18 caring for a child, if the minor parent and child are not residing with a

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parent, legal guardian, or other adult relative, unless one of the statutory exceptions applies (42 USC 608(a)(5)).

(d) A state may not provide assistance for a minor child who has been or is expected to be absent from the home for a period of 45 consecutive days or, at the option of the state, such period of not less than 30 and not more than 180 consecutive days unless the state grants a good cause exception, as provided in its state plan (42 USC 608(a)(10)).

(e) A state may not provide assistance for an individual who is a parent (or other caretaker relative) of a minor child who fails to notify the state agency of the absence of the minor child from the home within five days of the date that it becomes clear to that individual that the child will be absent for the specified period of time (42 USC 608(a)(10)(C)).

(f) A state may not use funds to provide cash assistance to an individual during the ten-year period that begins on the date the individual is convicted in federal or state court of having made a fraudulent statement or representation with respect to place of residence in order to simultaneously receive assistance from two or more states under TANF, Title XIX, or the Food Stamp Act of 1977, or benefits in two or more states under the Supplemental Security Income program under Title XVI of the Social Security Act. If the President of the United States grants a pardon with respect to the conduct that was the subject of the conviction, this prohibition will not apply for any month beginning after the date of the pardon (42 USC 608(a)(8)).

(g) A state may not provide assistance to any individual who is fleeing to avoid prosecution, or custody or confinement after conviction, for a felony or attempt to commit a felony (or in the state of New Jersey, a high misdemeanor), or who is violating a condition of probation or parole imposed under federal or state law (42 USC 608(a)(9)(A)).

### (3) Federal Only, Commingled Federal/State, Segregated State

(a) A state shall require that, as a condition of providing assistance, a member of the family assign to the state the rights the family member may have for support from any other person. This assignment may not exceed the amount of assistance provided (42 USC 608(a)(3)).

(b) An individual convicted under federal or state law of any offense which is classified as a felony and which involves the possession, use, or distribution of a controlled substance (as defined in the Controlled Substances Act (21 USC 802(6))) is ineligible for assistance if the conviction was based on conduct occurring after August 22, 1996. A state shall require each individual applying for TANF assistance to state in writing whether the individual or any member of their household has been convicted of such a felony involving a controlled substance. However, a state may by law enacted after August 22, 1996, exempt any or all individuals from this prohibition or limit the time period that this prohibition applies to any or all individuals (21 USC 862a).

(c) If an individual in a family receiving assistance refuses to engage in required work, a state must reduce assistance to the family, at least pro rata, with respect to any period during the month in which the individual so refuses or may terminate assistance. Any reduction or termination is subject to good cause or other exceptions as the state may establish (42 USC 607(e)(1); 45 CFR sections 261.13 and 261.14(a) and (b)). However, a state may not reduce or terminate assistance based on a refusal to work if the individual is a single custodial parent caring for a child who is less than 6 years of age if the individual can demonstrate the inability (as determined by the state) to obtain child care for one or more of the following reasons:

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(a) the unavailability of appropriate care within a reasonable distance of the individual's work or home; (b) unavailability or unsuitability of informal child care; or (c) unavailability of appropriate and affordable formal child care (42 USC 607(e)(2); 45 CFR sections 261.15(a), 261.56, and 261.57).

## State Plan TANF Eligibility

Washington State provides cash benefits to all needy families who meet the eligibility criteria established by rules of the Department of Social and Health Services and in accordance with the State Plan (see [TANF State Plan - Final Draft, March 2022](#)) in part (k) on pp. 11-14.

## Washington Administrative Codes (WAC) and Revised Codes of Washington (RCW)

[WAC 388-400-0005](#) describes TANF eligibility criteria in detail and provides direct links to all relevant WACs and RCWs.

## DSHS - Eligibility A-Z Manual (EA-Z)

The [Eligibility A-Z \(EA-Z\) Manual](#) provides administrative rules and procedures for staff to determine initial and ongoing eligibility for people applying for and receiving cash and food assistance in Washington State and provides links to medical assistance eligibility information. It states that the Department verifies eligibility in accordance with federal and state requirements.

## 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 with their internal controls over Eligibility. On July 12, 2022 we received the Department's response, see [Internal Control Request Letter - Eligibility](#).

To gain an understanding of the eligibility process for TANF, we met with the following Department staff on July 27, 2022:

- Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)
- Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager
- Sarah Garcia, WorkFirst Program Manager
- Lance Krull, Senior Data and Information Administrator
- Rick Meyer, External Audit Compliance Manager

To ensure that recipients receiving cash benefits/services are eligible for the TANF program, Sarah explained that the applicant must first be screened in after applying for benefits to determine eligibility. The client begins by completing and signing an application for assistance by one of the following ways: submitting an online application; applying in-person at a Community Service Office (CSO); or by phone where an interactive interview is completed and an electronic or

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telephonic signature is documented and recorded. Each household member is assigned their own client ID which will help to identify participation in other DSHS/HCA programs. Each assistance type (TANF cash, food, etc) is issued its own Assistance Unit (AU) ID. In order to determine eligibility for TANF, CSO Public Benefit Specialists must follow the criteria outlined in WAC 388-400-0005.

The CSO Public Benefit Specialists reference the EA-Z manual, CSD Procedures Handbook, and the WorkFirst Handbook, all of which are designed based on the WAC's within WAC 388, to guide them in determining the client's eligibility. During the intake interview, the specialist must navigate multiple screens and interfaces in the Automated Client Eligibility System (ACES) to input and review the applicant's data, resolve any discrepancies between the applicant's submission and ACES interfaces, and collect and verify any required documentation. Once the specialist has completed these steps, ACES automatically determines if the client is eligible for the TANF program benefits. **(Key Control #1 - Control Activities)**.

The IEVS system is a collection of interfaces that networks with and verifies an applicant's eligibility information, including income, unemployment, other benefits and entitlements, social security numbers, date of birth, and sanctions. As part of the eligibility process, the Department's eligibility system, ACES 3G/Online, performs a nightly interface that is used as part of the Income Eligibility and Verification System (IEVS) to ensure accuracy of the information that was input by the CSO worker **(Key Control #2 - Automated Control Activities)**. *Note: This is also a key control identified for Special Test & Provisions #2 - Income Eligibility and Verification System. See N2. Special Tests and Provisions - Controls - Income Eligibility & Verification System for additional information on IEVS and Key Control #2.*

The Department relies on the interfaces within ACES 3G online to verify certain eligibility criteria due to the amount of applicants that apply daily for the different services that are offered. ACES 3G online is automatically set up to generate an alert if there is an inconsistency within the information that was input and the information that is obtained through the overnight interfaces. The CSO Public Benefit Specialist can then enter ACES to update the information and resolve discrepancies as necessary.

The client must attend a required WorkFirst orientation in order to be approved for TANF. These orientations are typically done desk-side at the time of the intake interview. In person orientation is mandatory unless the client falls under one of these exemptions: family violence, working, or hospitalized. Two-parent households are placed in pending status until both parents complete the orientation, e.g. if one parent is not present at the intake interview. For clients that have been previously approved for TANF and had their benefits terminated, as long as a new application is submitted within 30 days of termination, the client does not need to participate in orientation again. The WorkFirst staff member documents the WorkFirst orientation date in ACES 3G upon completion. ACES 3G online will not process a TANF claim or issue benefits until the WorkFirst orientation is completed and the date has been entered **(Key Control #3 - Control Activities)**. Once this date is documented, and all other eligibility factors have been met, ACES 3G online automatically approves TANF for eligible clients.

Eligibility reviews are completed at least once every twelve months for TANF, however, eligibility can be redetermined at any point when there is a change reported or discovered. TANF assistance units with certification periods greater than 6 months were previously required to report changes on a mid-certification review (MCR); however, due to the COVID-emergency most MCRs were stopped or postponed. Sarah explained that MCRs currently only occur at the guidance of and in consultation with the Department's food policy team as well as current workload impacts. Once the COVID-emergency ends, the Department expects the mid-certification review process to resume normally. TANF is terminated with a 10-day notice if required documentation and verification is not received or it is determined the recipient is no longer eligible based on the change **(Monitoring)**. *\*Note: for benefit termination, the change will take effect for the next month when termination is activated before the last 10 days of the current month. Otherwise, benefits will be terminated the month succeeding the upcoming*

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*month.* When changes are updated in ACES 3G, and recipient is no longer eligible for TANF assistance, services are automatically terminated in the ACES 3G system. **(Automated Key Control #4 - Control Activities)**

## ***Pandemic Emergency Assistance Fund (PEAF)***

The Department made a one-time mass issuance of PEAFF benefits to all eligible households in May 2022 according to [WAC 388-436-0065](#). To be eligible, in the month of issuance, the household must:

1. Have at least one qualifying child as defined in [WAC 388-404-0005](#).
2. Be active, eligible, and receiving at least one of the following benefits:
  1. Temporary Assistance for Needy Families (TANF),
    2. State Family Assistance (SFA),
    3. Basic Food (including Transitional Food Assistance)
    4. Food Assistance Program.
3. Have a reported household income at or below 75% of the federal poverty level.
4. Be a Washington resident.

Recipient were not required to apply for PEAFF benefits and the benefit is based on the amount of eligible children in the home. The Department provided a one-time benefit of \$127 per eligible child. ACES 3G automatically determined eligibility based on all active and reinstated households receiving TANF or food assistance benefits in May 2022 and issued PEAFF benefits in a one-time mass issuance **(Key Control #5 - Automated Control Activities)**.

## **Summary of Key Controls:**

**Key Control #1** - CSO staff receives and reviews eligibility related documents prescribed by the ACES manual and inputs the documents/information to ACES and Barcode. ACES automatically determines eligibility based on the CSO's submission of a complete and supported application. **(Control Activities)**

**Key Control #2** - ACES Online, performs a nightly interface that is used as part of the Income Eligibility and Verification System (IEVS) to ensure accuracy of the information that was input by the CSO Public Benefit Specialist. *This is also a key control identified for Special Test & Provisions #2 - Income Eligibility and Verification System.* **(Automated - Control Activities)**

**Key Control #3** - ACES 3G online will not process a TANF claim or issue benefits until the WorkFirst orientation date has been entered to ensure that the client has met the eligibility criteria set forth in WAC 388 and clarified in the EA-Z manual. **(Automated - Control Activities)**

**Key Control #4** - Services are automatically terminated in the ACES 3G system based on ineligible status and a note in ACES to ensure that services/benefits are discontinued after recipients are deemed ineligible. **(Automated - Control Activities)**

**Key Control #5** - ACES automatically determined eligible participants based upon PEAFF criteria and issue a one time benefits based on the amount of eligible

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children in the home. (**Automated - 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 to determine if we can place reliance on the controls.

## **D.1.PR.G - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS**

***Procedure Step:*** G. Level of Effort - Controls

***Prepared By:*** AMG, 9/30/2022

***Reviewed By:*** MKH, 10/13/2022

|                      |
|----------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with level of effort requirements.

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

### **Source:**

Meenu Thapar, Grant and Internal Control Manager

Ron White, Acting Budget Manager

Patrick Budde Jr., TANF Workfirst Prog Mgr

Lance Krull, Senior Data Administrator EMAPS

Ivette Dones-Figueroa, CSD Audit and Strategic Initiatives Manager

Summer Garcia, Staff Services and Operations Consultant

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## 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, 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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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.*

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.



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## 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 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 risks when designing our tests of compliance.

- The compliance requirement is relatively complex and includes other state agency third-party reporters and non-profit organizations.

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 Level of Effort.

From Part Four of the Compliance Supplement (April 2022):

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## Level of Effort

### 2.1 Level of Effort – Maintenance of Effort

See IV, “Other Information,” for guidance on state MOE expended by tribes.

The following MOE provisions apply to any state funds that are counted towards the MOE for TANF, whether such state funds are expended as commingled federal/state, segregated state, or separate state program funds.

a. State MOE – Every fiscal year, a state must maintain an amount of “qualified state expenditures” (as defined in 42 USC 609(a)(7)(B) and 45 CFR section 263.2) for eligible families (as defined in 42 USC 609(a)(7)(B)(i)(IV) and 45 CFR section 263.2(b)) at least at the applicable percentage of the state’s historic state expenditures. Therefore, all amounts claimed for or on behalf of eligible families, including amounts that result from state tax provisions, must be the result of expenditure (42 USC 609(a)(7)(A) and (B)(i)(I); 45 CFR sections 260.30 (“expenditure”) and 260.33, 45 CFR section 92.3, and 45 CFR section 92.24). States may claim qualified expenditures for eligible family members who are citizens or aliens. However, the particular aliens for whom a state may claim qualified expenditures will depend on the state funds used to provide the benefit or service (see III.E.1.a.(2), “Eligibility – Eligibility for Individuals, Federal Only, Commingled Federal/State, Segregated State, or Separate State Program”) and whether the benefit or service is a federal, state, or local public benefit (8 USC 1611, 1612(b), 1613, 1621-1622, and 1641(b)).

The applicable percentage for each fiscal year is 80 percent of the amount of non-federal funds the state spent in FY 1994 on AFDC or 75 percent if the state meets the TANF work participation rate requirements (42 USC 607(a)) for the fiscal year. This is termed “basic MOE” and the requirement is based on the federal fiscal year. Any MOE expenditures above this required amount are referred to as “excess MOE.”

Except as provided in paragraph b, immediately below, qualified expenditures with respect to eligible families may come from all programs (i.e., the state’s TANF program as well as programs separate from the state’s TANF program). This requirement may be met through allowable state or local cash expenditures for goods and services, cash donations by non-governmental third parties (e.g., a non-profit organization, corporation, or other private party), or the value of third-party in-kind contributions. A state’s records must show that all the costs are verifiable and meet all applicable requirements in 45 CFR sections 263.2 through 263.6. Third parties must be aware of and agree with the state’s intentions and, accordingly, the state’s records must include an agreement between the state and the third party permitting the state to count the expenditure toward its MOE requirement (42 USC 609(a)(7)(A) and 609(a)(7)(B)(i)(I); 45 CFR sections 263.1 and 263.2(e)).

Effective October 1, 2008 (i.e., FY 2009 awards), states may claim only certain pro-family non-assistance expenditures that are reasonably calculated to accomplish TANF purpose 3 or TANF purpose 4. These pro-family expenditures consist of the allowable healthy marriage promotion and responsible fatherhood non-assistance activities enumerated in Title IV-A of the Social Security Act, sections 403(a)(2)(A)(iii) and 403(a)(2)(C)(ii), unless a limitation, restriction, or prohibition under 45 CFR Part 263, Subpart A applies (45 CFR section 263.2(a)(4)(ii); TANF-ACF-PI2008-10, dated October 23, 2008, available at <https://www.acf.hhs.gov/ofa/programs/tanf/policy>).

States may claim for MOE purposes the qualified pro-family healthy marriage and responsible fatherhood expenditures for non-assistance benefits and services provided to or on behalf of an individual or family, regardless of financial need or family composition. States must limit the provision of all other qualified MOE-funded assistance and non-assistance benefits to eligible families as defined at 45 CFR section 263.2(b), regardless of the TANF

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purpose that the expenditure is reasonably calculated to accomplish.

Section 409(a)(7)(B)(iv)(IV) of the Social Security Act prohibits states from counting toward their MOE requirement expenditures made as a condition of receiving federal funds, unless allowed under Title IV, part A of the Social Security Act.

If a state does not meet the basic MOE requirement, a penalty results. The penalty consists of a reduction of the state's federal TANF grant for the following fiscal year in the amount of the difference between the state's qualified expenditures and the state's basic MOE (42 USC 609(a)(7)(A) and 45 CFR section 263.8). If application of a penalty results in a reduction of federal TANF funding, the state is required in the immediately succeeding fiscal year to spend from state funds an amount equal to the total amount of the reduction, in addition to the otherwise required basic MOE. The additional funds must be spent in the TANF program, not under "separate state programs." Such expenditures may not be claimed toward MOE (42 USC 609(a)(12); 45 CFR sections 263.6(f) and 264.50).

b. Limitations on "Qualified State Expenditures" – Expenditures under pre-existing programs, other than those that would have been previously authorized and allowable under the former AFDC, JOBS, Emergency Assistance, Child Care for AFDC recipients, At-Risk Child Care, or Transitional Child Programs may not count toward the state's MOE requirement for the current year except to the extent that the current year's expenditures with respect to eligible families exceed the expenditures made under the state or local program in FY 1995.

Exception: If the expenditures are for non-assistance pro-family activities as addressed in paragraph a., then current year expenditures are not limited to those made with respect to eligible families. If total current fiscal year expenditures for allowable pro-family activities within TANF purpose three or TANF purpose 4 exceed total state expenditures in the program during FY 1995, then the state may claim the excess toward the state's MOE requirement. Thus, to be considered as "exceeding" the FY 1995 level, the expenditures must be new or additional expenditures. (42 USC 609(a)(7)(B)(i)(II)(aa) and 45 CFR section 263.5). Additional information on application of the "new spending test" for new or additional expenditures may be found in TANF-ACF-PI-2016-04 (<https://www.acf.hhs.gov/ofa/resource/tanf-acf-pi-2016-04>).

In addition, expenditures by the state from amounts that originated from federal funds may not count toward meeting a MOE requirement even if the expenditures "qualify" (42 USC 609(a)(7)(B)(iv)(I)).

Except for child care expenditures, double-counting of expenditures to meet the basic MOE requirement is prohibited (42 USC 609(a)(7)(B)(iv)(II-IV); 45 CFR section 263.6). States may count state funds expended to meet the requirements of the Child Care Development Fund Matching Fund (Assistance Listing 93.596) as basic MOE expenditures, as long as such expenditures meet the requirements of 42 USC 609(a)(7). The maximum amount of child care expenditures that a state may double-count under this provision is the state's Matching Fund MOE amount under Assistance Listing 93.596 (42 USC 609(a)(7)(B)(iv); 45 CFR sections 263.3 and 263.6).

Expenditures for educational services/activities for eligible families to increase self-sufficiency, job training, and work count if the activities or services are not generally available to other state residents without cost and without regard to their income (42 USC 609(a)(7)(B)(i)(I)(cc); 45 CFR section 263.4, TANF-ACF-PI2005-01, dated April 14, 2005, at <https://www.acf.hhs.gov/ofa/programs/tanf/policy>).

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Administrative costs in connection with the activities that correspond to the qualified expenditures may not exceed 15 percent of the total amount of countable expenditures for the fiscal year (42 USC 609(a)(7)(B)(i)(I)(dd); 45 CFR section 263.2(a)(5)).

The basic MOE requirement expressly does not count expenditures for services or activities that only fall under 42 USC 604 (a)(2) (see III.A.1.a(1), “Activities Allowed or Unallowed”). Such expenditures are not considered “qualified expenditures” (42 USC 609(a)(7)(B)(i)(I); 45 CFR section 263.2(a)(4)).

c. Contingency Fund MOE – A state must spend more than 100 percent of its historic state expenditures for FY 1994 to keep any of the federal contingency funds it received (42 USC 603(b), and 45 CFR sections 264.72(a)(2) and 264.70 through 77). This is termed “Contingency Fund MOE.” The Contingency Fund MOE requirement may be met only through qualified expenditures under the state’s TANF program. Qualified expenditures consist of those defined and provided under 42 USC 609(a)(7)(B)(i) and 45 CFR sections 263.2 (a)(1),(a)(3) through (a)(5), and 263.2(b), but excludes those expenditures described in 42 USC 609(a)(7)(B)(i)(I)(bb) and 45 CFR section 263.2(a)(2) (42 USC 603(b)(6)(B)(ii)(I) and 609(a)(10)).

d. 1108(b) Territorial Matching Fund MOE Requirement – See IV, “Other Information,” for guidance on the spending requirements applicable to the receipt of Matching Grant funds under section 1108(b) of the Social Security Act (section 1108(b)) (42 USC 1308(b)).

e. Prohibition on Use of Federal TANF and State MOE funds for Juvenile Justice Services – See IV, “Other Information” for area of risk of non-compliance for juvenile justice services.

### 2.2 Level of Effort – Supplement Not Supplant (Not Applicable)

1. Pandemic Emergency Assistance Fund - see compliance supplement, if needed.

## **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 with their internal controls over Level of Effort, see [Internal Control Request Letter - Level of Effort](#). Additionally, we received the CSD MOE Procedure Guidelines for FFY22, see [TANF CSD MOE Procedures Guide FFY2021](#).

On June 23, 2022 we met with the following to gain an understanding of the internal controls over the Level of Effort requirement:

- Meenu Thapar, Grant and Internal Control Manager
- Ron White, Acting Budget Manager
- Patrick Budde Jr., TANF Workfirst Prog Mgr

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- Lance Krull, Senior Data Administrator EMAPS
- Ivette Dones-Figueroa, CSD Audit and Strategic Initiatives Manager
- Summer Garcia, Staff Services and Operations Consultant

Ron mentioned that he started putting together MOE packets towards the end of summer, and delivers them to third party sources during the fall since it is after the federal fiscal year in order to get information to report for TANF MOE by December. He send these packets to new and pervious sources. Recently there have are no new sources, however he stated there have been new aspects added with current sources. See [TANF MOE Packet FFY2021](#).

During FY22 responsibilities of creating the Master Client List (MCL) has moved to ESA-EMAPS. The MCL is used to match eligible clients to outside agencies (not nonprofits as nonprofits use estimation methodology) eligible MOE expenditures for MOE participants. Every November, following the FFY, EMAPS will build the list of eligible clients. The four major outside agencies who contribute to MOE are Labor and Industries (L&I), Department of Children, Youth and Families (DCYF), Department of Commerce (Commerce) and Office of Superintendent of Public Instruction (OSPI) Education Research Data Center (ERDC). DSHS provided a copy of the manual for creating the MOE Master Client List, [TANF MOE Manual-FFY2021](#). The SQL code was created in the past and used year after year. The queries are complex and would require an experienced person with knowledge of the program to review. They indicated that if he makes changes to the SQL code, it is reviewed by Lance and Ron. **(Key Control #1 - Control Activities)**

The MOE packet is an agreement that stipulates requirements for expenditures, programs, types of data, data variables, and reporting frequency necessary for TANF MOE eligibility. This includes a Program Eligibility Questionnaire to determine if a program qualifies as a potential TANF MOE source. This packet also includes a letter of attestation to be completed by the authorizing body stating that the expenditures are eligible TANF MOE, for allowable activities, verifiable, and correct. The third party source will attest that they have met the requirements for the MOE. **(Key control #2 – Control Activities)**

Ron stated he meets with the third party TANF MOE sources to ensure continued program eligibility and data validation. During this visit he reviews the risk assessment and completed a checklist that is signed by the CSD and the third party representative. Due to the coronavirus pandemic, Ron mentioned he has been holding these site visits over the phone and in lieu of having the representatives sign the check list, they are emailed the completed list and asked to respond if they have any concerns. **(Key control #3 – Control Activities and Information & Communication)**

TANF staff holds a meeting that are regular check-ins and monitoring of any emergent issues regarding MOE requirements, sources or process. Ron mentioned that if there are no updated for this meeting they would not meet since they would like to not take up time. This meeting would also help them review the quarterly reports that show the previous, current and future MOE expenditures. **(Key control #4 - Monitoring)**

### Summary of Key Controlskey controls

**Key Control #1** - ESA-EMAPS creates the TANF Master Client List for outside agencies to ensure they are claiming MOE expenditures for only eligible clients. Any changes made to the SAS code to build the TANF Master Client List are reviewed by a second person. **(Control Activities)**

**Key Control #2:** To determine continued TANF MOE eligibility, the Federal Policy Advisor contacts each MOE participant (other state agency) at the beginning of every Federal Fiscal Year to revalidate the MOE activity claimed and that the MOE participant is still delivering the services as they did the year before and that the service meets a TANF purpose and documents data on the Master MOE Matrix. The Department also receives a summary expenditure report

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and attestation forms from the outside agencies to ensure the amount reported is not used for any other federal match. **(Control Activities)**

**Key Control #3:** The Federal Policy Advisor meets with third party agencies to review risk assessments to ensure continued program eligibility and data validation. **(Control Activities and Information & Communication)**

**Key Control #4:** The Federal Policy Advisor and the Grant and Internal Control Manager will meet regularly for emergent issues regarding the MOE to ensure the Level of Effort requirement is being met. **(Monitoring)**

**Evaluation of Results:** We did not identify any internal 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 to determine if we can place reliance on the controls.

-

## **D.1.PRG - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS**

***Procedure Step:*** G. Earmarking - Controls - 15% Admin

***Prepared By:*** KMT, 7/19/2022

***Reviewed By:*** MKH, 8/29/2022

|                      |
|----------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with earmarking requirements.

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

### **Source:**

Meenu Thapar, Grant and Internal Control Manager

Rick Meyer, External Audit Compliance Manager

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Ron White, Acting Budget Manager  
Patrick Budde Jr., TANF/WorkFirst Program Manager  
Lance Krull, Senior Data Administrator EMAPS  
Ivette Dones-Figueroa, CSD Audit and Strategic Initiatives Manager  
Summer Garcia, Staff Services and Operations Consultant

## **Conclusion:**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**

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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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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 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.:



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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 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.

From Part Four of the Compliance Supplement (April 2022):

### **Earmarking**

- a. Federal Only and Commingled Federal/State - A state may not spend more than 15 percent for administrative purposes, excluding expenditures for information technology and computerization needed for required tracking and monitoring, of the total combined amounts available under the state family assistance grant, supplemental grant for population increases, and contingency funds (42 USC 604(b)(1) and (2); 45 CFR sections 263.0 and 263.13).

For Earmarking requirements for over 60 months see G. Earmarking - Controls - Over 60 Months.

*Indirect costs may be applied to the federal TANF funds based on the indirect cost rate negotiated by the Bureau of Indian Affairs, the Department of Health and Human Services' Division of Cost Allocation, or another federal agency. However, indirect costs applied to TANF funding are subject to and included within the administrative cap limits (45 CFR section 285.55(d)).*

## **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 with their internal controls over this Earmarking requirement, see: [Internal Control Request Letter - Earmarking].

We met with the following staff on June 23, 2022 to gain an understanding of internal controls over the 15% administrative earmarking requirement:

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- Meenu Thapar, Grant and Internal Control Manager
- Rick Meyer, External Audit Compliance Manager
- Ron White, Acting Budget Manager
- Patrick Budde Jr., TANF/WorkFirst Program Manager Add Title
- Lance Krull, Senior Data Administrator EMAPS
- Ivette Dones-Figueroa, CSD Audit and Strategic Initiatives Manager
- Summer Garcia, Staff Services and Operations Consultant

Meenu explained that when the grants are awarded to the program, there are systems in place to make sure they do not go over the 15% earmarking requirement. When the Department gets any funding for TANF it starts in October and continues indefinitely until the funds are expended. When she creates the claim reports, Meenu runs Enterprise Reports and uploads them into the Access Database. Once she uploads it into the database she makes sure the amounts reported in Access match the reports ran from Enterprise Reporting.

The TANF program expenditures are allocated (or assigned) to a correct funding source such as TANF Federal funding, TANF MOE state funding, and administrative costs based on DSHS's cost allocation plan. At the beginning of each federal fiscal year (FFY), key budget and accounting staff meet to discuss the changes and determine what updates need to be reflected in the cost allocation plan for the new year. This meeting allows the budget and accounting staff to determine the new cost objectives that will be used with the new federal grant and discuss if any cost objective/program index/allocation/program codes need different treatment from the previous year. Once the plan is finalized, Meenu will provide any changes and updates for the new plan to Kelly James, ESA Cost Allocation Manager. In addition, Meenu will update the "claim title" codes which match the ACF-196R line items (reportable categories) including Federal, State MOE, and Contingency expenditures in the access database (as described in 196R reporting understanding). DSHS uses specific cost objectives (program indexes/allocations) and program codes, as detailed in the cost allocation plan, which are assigned to administrative expenditures to ensure they are tracked separately from non-administrative expenditures. **(Key Control #1 - Control Activities)**

Meenu states once the administrative expenditures are coded correctly to TANF administration (which then are reported on line A22a index in the access database) under specific cost objectives/program indexes/allocation/program codes for the current federal fiscal year, the administrative expenditures can easily be monitored by running an index report out of their access database. She states she monitors the TANF administrative expenditures for each quarter as part of the preparation of the quarterly financial claim (report 196R). As part of her quarterly report process, she runs Enterprise reports that cover the current quarter to be reported. Meenu then downloads the enterprise reports into access to get expenditures pointed to the correct line items on the 196R (the administration index pulls all the cost objective/program index/allocation/program codes only for admin expenditures (column A line 22a) so she can see at a glance what the total admin is for the cumulative for federal fiscal year). See 196R Reporting write-up at .

TANF administrative expenditures are listed on the enterprise report using the specific cost objectives/pi/allocation code as assigned during the cost allocation process by federal fiscal year, providing an accounting of federal fiscal year-to-date administrative expenditures charged to the TANF grant by federal fiscal year (grant year). Once the ACF-196R report is complete, Meenu will double check to see if the administrative expenditures on line 22.a. do not exceed 15% of total expenditures by manually calculating the 15% cap amount and comparing it with the admin expenditure amount on the ACF-196R. Meenu will also fill out a reviewer checklist to ensure the information she entered into the claim is correct. She stated her supervisor will review the report to also ensure the Department

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did not exceed the 15% earmarking requirement. **(Key Control #2 - Control Activities/Monitoring)**

The On-line Data Collection System (OLDC) will not accept the claim if admin is over 15% of cumulative federal fiscal year expenditure total to date. *Note: The federal 196R report has a cumulative calculation line where the feds calculate the total reported so far.* Meenu includes this calculation on the excel spreadsheet kept for each 196R. (Monitoring) In the event the program administrative expenditures exceed the 15% limit, Meenu can prepare a JV to move the expenditures to state funding, after checking with budget and accounting managers, and forward to OAS for processing. The 15% calculation includes regular funds and contingency funds.

### **Summary of Key Controls**

**Key Control #1- Control Activities:** DSHS uses specific cost objectives/program indexes/allocations/program codes, as detailed in the cost allocation plan, which are assigned to administrative expenditures to ensure they are tracked separately from non-administrative expenditures.

**Key Control #2 - Control Activities and Monitoring:** The Federal Accounting & Reporting Manager prepares a quarterly analysis of the grant expenditures by cost obj/pi/alloc codes and recalculates the 15% admin level to ensure the earmarking requirement is met and the Accounting and Internal Control Administrator will review the workbook.

### **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 to determine if we can place reliance on the controls.

### **D.1.PRГ - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS**

**Procedure Step:** G. Earmarking - Controls - Over 60 Months

**Prepared By:** AMG, 10/7/2022

**Reviewed By:** MKH, 12/22/2022

Purpose/Conclusion.

### **Purpose:**

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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 key internal controls the agency has established to prevent or detect noncompliance with earmarking requirements.

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

## **Source:**

Ron White, Acting Budget Manager

Lance Krull, Senior Data Administrator EMAPS

Meenu Thapar, Grant and Internal Control Manager

Summer Garcia, Staff Services and Operations Consultant

Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager

## **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**

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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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

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specific requirements for Earmarking.

From Part Four of the Compliance Supplement (April 2022):

## **Earmarking**

a. Federal Only and Commingled Federal/State - for 15 percent administrative requirements, see G. Earmarking - Controls - 15% Admin.

b. Federal Only and Commingled Federal/State - The average monthly number of families that include an adult or minor child head of household, or the spouse of the head of household, who has received assistance under any state program funded by federal TANF funds for more than 60 countable months (whether or not consecutive) may not exceed 20 percent of the average monthly number of all families to which the state provided assistance during the fiscal year or the immediately preceding fiscal year (but not both), as the state may elect. To make this determination for a fiscal year, the average monthly number of families with a head of household or spouse of a head of household who received assistance for more than 60 months would be divided by the average monthly number of families that received assistance in that fiscal year, or, if the state chooses, in the previous fiscal year (42 USC 608(a)(7)(C)(ii); 45 CFR sections 264.1(c) and (e)).

(See III.E.1, “Eligibility – Eligibility for Individuals,” for related eligibility testing.)

*Indirect costs may be applied to the federal TANF funds based on the indirect cost rate negotiated by the Bureau of Indian Affairs, the Department of Health and Human Services’ Division of Cost Allocation, or another federal agency. However, indirect costs applied to TANF funding are subject to and included within the administrative cap limits (45 CFR section 285.55(d)).*

## **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 with their internal controls over this Earmarking requirement, see Internal Control Request Letter - Earmarking.

We met with the following staff on June 23, 2022 to gain an understanding of internal controls over the more than 60 month TANF funds may not exceed 20% of the average monthly number of families earmarking requirement:

- Ron White, Acting Budget Manager
- Lance Krull, Senior Data Administrator EMAPS
- Meenu Thapar, Grant and Internal Control Manager
- Summer Garcia, Staff Services and Operations Consultant
- Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager Add Ivette

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TANF earmarking requires that the average monthly number of families that have received assistance under any State program funded by Federal TANF funds for more than 60 countable months (whether or not consecutive) may not exceed 20 percent of the average monthly number of all families to which the State provided assistance during the fiscal year or the immediately preceding fiscal year. Although the 60 month requirement is waived due to the pandemic, the Department continues to track has maintained the 20 percent cap due to the Federal government requirement and no guarantee that penalties would be waived. During our understanding over Reporting of the 199/209, we met with Guang Shen, IT Data Management, at ESA, who maintains and monitors TANF data every month to prepare the TANF performance report (ACF-199). Guang monitors both disaggregated and aggregated data from the ACES TANF Eligibility data base, which provides client demographic information, as well as the eJAS TANF Work Activities database, which supplies WorkFirst Activities information every month, as part of the process to prepare the performance report for TANF (ACF-199). From this data, Guang extracts the countable of each adult client (Line 44 of the ACF-199 report), and copies it into an Excel spreadsheet where the data can be easily reviewed and reconciled to the number of cases within this demographic that are accepted by the Feds as part of the ACF-199. If the average number of adult clients who received TANF benefits for more than 60 months begins trending near 20 percent, he will immediately contact the program contact to investigate the problem. **(Monitoring)** RDA has kept a detailed record of the countable months since FFY 2002. Per his records, historically, the state has not exceeded the 20% earmarking requirement, in fact runs about 5%. While Guang monitors this earmark, the responsibility for pulling data for the report that is reviewed monthly at the program level is at EMAPS in ESA and the responsibility for monitoring that report is with the program manager in the TANF program who monitors the percentage on the report each month to ensure the Department is not over 20%.

### EMAPS

We met with Lance Krull, Senior Data and Information Administrator, to discuss how the TANF Extension/Child Safety Net Analysis Report is prepared for program review. He stated that the SQL server program that pulls the data was developed many years ago. Each month Lance begins by creating a template from last months report. He then runs the query from last month, updating the month field, which generates all the data he needs to include in the report. He copies the data from his program and pastes it into the template. He has to copy data in three separate blocks to add it to the report. Once the report is complete, he logs on and checks his numbers with the EMAPS online report on the state government network (sgn)- ([http://emaps.esa.dshs.wa.gov/DataWebObj/TANF/tanf\\_summary\\_cases](http://emaps.esa.dshs.wa.gov/DataWebObj/TANF/tanf_summary_cases)). **(Monitoring)** On a monthly basis, Emaps pulls the client data from Department systems, analyzes it to ensure it is complete and accurate, and forwards the report to the Work First Program Administrator for review. **(Key Control #1- Control Activities)**

In addition to the monthly report, Lance states once a year each November he performs a calculation to obtain the average monthly caseload by taking the average monthly TANF caseload for October in the prior year to September in the current year. **(Control Activities)** He then divides the total by 12 to get the monthly average. He then multiplies the monthly average by 20% to get the cap. Although the 60 month requirement is being waived, the 20% cap is still being tracked and maintained, because the Federal government does not guarantee a waiver of penalties. We will reperform this calculation under compliance testing.

### CSD-TANF program

The "TANF Extension/Child Safety Net Analysis report" which includes the number of families who receive benefits more than 60 months is monitored by Susan Kavanaugh, WorkFirst Program Administrator and Ron White, Federal Policy Advisor. The report specifically shows the monthly total number of TANF extensions (total number of families who receive benefit more than 60 months), monthly total number of caseload (total number of families who receive TANF benefit), and % of extension (total TANF extension divided by total number of caseload). Susan use this report to monitor the 20% limitation by reviewing the TANF extension report on a monthly basis to ensure the total number of TANF extensions remains at less than 20% of the average monthly total of all



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cases. Additionally, Ron tracks the requirement by using historical data and projections. The Program Manager receives and reviews the TANF Extension/Child Safety Net Analysis Report from EMAPS within ESA monthly to ensure the earmarking requirement is met. **(Key Control #2 - Monitoring)** Once reviewed, Susan sends an email back to EMAPS stating it has been reviewed and the earmark is within the 20% limitation.

### **Summary of key controls:**

**Key Control #1- Control Activities** - On a monthly basis, Emaps pulls the client data from Department systems, analyzes it to ensure it is complete and accurate, and forwards the report to the Work First Program Administrator for review.

**Key Control #2 - Monitoring** The Program Manager receives and reviews the TANF Extension/Child Safety Net Analysis Report from EMAPS within ESA monthly to ensure the earmarking requirement is met.

**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 to determine if we can place reliance on the controls.

### **D.1.PR.G - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS**

***Procedure Step:*** G. Earmarking - PEAFF

***Prepared By:*** AMG, 11/9/2022

***Reviewed By:*** MKH, 12/22/2022

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 key internal controls the agency has established to prevent or detect noncompliance with earmarking requirements.

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

To identify the key internal controls and test these controls to determine if the controls are in place and operating as intended.

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To provide a final control risk assessment based upon our testing of the key internal controls.  
To determine if the agency is in compliance with Earmarking requirements.

## **Source:**

Meenu Thapar, Grant and Internal Control Manager  
Ivette Dones-Figueroa, CSD Audit and Strategic Initiatives Manager  
Summer Garcia, Staff Services and Operations Consultant

## **Conclusion:**

Based on our understanding of internal controls over PEAFF Earmarking, we assessed preliminary control risk as low.  
Based on our understanding of internal controls over PEAFF Earmarking, we tested the key controls. Based on our testing, internal controls are in place and operating as intended to prevent material noncompliance with federal requirements. Final risk assessment is low.  
The agency was in material compliance with federal requirements for PEAFF Earmarking.

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**

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*

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*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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

### **Step 5: Test Internal Controls**

If preliminary control risk is:

LOW: Test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: Do not test the controls, report the issue in a finding as a “significant deficiency” or “material weakness” as appropriate.

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About tests of controls: To determine whether the key controls are effective, the auditor should obtain evidence about how controls were applied at relevant times during the period under audit, the consistency with which they were applied, and by whom or by what means they were applied.

Provide Details: When documenting your testing in the ROWD, you should provide enough details so that an experienced auditor could re-perform the same test and reach the same conclusion. See **Inherent and Internal Control Risk Guidance** for what tests of controls generally include.

**Remember, for a non-automated control, a “walk through” of the grantee’s process is not considered sufficient testing. A walk-through only provides an understanding of the design of a system – it does not provide evidence that the controls are effective.**

*-Dual purpose testing – consider whether the control can be tested in conjunction with a test of compliance to increase audit efficiency. If dual-purpose testing is performed, you must clearly document the results of control tests and compliance tests.*

*-If a key control is automated, control testing must include testing of both the automated control and related general controls. See additional information in the planning guide.*

**Note: Prior to completing the Evaluation of Results (below), auditors must document to whom final exceptions were sent and when they were sent.**

**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 6: Assess Final Control Risk (CR)**

After testing the key controls, assess final control risk. This assessment must be either low or high. If you conclude that final control risk is high, this should be reported in a finding as a “significant deficiency” or “material weakness” as appropriate.

*Note: Reassessment of final control risk is required under Step 5 when noncompliance is found.*

## **Step 7: Assess the Risk of Material Non-Compliance (combined IR and CR)**

Assess the risk of material noncompliance for this compliance requirement to help determine the nature and extent of compliance testing necessary to give an opinion on this program. The risk is based on auditor judgment in consideration of the inherent risk and control risk. Assess risk as Low, Moderate or High.

High does not result in a finding, but the auditor should consider the risk when designing the nature and extent of compliance testing.

## **Test Compliance**

Design the nature and extent of compliance testing based on the risk of material noncompliance. The extent of our testing must be sufficient to support our

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conclusion about whether the grantee has materially complied with the requirement being tested. If the nature of the transactions or records for this requirement are conducive to sampling, it is recommended the auditor select a sample (the Excel-based sampling template for the single audit is located in the TeamStore). Otherwise, perform a judgmental selection based on risk.

## Earmarking

### 1. Identify Earmarks:

Identify the percentage or dollar amount of earmarks. Determine which are direct and material, following the same guidance in the “Compliance Requirements” testing strategy.

### 2. Set Aside:

Determine if the entity set aside an amount that met minimum and/or maximum requirements and any other special considerations. This may have been in the program budget.

### 3. Spent the Earmark - Minimums:

Not all earmarks require the entity spend the amount set aside. For those that do, if they must *at least* spend a certain amount:

a. Support: Determine if the amount spent for the program is supported by financial records.

b. Classification: Select expenditures applied to the earmark. Test to determine if those expenditures were properly classified, to address the risk that unrelated costs were included.

\*Testing may be done as a dual purpose with A/B Allowable Cost/Cost Principle testing.

### 4. Spent the Earmark - Maximums: (*Pre-UG & UG*)

Not all earmarks require the entity spend the amount set aside. For those that do, if they *cannot* spend *more than* a certain amount:

a. Support: Determine whether financial records show costs applied to the program did not exceed the maximum.

b. Classification: Select expenditures applied to the federal program that the entity *did not* apply to the earmark. Test to determine if those expenditures were properly classified, to address the risk federal funds were spent on the earmark but recorded as other types of costs to avoid the maximum’s limitation.

Example: Only 10% of the federal program may be used for administrative costs, so review program expenditures other than administrative costs to identify administrative costs which were improperly classified elsewhere.

\*Testing may be done as a dual purpose with A/B Allowable Cost/Cost Principle testing.

### 5. Participant Earmarks - Minimums:

When there is an earmark limit regarding a minimum number/percentage of participants that can be served, select participants that are counted toward meeting the minimum requirement and perform tests to verify that they were properly classified.

### 6. Participant Earmarks - Maximums:

When there is an earmark limit regarding a maximum number/percentage of specified types of participants that can be served, select other participants and perform tests to verify that they were not of the specified type.

**Evaluation of Results:** Did you identify any noncompliance? If so, **you must:**

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1. Determine and document the magnitude of the noncompliance on the program as a whole or for this compliance area (5% materiality threshold).
2. Document the reason for the noncompliance.
3. Consider whether additional testing is needed to provide reasonable assurance of detecting material noncompliance (e.g. is the risk of material noncompliance increased for the activities or costs that you did not test?).
4. Reassess the final control risk. Generally, noncompliance is the result of a control deficiency; therefore, it is necessary to reconsider the effectiveness of the internal controls.] (Include this wording) After compliance testing 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>**. This **did/did not** change our final control risk, see final control risk at ([link to controls](#)).

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

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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 risks when designing our tests of compliance.

- The compliance requirement is considered a new requirement during SY 2022.

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 Level of Effort.

From Part Four of the Compliance Supplement (April 2022):

#### **Pandemic Emergency Assistance Fund**

Grantees may use funds for administrative costs, within limitations. For states (including the District of Columbia) and territories, the law provides a 15 percent cap on administrative expenditures. For tribes, the same cap will apply to administrative costs in the PEAFF that a tribe negotiated for administrative costs in its approved tribal TANF plan.

## **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 with their internal controls over Earmarking - PEAFF, see [Internal Control request letter - PEAFF](#).

On September 27, 2022 we met with the following to gain an understanding of the internal controls over the Level of Effort - PEAFF requirement:

- Meenu Thapar, Grant and Internal Control Manager
- Ivette Dones-Figueroa, CSD Audit and Strategic Initiatives Manager
- Summer Garcia, Staff Services and Operations Consultant

To ensure the Department did not expend over 15 percent of the funds for administrative costs, Meenu stated she would calculate the 15 percent admin cap based

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off the amount that was awarded to the Department. She would then run the Enterprise Reports to capture the expenditures for the claims. She mentioned in order to get the admin expenditures, the Department utilizes the cost allocation system to ensure that payments are being properly coded and applied to the correct grant. **(Key Control #1 - Control Activities)**. Before the claim is submitted, the Accounting and Internal Control Administrator reviews and confirms the administrative expenditures were not over spent. **(Key Control #2 - Monitoring)**

### Summary of Key Controls

**Key Control #1 - Control Activities:** The Internal Control and Grant Manager runs Enterprise Reports to capture expenditures to ensure the administrative expenditures are allocated correctly.

**Key Control #2 - Monitoring:** The Accounting and Internal Control Administrator reviews and confirms the administrative expenditures before the report is submitted to the federal government.

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

### Internal Control Testing

#### Step 5

We did not use the testing spreadsheet for PEAFF Earmarking, which is based on total expenditures at the end of each state fiscal year (not individual transactions). We will test the controls in place for administration for Grant Year 2021 #1 - which closed during our fiscal/audit year which took place April 1, 2021-September 30, 2021 with the report due date of December 29, 2021. Please see [Final 2021 - ACF 196T Form Instructions \(hhs.gov\)](https://www.hhs.gov/peaff/2021-2022/2021-2022-ACF-196T-Form-Instructions), to see timeframes of all reports due.

**Key Control #1 - Control Activities:** The Internal Control and Grant Manager runs Enterprise Reports to capture expenditures to ensure the administrative expenditures are allocated correctly.

To test key control #1, we reviewed the workbook the Department used to track the administrative requirement. In the work book, the Meenu Thapar, Grant and Internal Control Manager, ran an ER report from July 2021 through September 2021. We identified the Department is using CostObj 558P1 which is used for the PEAFF grant. We determined the Department is using the correct allocation to track PEAFF expenditures. *No exceptions identified.*

**Key Control #2 - Monitoring:** The Accounting and Internal Control Administrator reviews and confirms the administrative expenditures before the report is submitted to the federal government.

To test key control #2, we reviewed the email Meenu send to Debra Trickler, Accounting and Internal Control Administrator, for approval of the report with the current expenditures see TANF PEAFF 196 Report FINAL. Within the email, Debra approved the supporting documents and report before Meenu sent it to the federal government.

*No exceptions identified.*

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



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## **Final Control Risk Assessment**

### **Step 6**

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will place reliance on the controls, based on our control testing above.

## **Risk of Material Noncompliance**

### **Step 7**

LOW – By combining our inherent risk assessment and internal control testing we have determined the risk of material noncompliance to be low. We will design our compliance testing based on this assessment.

## **PEAF Earmarking - Compliance**

We did not use the testing spreadsheet for PEAFF Earmarking, which is based on total expenditures at the end of each state fiscal year (not individual transactions). We will test the controls in place for administration for Grant Year 2021 #1 - which closed during our fiscal/audit year which took place April 1, 2021-September 30, 2021 with the report due date of December 29, 2021. Please see [Final 2021 - ACF 196T Form Instructions \(hhs.gov\)](#), to see timeframes of all reports due.

The compliance requirements for TANF PEAFF Earmarking - 15% Administration apply to a cap or threshold amount than cannot be exceeded.

To test compliance, we will recalculate the 15% administrative cap and reconcile the amounts reported with source documentation to ensure compliance with the earmarking requirements.

### **1. Identify the applicable percentage or dollar requirements for earmarking.**

The State may use funds for administrative costs, within limitations. For states (including the District of Columbia) and territories, the law provides a 15 percent cap on administrative expenditures. For tribes, the same cap will apply to administrative costs in the PEAFF that a tribe negotiated for administrative costs in its approved tribal TANF plan.

### **2. Perform procedures to verify that the amounts recorded in the financial records met the requirements.**

To test compliance, we recalculated the percentage of total administrative expenditures for the year-end Grant Year 2021. We verified that the total expenditures and total percentage were below the 15% threshold.

|   |                    |                                    |
|---|--------------------|------------------------------------|
| Total Federal TANF PEAFF Award                      | \$22,766,008.03    | <u>TANF PEAFF 196 Report FINAL</u> |
| Maximum Expenditures Allowed (15%)                  | \$3,414,901.20     |                                    |
|   |                    |                                    |
| <b>Total Expenditures (April to september 2021)</b> | <b>\$13,102.65</b> | <u>TANF PEAFF 196 Report FINAL</u> |
| Amount Below 15% Cap                                | \$3,401,798.55     |                                    |
| <b>Actual TANF Admin Percentage</b>                 | <b>0.057%</b>      |                                    |

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*No exceptions identified.*

**3. When earmarking requirements specify a minimum percentage or amount, select transactions supporting the specified amount or percentage and perform tests to verify proper classification to meet the minimum percentage or amount.**

Not applicable - this earmark is a maximum.

**4. When the earmarking requirements specify a maximum percentage or amount, review the financial records to identify transactions for the specified activity which were improperly classified in another account**

Meenu Thapar, Grants and Internal Control Manager, confirmed that that Department ensures payments for administrative costs are coded to the correct grant during the grant's period of performance by establishing cost objective codes and program index codes as part of the State's automated cost allocation system. Meenu noted that the cost allocation plan is updated annually in November. For expenditures that occur after October 16th while the plan is being finalized, the Department uses JVs to process and move the expenditures to the correct grant year. We determined that the Department uses the cost allocation system to ensure that payments are being properly coded and applied to the correct grant. In order to track the earmarking expenditures, Meenu mentioned they used the following Program Indexes and Allocations to track the administrative expenditures for PEAFF:

F6B1/8TAA

F6B3/8TAA

F6B4/8TAA

F6C2/8TAA

F9623/8TAA

*No exceptions noted.*

**5. When earmarking requirements prescribe the minimum number or percentage of specified types of participants that can be served, select participants that are counted toward meeting the minimum requirement and perform tests to verify that they were properly classified.**

Not applicable - this earmark is not related to participants served

**6. When earmarking requirements prescribe the maximum number or percentage of specified types of participants that can be served, select other participants and perform tests to verify that they were not of the specified type.**

Not applicable - this earmark is not related to participants served

**Evaluation of Results:** We did not identify any noncompliance.

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## D.1.PR.G - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS

**Procedure Step:** L. Reporting - Controls - 196R

**Prepared By:** TF, 9/7/2022

**Reviewed By:** MKH, 9/20/2022

### 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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

#### **Source:**

Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)

Meenu Thapar, Grant & Internal Control Manager

#### **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.*

### **AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

#### **Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at [USASpending.gov](https://www.usaspending.gov) as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

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**(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).

### 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

**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:

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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).

### **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)<br/>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 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 risks when designing our tests of compliance.

- The compilation of the report involves multiple sections of the Department, with complex MOE reporting requirements including expenditures from other state agencies and multiple non-profit organizations.

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 Reporting.

From Part Four of the Compliance Supplement (April 2022):

### **Financial Reporting**

e. ACF-196R, TANF Financial Report (OMB No. 0970-0446) – States are required to submit this report quarterly, beginning in FY 2015, in lieu of the SF-425, Federal Financial Report (financial status). Each state files quarterly expenditure data on the state's use of federal TANF funds, state TANF MOE expenditures, and state expenditures of MOE funds in separate state programs. If a state is expending federal TANF funds received in prior fiscal years, it must file a separate quarterly TANF Financial Report for each fiscal year that provides information on the expenditures of that year's TANF funds. This form must be used for reporting regular TANF grant funds and Contingency Fund expenditures. See TANF-ACF-PI-2014-02, available at [TANF-ACF-PI-2014-02 \(OMB approved Form ACF-196R State TANF Financial Report Form\) | The Administration for Children and Families \(hhs.gov\)](#) for more information.

Quarterly reports must be received by ACF within 45 days of the end of each quarterly period.

States must use the ACF-196R form pursuant to Title IV-A, Section 411 of the Social Security Act and 45 CFR 265.3.

*45 CFR § 265.7 - How will we determine if the State is meeting the quarterly reporting requirements?*

(a) Each State's quarterly reports (the TANF Data Report, the TANF Financial Report (or Territorial Financial Report), and the SSP-MOE Data Report) must be complete and accurate and filed by the due date.

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- (d) For the TANF Financial Report (or, as applicable, the Territorial Financial Report), “a complete and accurate report” means that:
- (1) The reported data accurately reflect information available to the State in case records, financial records, and automated data systems;
  - (2) The data are free from computational errors and are internally consistent (e.g., items that should add to totals do so);
  - (3) The State reports data on all applicable elements; and
  - (4) All expenditures have been made in accordance with § 75.302(a) of this title.
- (e) We will review the data filed in the quarterly reports to determine if they meet these standards. In addition, we will use audits and reviews to verify the accuracy of the data filed by the States.
- (f) States must maintain records to adequately support any report, in accordance with §§ 75.361 through 75.370 of this title.

## **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 June 8, 2022, we requested that the Department complete the Internal Control Request document and we received a response on June 23, 2022 (see [Internal Control Request Letter - Reporting 196R](#)).

### **ESA-Accounting**

We met with Meenu Thapar, DFFR Grant and Internal Control Manager, on June 22, 2022, to gain an understanding of the internal controls over financial reporting. Other Department staff attending the meeting were Summer Garcia (audit liaison), Ivette Dones-Figueroa (CSD audit manager), Ron White (Acting Budget Manager and former TANF Federal Policy Advisor), Patrick Budde (TANF WorkFirst Program Manager), and Tameka Maxwell (Federal Accounting and Reporting Manager).

The ACF-196R financial reports were compiled and submitted by ESA Accounting office for all four quarters of the SFY22. Federal expenditures are reported in column A, State MOE expenditures are reported in column B (annually on the Q4 report), Separate State Programs (SSP) expenditures are reported in column C, and contingency fund expenditures are reported in column D on the 196R report. For many of the state expenditures for MOE, the expenditure totals are obtained from outside state agencies by the TANF program.

A total of 13 ACF-196R quarterly reports were either submitted during FY22 or submitted timely during FY23 and report expenditures within the audit period:

- FFY22 - Q1, Q2, Q3 (to be submitted timely during FY 23 within 45 days of quarter end)
- FFY21 - Q4, Q5, Q6, Q7
- FFY20 - Q8, Q9
- FFY19 - Q4 (revised), Q8 (revised), Q12, Q13



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*Note: The revised FFY19 Q4 and Q8 reports cover expenditures prior to FY22 but were submitted during the audit period and are, therefore, scoped into our final testing population.*

We obtained the TANF ACF-196R Quarterly Claim Procedures that describe how to run enterprise reports, create a new access database for the new federal year, a description of each line item on the 196R report, procedures for their checklist (described below), and the new procedures for the DCYF uploads (which began January 2019), see [TANF ACF-196R Quarterly Claim Process](#) and [TANF ACF-196R MOE Claim Process](#).

In FY22, Meenu stated that she prepared and submitted the claim (196R) and Debra Trickler certified the report prior to submission through the Online Data Collection (OLDC) federal reporting portal. Meenu was responsible for gathering the data from Enterprise for the quarterly financial reports and uploading the Enterprise data into an Access database. She uses source reports from AFRS in Enterprise Reporting System to get DSHS expenditure data for reporting purposes **(Key Control #1 - Control Activities)**.

Meenu then uploads the ER expenditure data into an Access database that calculates subtotals for expenditure categories matched to specific line items on the report. To ensure the expenditures from Enterprise are posted to the correct line on the 196R, Meenu goes into the tables within the access database to review the coding. Before proceeding, Meenu reconciles the expenditure amounts on the ER report to the Access output to ensure that the amounts are accurate and correct. If the totals do not match or there is a new expenditure line item, it is verified with the Program Index to see where the expenditure should be targeted to the line associated with the 196R. The individual expenditures are targeted to the correct line item on the 196R based on the TANF population instructions online. This process creates the supporting reports for the 196R. The enterprise report and the access database will not reconcile unless all expenditure line items have a corresponding 196R code in access. Coding is reviewed in access database to ensure enterprise expenditure reports are grouped into the correct reporting category on the 196R. **(Key Control #2 - Control Activities)**

### **MOE Reporting (Q4 196R)**

In FY22, financial reports that include MOE participant expenditures were compiled and submitted by Economic Services Administration (ESA) accounting office in coordination with CSD, RDA, and EMAPS. State MOE expenditures are compiled and submitted annually on the Q4 196R in addition to key federal expenditure line items. Meenu worked with TANF Federal Policy Advisor (Ron White) in CSD to obtain these MOE participant (outside agency and nonprofit) expenditures which are claimed on the Q4 196R and the annual ACF-204 report for the FFY ending September 30. Meenu does not receive supporting documentation to support these expenditures and relies on Ron and EMAPS to provide accurate numbers.

Please see full write up of the Annual 204 reporting process for collection of other agency expenditures for MOE at [L. Reporting - Controls - 204.Missing Link](#)

Ron and Meenu participate in TANF MOE meetings to coordinate the Q4 reporting. At the end of the federal fiscal year, a thorough review of 196R expenditures and 204 expenditures are conducted to ensure the expenditures match. The Department won't release the final federal fourth quarter reports (196R and 204) before both ESA and CSD agree that the expenditures match. If there subsequent changes, each notifies the other so both reports can be updated and reconciled. An Excel spreadsheet for 196R and 204 reconciliation is kept on the shared drive that both Meenu and Ron can access to ensure that a record of this federal year-end reconciliation process is maintained **(Control Activities)**. We determined that the Q4 reports are individually significant items.

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## **Submission and Certification of the 196R**

Prior to submitting the 196R through the OLDC federal reporting portal, Meenu first creates a claim workbook that includes tabs for the review process, report template worksheet, summary by index Access totals, and supporting ER reports. All supporting documentation is retained by Meenu in case questions arise from ACF regarding source data.

For FY22, Meenu logged into the OLDC website at the Administration for Children and Families (ACF) to enter the report data. Meenu stated she double checks to ensure the amounts entered are accurate and correct. First, she confirms the amounts entered on the report template worksheet in the claim workbook are correct, then she reconfirms the amounts and totals entered into OLDC. If certain expenditures are nearing or exceeding allowed maximums, such as administration or MOE expenditures, Meenu informed us that OLDC generates a warning and she cannot proceed until the warnings are resolved. Once warnings (if any) are resolved and validated, Meenu saves and validates the report and then emails the Accounting and Internal Control Administrator (Debra Trickler) along with all relevant supporting documentation. Debra reviews and approves the amounts and source data to be reported on the 196R using a checklist on the reviewer tab in the claim workbook. Once approved, Debra electronically certifies and submits the report to the federal government. **(Key Control #3 - Information and Communication).**

## **ACF 196R Summary of Key Controls (applicable to reports that do not include final MOE expenditures):**

**Key Internal Control #1:** DSHS uses source reports from AFRS in Enterprise Reporting System to ensure DSHS expenditure data is accurate for reporting purposes **(Control Activities)**.

**Key Internal Control #2:** Coding is reviewed in an access database to ensure enterprise expenditure reports are grouped into the correct reporting category on the 196R **(Control Activities)**.

**Key Internal Control #3:** Before the report is submitted to OLDC, the Accounting and Internal Control Administrator will review the Claim checklist to ensure the amounts and source reports for the expenditures are accurate and supported **(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.

## **D.1.PR.G - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS**

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**Procedure Step:** L. Reporting - Controls - 199/209

**Prepared By:** AMG, 8/11/2022

**Reviewed By:** MKH, 8/12/2022

## 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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

### **Source:**

Summer Garcia, Staff Services and Operations Consultant

Lance Krull, Senior Data Information Administrator

Guang Shen, EMAPS

Jialing Huang, IT Data Management Journey

### **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.*

### **AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

#### **Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at [USAspending.gov](https://www.usaspending.gov) as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

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**(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).

### 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

**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:

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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).

### **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)<br/>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 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 risks when designing our tests of compliance.

- The compilation of this report is a very complex process using data that is rebuilt multiple times for each report.

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 Reporting.

From Part Four of the Compliance Supplement (April 2022):

### **Performance Reporting**

- a. ACF-199, TANF Data Report (OMB No. 0970-0338) and ACF-343, Tribal TANF Data Report (OMB No. 0970-0215) (65 FR 8545, Appendix A, February 18, 2000)

One of the critical areas of this reporting is the work participation data, which serve as the basis for ACF to determine whether states and tribes have met the required work participation rates. A penalty may apply for failure to meet the required rates.

#### State Work Participation Rates

State agencies must meet or exceed their minimum annual work participation rates. The minimum work participation rates are 50 percent for the overall rate and 90 percent for the two-parent rate. A state's minimum work participation rate may be reduced by its caseload reduction credit. HHS may penalize the state by an amount of up to 21 percent of the SFAG for violation of this provision (42 USC 609(a)(4); 45 CFR section 262.1(a)(4)).

Key Line Items – The following ACF-199 (TANF Data Report) line items contain critical information for making the preceding determinations and for other program purposes. Compare the data entered on the file for the key line items below to the documentation in the case file for completeness, accuracy, and consistency:

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1. Section One – Family-Level Data
  - Item 12 Type of Family for Work Participation
  - Item 17 Receives Subsidized Child Care
  - Item 28 Is the TANF family exempt from the federal time limit provisions
2. Section One – Person-Level Data
  - Item 30 Family Affiliation Code
  - Item 32 Date of Birth
  - Item 38 Relationship to Head-of-Household
  - Item 39 Parents with a Minor Child
  - Item 44 Number of months countable toward the federal time limit
  - Item 48 Work-Eligible Individual Indicator
  - Item 49 Work Participation Status
3. Section One – Adult Work Participation Activities
  - Items 50 – 62 Work Participation Activities
  - Item 63 Number of Deemed Core Hours for Overall Rate
  - Item 64 Number of Deemed Core Hours for the Two-Parent Rate

## 4. Section Three – Active Cases Item 8 Total Number of Families

b. ACF 209, SSP-MOE Data Report (OMB No. 0970-0338) – This report is submitted quarterly beginning with the first quarter of FFY 2000.

Key Line Items – The following line items contain critical information:

1. Section One – Family-Level Data
  - Item 9 Type of Family for Work Participation
  - Item 15 Receives Subsidized Child Care
2. Section One – Person-Level Data
  - Item 28 Date of Birth
  - Item 34 Relationship to Head-of-Household
  - Item 41 Work-Eligible Individual Indicator
  - Item 42 Work Participation Status
3. Section One – Adult Work Participation Activities



# State of Washington

Items 43 – 55 Work Participation Activities

Item 56 Number of Deemed Core Hours for Overall Rate

Item 57 Number of Deemed Core Hours for the Two-Parent Rate

## 4. Section Three – Active Cases

Item 3 Total Number of SSP-MOE Families

### **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 complete the Internal Control Request document and return to us. See [Internal Control Request Letter - Reporting 199/209](#) for the Department's response.

*Note: The only difference in the 199 and 209 reports are that the 199 includes the federal TANF data and the 209 report includes the State SSP-MOE data. Both reports are prepared using the same process and both report on work participation.*

On June 30, 2022, we met with the following DSHS staff to discuss the 199/209 reporting requirements and gain an understanding of the internal controls:

- Summer Garcia, Staff Services and Operations Consultant
- Lance Krull, Senior Data and Information Administrator
- Guang Shen, EMAPS
- Sarah Garcia, TANF WorkFirst Program Manager
- Jialing Huang, IT Data Management Journey
- Charles Heider, EMAPS IT Data Management Sr/Spec.
- Ivette Dones-Figueroa, CSD External Audit and Strategic Initiatives Manager

The 199 and 209 reports are based on information collected monthly, which includes data from the ACES Eligibility data base and the E-JAS TANF Work Activities database. The ACES Eligibility database provides client demographic information and the E-JAS database provides WorkFirst Activities information. The Department also utilizes child care payment data from the SSPS as federal TANF funds are transferred to and expended by the Child Care Cluster fund. Agency source data from ACES and E-JAS are compiled in the CARD Data Warehouse (a data mart consisting of individual agency tables from those who use ACES).

Guang and Lance explained that report preparation for the 199/209 begins when he downloads the data from the ACES data warehouse. This process is done on a monthly basis and when the 199/209 report is due, it is done within 45 days of the end of each quarter. After each download, Guang reviews and confirms the

## State of Washington

SAS coding is functioning properly and makes and records any changes in TFS, if any. Guang then uploads the data from into the quarterly report files and builds the federal report by converting state valid values to federal valid values using SAS specialized codes. Guang completes an editor check to validate the values and also shares the preliminary report within the internal team and with CSD to review the records and data values are meeting report requirements. The report preparer uses source data to compile the 199 and 209 reports to ensure the data is accurate and complete. **(Key Control #1 - Control Activities)**

Charles Heider, IT Data Management, conducts a secondary review by performing the same process on a monthly and quarterly basis to independently review the code for accuracy and re-confirm Guang's report is accurate and complete. **(Key Control #2 - Control Activities and Monitoring)** Summer explained that prior to FY22, this process was coordinated with and performed by RDA, but is now conducted in-house within EMAPS to mitigate potential control weakness from prior years. If Charles finds a discrepancy, he meets with Lance and Guang to determine the cause and make code modifications, if necessary, which are tracked in TFS. In particular, this process occurs if Guang has made changes to the SAS code to ensure that the code is unchanged since the last query.

Beginning in FY21, the Department started conducting a quarterly assurance process by randomly sampling clients that were included into the report to verify the source data is correct. After Guang completes the report, Jialing Huang, IT Data Management, generates numbers for each assistance unit and then meets with Sarah Garcia, TANF WorkFirst Program Manager, to verify each element from ACES Barcode to ensure the report elements match the data sources. **(Key Control #3 - Control Activities and Monitoring)** If a discrepancy is found, Jialing and Sarah notify Lance by email. [Key Control 2](#)

After the secondary review and quality assurance processes are complete, Once the report is uploaded to ACF, the federal reporting system conducts an edit check and notifies Guang of any problems with the report data. Guang notifies Lance by email that the report is ready for submission to ACF. Lance explained that there are two types of edit checks: fatal edits and warning edits. Fatal edits are due to specific values not matching and prevent submission of the report. Lance noted that there have been no fatal edits for the last two years. Warning edits do not prevent report submission and can be updated or modified after report submission, if necessary. Most warning edits are due to gender identity issues with preliminary data. Lance noted that the data becomes more stable over time, especially as records are updated by the Department and refreshed monthly in the data warehouse. Lance reviews and resolves any edit checks from ACF, if necessary. Lance validates and approves the report and Guang submits the final report to ACF. **(Key Control #4 - Control Activities)**

The report filed within 45-days of the end of each quarter is a preliminary report and the final report is submitted within 90-days of quarter end. Guang receives a confirmation report from ACF after submission which contains the number of records received. Once ACF has completed their review of the report, Guang will receive confirmation from ACF as to how many cases were accepted and how many cases were rejected. If the report has more than 499 fatal errors, then the response will show that no cases were accepted because the entire report was rejected.

### Summary of Key Controls:

**Key Control #1:** The primary report preparer (Guang Shen) runs an SAS code query to extract data from the data warehouse to compile the 199 and 209 reports to ensure the report is accurate and complete and is in compliance with federal reporting requirements. If necessary, code changes are tested, documented, and approved by EMAPS and CSD staff. **(Control Activities)**

**Key Control #2:** A secondary reviewer (Charles Heider) runs the same report independently to ensure that the code is accurate and unchanged and the report data is complete and accurate. If necessary, code changes are tested, documented, and approved by EMAPS and CSD staff. **(Control Activities and Monitoring)**

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**Key Control #3:** The Intake Agent (Jialing Huang) and the Lead Program Manager - Cash and WorkFirst Policy (Sarah Garcia) conduct a quality assurance check every quarter to pull a sample from the quarterly submission file and review them in ACES, eJas and Barcode to ensure the report data and source data match. **(Control Activities and Monitoring)**

**Key Control #4:** The Senior Data and Information Administrator (Lance Krull) reviews and approves the 199 and 209 report to ensure all edit checks are resolved, if necessary, before the primary report preparer (Guang Shen) submits the final report to ACF. **(Control Activities and 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 to determine if we can place reliance on the controls.

## D.1.PRG - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS

**Procedure Step:** L. Reporting - Controls - 204

**Prepared By:** AMG, 8/25/2022

**Reviewed By:** MKH, 10/17/2022

|                     |
|---------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

### **Source:**

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Meenu Thapar, Grant and Internal Control Manager  
Rick Meyer, External Audit Compliance Manager  
Ron White, Acting Budget Manager  
Patrick Budde Jr., TANF Workfirst Prog Mgr  
Ivette Dones-Figueroa, CSD Audit and Strategic Initiatives Manager  
Summer Garcia, Staff Services and Operations Consultant

## **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.*

**AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

**Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282)**

**(Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative**

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agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at [USASpending.gov](https://www.usaspending.gov/search) as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).

For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (*referring to the Transparency Act*) using the guidance in this section (*referring to 3-L of the 2020 Compliance Supplement Addendum*) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.

In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 *Compliance Supplement* when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.

**(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).

### 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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*Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.*

**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.***

Guidance/Criteria.:

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### 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)<br/>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 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 risks when designing our tests of compliance.

- The compilation of the report involves multiple sections of the Department, with complex MOE reporting requirements including expenditures from other state agencies and two non-profit organizations.

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

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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 Reporting.

From Part Four of the Compliance Supplement (April 2022):

### **Special Reporting**

a. ACF-204, Annual Report including the Annual Report on State Maintenance-of-Effort Programs (OMB No. 0970-0248) – Each state must file an annual report containing information on the TANF program and the state’s MOE program(s) for that year, including strategies to implement the Family Violence Option, state diversion programs, and other program characteristics. Each state must complete the ACF-204 for each program for which the state has claimed basic MOE expenditures for the fiscal year. States may submit this electronically through the On-Line Data Collection (OLDC) System.

Key Line Items – The following line items contain critical information:

1. Program Name
2. Description of Major Program Activities
3. Program Purpose(s)
4. Program Type
5. Total State MOE Expenditures
6. Number of Families Served with MOE Funds
7. Eligibility Criteria
8. Prior Program Authorization
9. Total Program Expenditures in FY 1995

The total MOE expenditures reported in item 5 of the ACF-204 should equal the total MOE expenditures reported in line 24, columns (B) plus (C) of the 4th quarter ACF-196R TANF Financial Report; or line 17, column (B) of the ACF-196-TR, Territorial Financial Report.

## **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.



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We requested the Department complete the Internal Control Request document and return to us. See [Internal Control Request Letter - Reporting 204](#) for the Department's response.

We reviewed all of the Department's written policies and procedures related to the ACF-204, see [TANF CSD MOE Procedures Guide FFY2021](#).

## CSD -TANF Program:

On June 23, 2022 we met with the following to gain an understanding of the internal controls over the annual report- ACF 204:

- Meenu Thapar, Grant and Internal Control Manager
- Rick Meyer, External Audit Compliance Manager
- Ron White, Acting Budget Manager
- Patrick Budde Jr., TANF Workfirst Prog Mgr
- Ivette Dones-Figueroa, CSD Audit and Strategic Initiatives Manager
- Summer Garcia, Staff Services and Operations Consultant

The ACF-204 report includes: (1) definition of work activities; (2) transition services provided to families no longer receiving TANF; (3) description of sanction policies for non-compliance with work requirements; (4) average monthly number of child care payments; (5) whether ESA Performance Reporting Executive Assistant selected the Family Violence Option (FVO); and (6) description of non-recurring short-term benefits. In addition, the report must include a description of the Separate State Programs that the state claims as MOE, each on a separate attachment. These descriptions (key line items) include (1) Name of Benefit or Service Program, (2) Description of activities, (3) Purpose of program, (4) Program type, (5) Description of Work Activities (6) total state expenditures for the program for the federal fiscal year, (7) Total State MOE Expenditures under the program for the federal fiscal year, (8) Total Number of Families Served, (9) Financial Eligibility Criteria, (10) Prior Program Authorization, (11) Total Program Expenditures in FY1995. The reported MOE expenditures on the Annual 204 Report must equal the total MOE expenditures reported on the ACF-196R Financial Report. We tested the ACF-196R Financial Report at [L. Reporting - Controls - 196R](#).

Ron states the process begins each federal year with him contacting each MOE participant (outside agency or nonprofit) and providing them a welcome packet in their initial meeting. The purpose of the meeting and welcome packet (MOE Packet) are to highlight the MOE requirements, revalidate the MOE activity claimed on the prior federal year, confirm the participant is still delivering the services as they did the year before, and the services still meet one of the TANF purposes 1-4. These site visits ensure that the MOE participants will report only expenditures that meet the requirements for TANF MOE. **(Key Control #1 - Control Activities)** Ron updates the Master MOE Matrix with this information. The Master MOE Matrix is a historical detail of all the MOE and the reason it can be used for MOE (the TANF MOE purpose 1-4).

Included in the MOE packet are the following: Eligibility Assessment, Expenditure Reporting Schedule, Data Sharing Agreement, Attestation Template, Contract/References, Reporting Templates/Forms, and a Copy of Exception Reporting Protocol. We reviewed the Expenditure Reporting Schedule and Reporting

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Template in a sample MOE packet to determine how expenditures were reported and what they were used for, see TANF MOE Packet FFY2021. The reporting schedule indicates that during Q2 and Q3 of the fiscal year, MOE participants are to submit a report of YTD expenditures they will claim for MOE (**Control Activities/Monitoring**). The reporting schedule also states that these reports are used for trend analysis.

### ESA-EMAPS

During FY22 responsibilities of creating the Master Client List (MCL) has moved to ESA-EMAPS. The MCL is used to match eligible clients to outside agencies (not nonprofits as nonprofits use estimation methodology) eligible MOE expenditures for MOE participants. Every November, following the FFY, EMAPS will build the list of eligible clients. The four major outside agencies who contribute to MOE are Labor and Industries (L&I), Department of Children, Youth and Families (DCYF), Department of Commerce (Commerce) and Office of Superintendent of Public Instruction (OSPI) Education Research Data Center (ERDC).

DSHS provided a copy of the manual for creating the MOE Master Client List, TANF MOE Manual-FFY2021. The SQL code was created in the past and used year after year. The queries are complex and would require an experienced person with knowledge of the program to review. They indicated that if he makes changes to the SQL code, it is reviewed by Lance and Ron. (**Key Control #2 - Control Activities**)

### CSD-TANF program

After the MOE participant matches their data to the "TANF MOE master client list", they send their final MOE summary reports with expenditures and participant numbers by email to Ron (**Key Control #3 - Control Activities**). Once he receives these numbers he adds them to a MOE calculation spreadsheet on the shared drive and adds them to that participants attachment on the 204 report. In addition, Ron collects an attestation from each outside agency/nonprofit that provides MOE. This attests that the expenditure totals represent only allowable activities, is verifiable, and correct, and the expenditures included for TANF MOE were not used for any other federal match. (**Key Control #4 - Information/Communication**) Ron states they use these emails and the attestations as the supporting documents for all MOE participant expenditures.

### DSHS internal MOE

For the DSHS MOE expenditures, identified by specific account coding, Meenu Thapar, Grant and Internal Control Manager, runs agency enterprise reports. Agency source reports are used to obtain the DSHS MOE expenditures for the 204 report to ensure they are accurate. (**Key Control #5 - Control Activities**) She adds these numbers to the MOE calculation spreadsheet on the shared drive.

### At federal year end:

Prior to the report being filed, the compiled data on the MOE calculation spreadsheet is reviewed by both ESA (fiscal and policy) and CSD (program and policy) staff to ensure all information is correct. (Monitoring) Ron then compiles the agency source information into attachments for the 204 report. The ACF-204 report is now filed electronically via ACF Online Data Collection system (OLDC). The 204 instructions require Ron complete one attachment per MOE claimed (for each agency or program). To ensure the expenditure totals are correct, after each attachment is complete on the 204 report, Ron compares the total on the ACF-204 report with the total from the source documentation provided on the MOE calculation spreadsheet.

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## Filing the annual report:

The report is submitted online to the Administration for Children & Families (ACF). ACF will only accept the ACF-204 report if the financial information submitted in the ACF-204 report agrees with the ACF-196 report. Once Ron completes the ACF-204 report using all the gathered agency supporting documentation, he forwards to Babs Roberts for review. Babs uploads the ACF-204 report online to the ACF website. The Community Services Division Director, Babs Roberts, logs in to OLDC to review the report, review supporting documentation, and certify the report. **(Key Control #6 - Control Environment and Monitoring)** By certifying the report, the report is submitted to ACF.

## 204 Summary of Key Controls:

**Key Control #1 - Control Activities:** The TANF Federal Policy Advisor (Ron White) performs site visits for each MOE participant (other state agency/sponsor) at the beginning of every Federal Fiscal Year to revalidate the MOE activity claimed and that the MOE participant is still delivering the services as they did the year before and that the service meets a TANF purpose. These site visits ensure that the MOE participants will report only expenditures that meet the requirements for TANF MOE. ***This control was also identified for Level of Effort.***

**Key Control #2:** ESA-EMAPS staff create the TANF Master Client List for outside agencies to ensure they are claiming MOE expenditures for only eligible clients. Any changes made to the SQL code to build the TANF Master Client List are documented and reviewed by a second person within EMAPS and approved by the EMAPS data and information administrator. **(Control Activities)**

**Key Control #3 :** The Department obtains summary reports from outside agencies/sponsors for MOE eligible expenditures they incur to ensure MOE claimed on the ACF-204 is allowable and supported. **(Control Activities)** ***This control was also identified for Level of Effort.***

**Key Control #4:** Each outside agency/sponsor provides signed attestations confirming the expenditures reported represent only allowable activities, are verifiable, are correct, and were not used to meet any other federal match. **(Information and Communication)** ***This control was also identified for Level of Effort.***

**Key Control #5:** Agency source reports are used to obtain the DSHS MOE expenditures for the 204 report to ensure they are accurate. **(Control Activities)**

**Key Control #6:** The Community Services Division Director, Babs Roberts, logs in to the On-line Data Collection (OLDC) system to review the report, reviews supporting documentation, and certifies the report to ensure it is accurate and complete. **(Control Environment and 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 to determine if we can place reliance on the controls.

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## D.1.PR.G - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS

**Procedure Step:** L. Reporting - 196P - PEAf

**Prepared By:** AMG, 10/28/2022

**Reviewed By:** MKH, 12/22/2022

### 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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

To identify the key internal controls and test these controls to determine if the controls are in place and operating as intended.

To provide a final control risk assessment based upon our testing of the key internal controls.

To determine if the agency is in compliance with Reporting requirements.

#### **Source:**

Meenu Thapar, Grant and Internal Control Manager

Ivette Dones-Figueroa, CSD Audit and Strategic Initiatives Manager

Summer Garcia, Staff Services and Operations Consultant

#### **Conclusion:**

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

Based on our understanding of internal controls over PEAf Reporting, we tested the key controls. Based on our testing, internal controls are in place and operating as intended to prevent material noncompliance with federal requirements. **Final risk assessment is low.**

The agency was in material compliance with federal requirements for PEAf Reporting.

### 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

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*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.*

#### **AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

##### **Federal Funding Accountability and Transparency Act (FFATA)**

##### **Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282)**

**(Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all**

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**major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 *Compliance Supplement* when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

**(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).

### **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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

**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

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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.***

***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.*

## Step 5: Test Internal Controls

If preliminary control risk is:

LOW: Test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: Do not test the controls, report the issue in a finding as a “significant deficiency” or “material weakness” as appropriate.

About tests of controls: To determine whether the key controls are effective, the auditor should obtain evidence about how controls were applied at relevant times during the period under audit, the consistency with which they were applied, and by whom or by what means they were applied.

Provide Details: When documenting your testing in the ROWD, you should provide enough details so that an experienced auditor could re-perform the same test and reach the same conclusion. See **Inherent and Internal Control Risk Guidance** for what tests of controls generally include.

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**Remember, for a non-automated control, a “walk through” of the grantee’s process is not considered sufficient testing. A walk-through only provides an understanding of the design of a system – it does not provide evidence that the controls are effective.**

*-Dual purpose testing – consider whether the control can be tested in conjunction with a test of compliance to increase audit efficiency. If dual-purpose testing is performed, you must clearly document the results of control tests and compliance tests.*

*-If a key control is automated, control testing must include testing of both the automated control and related general controls. See additional information in the planning guide.*

**Note: Prior to completing the Evaluation of Results (below), auditors must document to whom final exceptions were sent and when they were sent.**

**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 6: Assess Final Control Risk (CR)**

After testing the key controls, assess final control risk. This assessment must be either low or high. If you conclude that final control risk is high, this should be reported in a finding as a “significant deficiency” or “material weakness” as appropriate.

*Note: Reassessment of final control risk is required under Step 5 when noncompliance is found.*

## **Step 7: Assess the Risk of Material Non-Compliance (combined IR and CR)**

Assess the risk of material noncompliance for this compliance requirement to help determine the nature and extent of compliance testing necessary to give an opinion on this program. The risk is based on auditor judgment in consideration of the inherent risk and control risk. Assess risk as Low, Moderate or High.

High does not result in a finding, but the auditor should consider the risk when designing the nature and extent of compliance testing.

**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(s). For reports submitted quarterly or more frequently, use the small sampling testing spreadsheet.

## **Test Compliance**



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*Design the nature and extent of compliance testing based on the risk of material noncompliance. The extent of our testing must be sufficient to support our conclusion about whether the grantee has materially complied with the requirement being tested. If the nature of the transactions or records for this requirement are conducive to sampling, it is recommended the auditor select a sample (the Excel sampling template for the single audit is located in the TeamStore). Otherwise, perform a judgmental selection based on risk.*

## 1. FFATA

Be sure to read the auditor note in the controls procedure () regarding the applicability of FFATA reporting requirements. If applicable, read and use Part 3, L. Reporting, of the Addendum to the 2020 Compliance Supplement to test compliance with FFATA.

## 2. FINANCIAL REPORTS

**Selection:** If there are multiple financial reports of the same type, such as reimbursement requests, select some using the small population selection table in the policy tab. If reports are less than quarterly, such as project end reports, select all of them.

### 1. **Support:**

Trace the amounts reported to the auditee's accounting records or other appropriate supporting documentation

### 2. **Accuracy:**

Test mathematical accuracy of reports and supporting worksheets and ensure they are prepared in accordance with the required basis of accounting

### 3. **Completeness:** (Pre-UG & UG)

Test the selected reports for completeness. Review accounting records and ascertain if all applicable accounts, activity, netting items were included in the selected reports (e.g., program income, applicable credits, loans, interest earned on Federal funds, and reserve funds).

For any discrepancies noted in SF-425 reports concerning cash status when advance payment method is used, review subsequent SF-425 reports to ascertain if the discrepancies were appropriately resolved with the applicable payment system.

## 3. PERFORMANCE & SPECIAL REPORTS

**Selection:** If there are multiple financial reports of the same type, select some using the small population selection table in the policy tab. If reports are less than quarterly, such as project end reports, select all of them.

### 1. **Support:**

Trace the data reported to the grantee's records and supporting documentation.

### 2. **Accuracy:**

Test mathematical accuracy of reports and supporting worksheets

### 3. **Prescribed Format:**

Verify that the data was accumulated and summarized in accordance with the granting agency's criteria or using their required templates.

### 4. **Completeness:**

Test the selected reports for completeness. Review supporting records and ascertain if all applicable data elements were included in the tested reports.

**Note: Prior to completing the Evaluation of Results (below), auditors must document to whom final exceptions were sent and when they were sent.**

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**Evaluation of Results:** Did you identify any noncompliance? If so, **you must:**

1. Determine and document the magnitude of the noncompliance on the program as a whole or for this compliance area (5% materiality threshold).
2. Document the reason for the noncompliance.
3. Consider whether additional testing is needed to provide reasonable assurance of detecting material noncompliance (e.g. is the risk of material noncompliance increased for the activities or costs that you did not test?).
4. Reassess the final control risk. Generally, noncompliance is the result of a control deficiency; therefore, it is necessary to reconsider the effectiveness of the internal controls.] (Include this wording) After compliance testing 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>**. This **did/did not** change our final control risk, see final control risk at ([link to controls](#)).

Guidance/Criteria:

Record of Work Done:

## **Inherent Risk of Noncompliance**

### **Step 1**

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 risks when designing our tests of compliance.

- The compliance requirement is considered a new requirement during SY 2022.

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 Reporting.

From Part Four of the Compliance Supplement (April 2022):

### **Pandemic Emergency Assistance Fund - 196P**

Each grantee must submit form ACF-196P (OMB No. 0970-0510) to report expenditures for the Pandemic Emergency Assistance Fund within 90 days of the end

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of each federal fiscal year.

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

1. *Administrative Costs (listed as “Administration” on the form)*
2. *Non-Recurrent, Short-Term Benefits*

## 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 complete the Internal Control Request document and return to us. See [Internal Control request letter - PEAf](#). Additionally, we received the instructions to the 196P report, see [Final 2021 - ACF 196P Form Instructions \(hhs.gov\)](#).

On September 27, 2022 we met with the following to gain an understanding of the internal controls over the Level of Effort - PEAf requirement:

- Meenu Thapar, Grant and Internal Control Manager
- Ivette Dones-Figueroa, CSD Audit and Strategic Initiatives Manager
- Summer Garcia, Staff Services and Operations Consultant

The 196P report is used to reporting Pandemic Emergency Assistance Fund (PEAF) expenditure data. Each state must submit the report within 90 days of the end of the federal fiscal year, therefore the final due date for this report was on December 29, 2021. FY22 was the first time this report had to be submitted, since this is a brand new grant to the program. To ensure the report is accurate, the Department would run source reports from the Enterprise Reporting System to ensure DSHS expenditures are accurate for reporting (**Key Control #1 -Control Activities**). After the report is ran, Meenu will enter the information onto the 196P. Before the report is submitted, Meenu will send the report and the supporting documents to Debra Trickler, Accounting and Internal Control Administrator to ensure the report was accurate and to monitor the 15 percent administration requirement (**Key Control #2 - Control Environment and Monitoring**). After it is reviewed and approved by Debra, Meenu sends the report to the Federal Government.

### Summary of Key Controls:

**Key control #1 - Control Activities:** The Grant and Internal Control Manager will run source reports from AFRS to ensure expenditures are accurate for reporting.

**Key Control #2 - Control Environment and Monitoring:** Before submitting the report to the Federal Government, the Accounting and Internal Control Administrator will review and report for accuracy and to monitoring the 15 percent administration requirement.

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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 to determine if we can place reliance on the controls.

## **Internal Control Testing**

### **Step 5**

We did not use the sampling spreadsheet to document our control testing as this compliance requirement is not transaction based. We obtained a copy of the Grant Year 2021 #1 report which has a due date of December 29, 2021 for the period of April 1, 2021 to September 30, 2021 and supporting documentation from Meenu Thapar, Grant and Internal Control Manager and performed the following tests:

**Key control #1 - Control Activities:** The Grant and Internal Control Manager will run source reports from AFRS to ensure expenditures are accurate for reporting.

To test key control #1, we reviewed the workbook the Department used to track the administrative requirement. In the work book, the Meenu Thapar, Grant and Internal Control Manager, ran an ER report from July 2021 through September 2021. We identified the Department is using CostObj 558P1 which is used for the PEAf grant. We determined the Department is using the correct allocation to track PEAf expenditures. *No exceptions identified.*

**Key Control #2 - Control Environment and Monitoring:** Before submitting the report to the Federal Government, the Accounting and Internal Control Administrator will review and report for accuracy and to monitoring the 15 percent administration requirement.

To test key control #2, we reviewed the email Meenu send to Debra Trickler, Accounting and Internal Control Administrator, for approval of the report with the current expenditures see TANF PEAf 196 Report FINAL. Within the email, Debra approved the supporting documents and report before Meenu sent it to the federal government. Additionally, after the report was reviewed by Debra, Meenu sent the report to HHS on November 3, 2021, see TANF PEAf 196 Report FINAL.

*No exceptions identified.*

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

## **Final Control Risk Assessment**

### **Step 6**

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will place reliance on the controls, based on our control testing above.

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## **Risk of Material Noncompliance**

### **Step 7**

LOW – By combining our inherent risk assessment and internal control testing we have determined the risk of material noncompliance to be low. We will design our compliance testing based on this assessment.

## **Reporting PEAFF 196P - Compliance**

We did not use the sampling spreadsheet to document our control testing as this compliance requirement is not transaction based. We obtained a copy of the Grant Year 2021 report and supporting documentation from Meenu Thapar, Grant and Internal Control Manager. See final report, TANF PEAFF 196 Report FINAL.

### **1. Support:** *Trace the data reported to the grantee's records and supporting documentation.*

We reviewed the 196P report and respective support to determine if the total state expenditures reported for the period between April 1, 2021 and September 30, 2021 were supported. We received the ER report ran by Meenu detailing the amount expended during this time. The Department expended \$13,102.65 (TANF PEAFF 196 Report FINAL) during this period. Additionally, we reviewed the email sent to Debra Trickler, and HHS to determine if the report was sent before the due date. Per the compliance supplement and HHS, the 196P is due 90 days after the end of the federal fiscal year. We identified the Department submitted a certified report via email to HHS on November 3, 2021, see TANF PEAFF 196 Report FINAL. ***No exceptions noted.***

### **2. Accuracy:** *Test mathematical accuracy of reports and supporting worksheets .*

The 196P report does not sum all the attachments so there is not any math to test for this report. We tested the supporting worksheets above in Step 1.

**3 and 4. Prescribed Format and Completeness:** *Verify that the data was accumulated and summarized in accordance with the granting agency's criteria or using their required template and test the selected reports for completeness. Review supporting records and ascertain if all applicable data elements were included in the tested reports.*

We tested each attachment on the ACF-196P for the following key line items as listed in the compliance supplement:

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

- 1. Administrative Costs (listed as “Administration” on the form)*
- 2. Non-Recurrent, Short-Term Benefits*

The 196P report has 6 line items that include total federal funds awarded, administration, non-recurrent, short term benefits, total expenditures, unliquidated obligations, and unobligated balance. We reviewed the line items required by the compliance supplement and the data was accumulated and summarized in accordance with the granting agency's criteria and the report was complete with all applicable data elements included in the report with no exceptions. See supporting records testing results in Step 1 above. ***No exceptions noted.***

# State of Washington

**Evaluation of Results:** The Department is in compliance with the 196P requirement.

## D.1.PR.G - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS

**Procedure Step:** N1. Special Tests and Provisions - Controls - Child Support Non-Cooperation

**Prepared By:** AMG, 9/27/2022

**Reviewed By:** MKH, 12/22/2022

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:

- **Child Support Non-Cooperation**

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to **Child Support Non-Cooperation**.

To provide a preliminary control risk assessment based upon our understanding of the internal controls for **Child Support Non-Cooperation**.

### **Source:**

Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)

Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager

Sarah Garcia, WorkFirst Program Manager

### **Conclusion:**

- **Child Support Non-Cooperation**

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

# State of Washington

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.

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*

## State of Washington

*automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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: |
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### **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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Record of Work Done:

## **Inherent Risk of Noncompliance**

### **Step 1 Special tests and provision #1**

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 risks when designing our tests of compliance.

- This compliance requirement involves multiple systems and divisions of the Department of Social and Health Services (DSHS).

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.

From Part Four of the Compliance Supplement (April 2022):

*Special Tests and Provisions one through five apply to a state's TANF program, not to a Tribal TANF program.*

## **Child Support Non-Cooperation**

*Compliance Requirements* - If the state agency responsible for administering the state plan approved under Title IV-D of the Social Security Act determines that an individual is not cooperating with the state in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, and reports that information to the state agency responsible for TANF, the state TANF agency must (1) deduct an amount equal to not less than 25 percent from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance. HHS may penalize a state for up to 5 percent of the SFAG for failure to substantially comply with this required state child support program (42 USC 608(a)(2) and 609(a)(8); 45 CFR sections 264.30 and 264.31).

*Audit Objectives* - Determine whether, after notification by the state Title IV-D agency, the TANF agency has taken necessary action to reduce or deny TANF assistance.

### *Suggested Audit Procedures*

- a. Review the state's TANF policies and operating procedures concerning this requirement.
- b. Test a sample of cases referred by the Title IV-D agency to the TANF agency to ascertain if benefits were reduced or denied as required.

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We reviewed the Department's policies and procedures in the [Eligibility A-Z \(EA-Z\) Manual](#), [ACES Manual](#), and the following Washington Administrative Codes (WAC):

- [WAC 388-422-0010](#)
- [WAC 388-422-0020](#)
- [WAC 388-14A-2075](#)

## **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 with their internal controls over Special Test #1 - Child Support Non-Cooperation. On July 20, 2022 we received the Department's response, see [Internal Control Request Letter - ST1 Child Support Non-Cooperation](#).

On July 21, 2022, we met with the following Department staff to gain an understanding of the internal controls for Special Test #1 - Child Support Non-Cooperation:

- Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)
- Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager
- Sarah Garcia, WorkFirst Program Manager

Sarah explained that the process starts when the Community Services Division (CSD) receives a notice of child support non-cooperation from the Division of Child Support (DCS). CSD is not involved with the determination of non-cooperation and that decision is made solely by DCS. After the referral is made by DCS, the Department receives a non-compliance sanction (NCS) notice, or "tickle", and a PDF letter with the non-cooperation determination is available in Barcode. The Department gives NCS tickles a top priority status according to their internal hierarchy of timing. Sarah noted that all non-cooperation notices go to the top of the batch queue and are assigned to the next available worker. Once the worker or case manager gets assigned, they are expected to review the case immediately. In some cases a worker may put the case on hold to come back to the case. If the case is not worked within their work day, the case is sent back to the statewide pool after the work day to ensure it will be worked first thing the next morning. The 10 calendar day standard of promptness rule is outlined in WAC 388-418-0020 (9). and if that review does not occur, the case is assigned to the next available worker within one business day. CSD utilizes standardized missions, based on pre-defined priorities, as governed by the CSD Workload Prioritization Team, within Barcode which ensure that CSD staff are processing the non-cooperation notices within pre-defined standard of promptness rules which are currently 10 calendar days. **(Key Control #1 - Monitoring/Control Activities)**

Once a non-cooperation notice has been received through Barcode, the CSO worker enters a note in the ACES 3G comment screen, which documents the DCS non-cooperation status. From the parent screen, the worker codes that there is no good cause and the parent is in non-cooperation. In the eligibility screen, the worker codes the benefits reduction. We requested that the Department provide screen captures of the sanction process. Sarah noted that the NCS screen is available in ACES 3G only and the non-custodial parent screen (NCPS) is available in ACES Mainframe only. We also requested a copy of the procedures

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manual which contains very specific information on coding. Once the eligibility worker updates ACES 3G with the noncooperation status and the 228 code posts, ACES 3G will automatically sanction 25% of the parent's TANF funds until the client becomes compliant and the CSO worker enters the cooperation in ACES 3G (**Key Control #2 - Automated Control Activities**).

We followed up on our finding for material weakness and non-compliance for this special test from FY21. Ivette explained that the Department has made and submitted a corrective action plan (CAP) which is currently under management review by the Department. We reviewed the CAP and noted that as of July 2022, the Department sent draft revisions of procedure manual language to the TANF policy team for review to ensure procedures are up to date and by September 2022 will issue a statewide policy announcement to address proper coding of non-cooperation notices in the eligibility system. In addition, there are now screen warnings in place to prevent a non-cooperation code from being accidentally omitted (which occurred in the prior year audit when an in-training employee made the error resulting in the finding). Ivette and Sarah added that the Workload Prioritization Team pulls monthly reports to ensure that all non-cooperation tickets are being processed within 10 days and added that almost all are completed within the same day they were received, because of the prioritization hierarchy and also because the volume of notices from DCS had dropped significantly due to changes in DCS policy outside the scope of this audit. On August 31, 2022, we met with Ivette and Summer to review the CAP. We asked, how is the Department ensuring NCP cases are accurate. She stated that Ryan from OPS pulls a report from barcode. From this, he ensures the coding is correct and accurate before he sends it to Sarah. (**Key Control #3 - Monitoring and Control Environment**) The Department does not expect the volume of cases to increase in the future and stated that a total of eleven non-cooperation notices from DCS were received in all of FY22 (and in our prior year audit, there were a total of twelve notices). For comparison, there were approximately three thousand non-cooperation notices in FY20. *Note: We identified that the significant drop in volume of non-cooperation notices, although outside the scope of this audit, may be cause for additional review by our Office in the future and will be brought to the attention of SAO management.*

## Summary of Key Internal Controls:

**Key Control #1:** Child support non-cooperation notices are given top priority status, assigned immediately to the next available worker, and monitored by the CSD Workload Prioritization Team to ensure notices are processed within 10 calendar days (**Monitoring/Control Activities**).

**Key Control #2:** ACES automatically sanctions 25% of the client's TANF benefits when Non-Cooperation has been confirmed and entered by the CSO to ensure benefits are reduced (**Automated - Control Activities**).

**Key Control #3:** OPS staff pulls a NCP report from Barcode to ensure the coding is accurate and correct before sending this to the Work First Manager. (**Monitoring and Control Environment**)

**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 to determine if we can place reliance on the controls.

# State of Washington

## D.1.PRG - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS

***Procedure Step:*** N2. Special Tests and Provisions - Controls - Income Eligibility & Verification System

***Prepared By:*** AMG, 3/14/2023

***Reviewed By:*** MKH, 3/14/2023

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 Test and Provision:

- **Special Test #2 - Income Eligibility and Verification System**

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to **Special Test #2 - Income Eligibility and Verification System**

To provide a preliminary control risk assessment based upon our understanding of the internal controls for **Special Test #2 - Income Eligibility and Verification System**.

**Source:**

Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)

Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager

Shelly Riddle, IT Analyst – primarily CASH programs

Christie Frison-Thornton, IT systems

Cres Perez, Team Lead for IT Business Team

Sarah Garcia, WorkFirst Program Manager

**Conclusion:**

**Special Test #2 - Income Eligibility and Verification System**

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

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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.

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*

## State of Washington

*automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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: |
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### **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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Record of Work Done:

## **Inherent Risk of Noncompliance**

### **Step 1**

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 risks when designing our tests of compliance.

- The Department has multiple Community Service Offices (CSOs) located throughout the State of Washington that determine eligibility and are responsible for ensuring compliance with this requirement.

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.

From Part Four of the Compliance Supplement (April 2022):

### **Income Eligibility and Verification System**

*Compliance Requirements* - Each state shall participate in the Income Eligibility and Verification System (IEVS) required by Section 1137 of the Social Security Act as amended. Under the state plan the state is required to coordinate data exchanges with other federally assisted benefit programs, request and use income and benefit information when making eligibility determinations and adhere to standardized formats and procedures in exchanging information with other programs and agencies. Specifically, the state is required to request and obtain information as follows (42 USC 1320b-7; 45 CFR section 205.55):

- a. Wage information from the state Wage Information Collection Agency (SWICA) should be obtained for all applicants at the first opportunity following receipt of the application, and for all recipients on a quarterly basis.
- b. Unemployment Compensation (UC) information should be obtained for all applicants at the first opportunity, and in each of the first three months in which the individual is receiving aid. This information should also be obtained in each of the first three months following any recipient-reported loss of employment. If an individual is found to be receiving UC, the information should be requested until benefits are exhausted.
- c. All available information from the Social Security Administration (SSA) for all applicants at the first opportunity (see Federal Tax Return Information below).

## State of Washington

- d. Information from the US Citizenship and Immigration Services and any other information from other agencies in the state or in other states that might provide income or other useful information.
- e. Unearned income from the Internal Revenue Service (IRS) (see Federal Tax Return Information below).

*Federal Tax Return Information* – Information from the IRS and some information from SSA is federal tax return information and subject to use and disclosure restrictions by 26 USC 6103. Individual data received from the SSA's Beneficiary Earnings Exchange Record (BEER), consisting of wage, self-employment, and certain other income information is considered federal tax return information. However, benefits payments such as Supplemental Security Income (SSI) are SSA data and not federal tax return information. Under 26 USC 6103, disclosure of federal tax return information from IEVS is restricted to officers and employees of the receiving agency. Outside (non-agency) personnel (including auditors) are not authorized to access this information either directly or by disclosure from receiving agency personnel.

The state is required to review and compare the information obtained from each data exchange against information contained in the case record to determine whether it affects the individual's eligibility or level of assistance, benefits or services under the TANF program, with the following exceptions:

- a. The state is permitted to exclude categories of information items from follow-up if it has received approval from ACF after having demonstrated that follow-up is not cost effective.
- b. The state is permitted, with ACF approval, to exclude information items from certain data sources without written justification if it followed up previously through another source of information. However, information from these data sources that is not duplicative and provides new leads may not be excluded without written justification.

The state shall verify that the information is accurate and applicable to the case circumstances either through the applicant or recipient, or through a third party, if such determination is appropriate based on agency experience or is required before taking adverse action based on information from a federal computer matching program subject to the Computer Matching and Privacy Protection Act (45 CFR section 205.56).

For applicants, if the information is received during the application process, the state must use the information, to the extent possible, to determine eligibility. For recipients or individuals for whom a decision could not be made prior to authorization of benefits, the state must initiate a notice of case action or an entry in the case record that no case action is necessary within 45 days of its receipt of the information. Under certain circumstances, action may be delayed beyond 45 days for no more than 20 percent of the information items targeted for follow-up (45 CFR section 205.56).

HHS may penalize a state for up to 2 percent of the SFAG for failure to participate in IEVS (42 USC 609(a)(4) and 1320b-7; 45 CFR sections 264.10 and 264.11).

*Audit Objectives* - Determine whether the state has established and implemented the required IEVS system for data matching, and verification and use of such data. (This audit objective does not include federal tax return information, as discussed in the compliance requirements.)



# State of Washington

## *Suggested Audit Procedures*

- a. Review state operating manuals and other instructions to gain an understanding of the state's implementation of the IEVS system.
- b. Test a sample of TANF cases subject to IEVS to ascertain if the state:
  - (1) Used the IEVS to determine eligibility in accordance with the state plan.
  - (2) Requested and obtained the data from the state wage information collection agency, the state unemployment agency, SSA (excluding federal tax return information, as discussed in the compliance requirements), the US Citizenship and Immigration Services, and other agencies, as appropriate, and performed the required data matching.
  - (3) Properly considered the information obtained from the data matching in determining eligibility and the amount of TANF benefits.

## **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 that the Department provide us with their internal controls for Special Test #2 - Income Eligibility and Verification System and received a response on July 14, 2022 (see [Internal Control Request Letter - ST2 Income Eligibility and Verification System](#)).

We met with the following Department staff on July 19, 2022 to gain an understanding of their internal controls for Special Test #2 - Income Eligibility and Verification System:

- Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)
- Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager
- Shelly Riddle, IT Analyst for Cash programs
- Christie Frison-Thornton, IT systems
- Cres Perez, Team Lead for IT Business Team
- Sarah Garcia, WorkFirst Program Manager

Ivette first clarified that the Income and Eligibility Verification System (IEVS) is not a system but rather a collection of interfaces to other federal and state systems that are automatically updated on a periodic basis, typically nightly or monthly depending on each individual system's requirements and data elements. Data can also be reviewed on-demand for real-time updates or for checks required for eligibility reviews. Cres added that SPIDER is a home base where all of the data from the various interfaces can be accessed. The State On-Line Query (SOLQ) search allows ACES users to inquire on client data maintained by the Social Security Administration, such as BENDEX and SDX (see below). The State Verification Exchange System (SVES) is an interface that allows records from ACES to be sent to the Social Security database which verifies a client's citizenship and social security number.

The Department's Automated Client Eligibility System (ACES) interfaces with each system to ensure accurate eligibility of benefits per federal requirement. ACES performs automated review of the various interfaces to ensure accuracy of the information that was gained during the interview and input into ACES.

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**(Automated - Control Activities)** *Note: This is also a key control identified for Eligibility.*

We also documented our understanding of the IEVS system as part of the Eligibility process (see [E. Eligibility - Controls](#)).

Some of the systems that ACES interfaces with include:

- **Employment Security Department (ESD – Wages, UC)** – used to verify Unemployment Compensation Benefits and wages in Washington;
- **Beneficiary and Earnings Data Exchange (BENDEX)** – used to verify Social Security payments, Medicare Entitlement, social security numbers (SSN), and date of birth information;
- **Disqualified Recipient Systems (DRS)** – used to verify that applicant is not on the Intentional Program Violations (IPV) database;
- **State Data Exchange (SDX)** – provides information from Social Security Administration (SSA) regarding Supplemental Security Income (SSI) recipients in WA;
- **Public Assistant Reporting Information System (PARIS)** – provides information regarding public benefits provided by other states, pensions from Veteran's Administration (VA), and earnings from Department of Defense (DOD);
- **Sanctions** – shows support sanctions from DCS and other State agencies that would limit benefits due to non-cooperation;
- **Systematic Alien Verification for Entitlement (SAVE)** - used to verify immigration documents on Cash, Basic Food, or Medical assistance (except SSI Recipients)

Cres noted that the Department can also make inquiries of the Internal Revenue Service regarding client's tax return information but that system is not interfaced with ACES and those requests must be done individually by hand.

When a discrepancy is identified by the system, ACES generates an alert, or "tickle", that notifies the staff specialist assigned to that case to review and follow-up on the discrepancy. In many cases, staff can resolve discrepancies as they arise, typically during the application process, eligibility review, and mid-certification review. Cres noted that TANF applications can still be processed even if a discrepancy has not been resolved. This policy prevents program staff from being locked out of the system; however, the alert remains active and will require a corrective action later. At the time of application, the program specialist is responsible for addressing all discrepancies. If an alert is generated after an application is approved, the program specialist is required to document the steps taken to either resolve the discrepancy, document the reasons it could not be resolved, or request the information necessary for later corrective action.

The Department relies on automated interfaces within ACES to aid in determining eligibility due to the volume of daily applications for services offered **(Control Environment)**. ACES is set up to generate an alert if there is an inconsistency between information gained during the TANF interview and existing information in the other systems which are cross-referenced through the overnight interfaces. Discrepancies found in the overnight interface are researched by the WorkFirst employee **(Key Control #2 Automated - Control Activities)**.

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## Summary of Key Controls:

- Key Control #1: ACES Online performs a nightly interface that is used as part of the Income Eligibility and Verification System (IEVS) to ensure accuracy of the information that was input by the CSO Public Benefit Specialist. **(Automated - Control Activities)**
- *Note: This is also a key control identified for Eligibility.*

**Key Control #2:** ACES generates an alert to be reviewed by Community Service Division (CSD) staff if there is a discrepancy within the information recorded in ACES and the income or benefit information that is obtained through the IEVS interfaces to verify accuracy of the information and eligibility of the TANF program. **(Automated - 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 to determine if we can place reliance on the controls.

## D.1.PR.G - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS

**Procedure Step:** N3. Special Tests and Provisions - Controls - Penalty for Refusal to Work

**Prepared By:** TF, 8/18/2022

**Reviewed By:** MKH, 8/22/2022

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|----------------------|
| Purpose/Conclusion.* |
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### **Purpose:**

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

- **Penalty for Refusal to Work**

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to **Penalty for Refusal to Work**.

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To provide a preliminary control risk assessment based upon our understanding of the internal controls for **Penalty for Refusal to Work**.

**Source:**

Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)

Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager

Sarah Garcia, WorkFirst Program Manager

Jake Deskins, SME – Sanctions, Cash and WorkFirst Policy Manger

**Conclusion:**

- **Penalty for Refusal to Work**

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 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

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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**TANF-Special tests and provisions #3

### **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 risks when designing our tests of compliance.

- The Department's priority to get services to the people as quickly as possible can compromise accuracy of eligibility determinations.
- Multiple locations and/or departments are responsible for administering the requirement.

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.

From Part Four of the Compliance Supplement (April 2022):

## **Penalty for Refusal to Work**

*Compliance Requirements* - State agency must reduce or terminate the assistance payable to the family if an individual in a family receiving assistance

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refuses to work, subject to any good cause or other exemptions established by the state. HHS may penalize the state by an amount not less than 1 percent and not more than 5 percent of the SFAG for violation of this provision (42 USC 609(a)(14); 45 CFR sections 261.14, 261.16, and 261.54).

*Audit Objectives* - Determine whether the state agency is reducing or terminating the assistance grant of those individuals who refuse to engage in work and are not subject to good cause or other exceptions established by the state.

*Suggested Audit Procedures*

- a. Review the state's TANF policies and operating procedures concerning this requirement.
- b. Test a sample of TANF cases where the individual is not working and ascertain if benefits were reduced or denied to individuals who are not exempt under state rules or do not meet state good cause criteria.

We reviewed the following WACs related to Special Test #3 - Penalty for Refusal to Work:

- [WAC 388-310-0200](#)
- [WAC 388-310-0350](#)
- [WAC 388-310-0500](#)
- [WAC 388-310-1600 \(1\), \(2\), \(3\)](#)

### **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 with their internal controls over Special Test 3 - Penalty for Refusal to Work. On July 14, 2022 we received the Department's response, see [Internal Control Request Letter - ST3 Penalty for Refusal to Work](#).

We reviewed the [WorkFirst Handbook](#), [Eligibility A-Z Manual](#) and the [ACES Manual](#) which contain the Department's policies and procedures for WorkFirst participation requirements and sanction.

On July 19, 2022, we met with the following Department staff to gain an understanding of the internal controls for Special Test #3 - Penalty for Refusal to Work:

- Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)
- Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager
- Sarah Garcia, WorkFirst Program Manager
- Jake Deskins, SME – Sanctions, Cash and WorkFirst Policy Manger

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Sarah explained that a work eligible TANF recipient is a mandatory participant in the WorkFirst program as required under WAC 388-310. A mandatory participant is exempt or excused from participating in the WorkFirst program if the participant meets one of the exemptions in WAC 388-310-0350 or meets one of the good cause criteria as listed in WAC 388-310-1600. Ivette noted that in FY22, the good cause criteria in WAC 388-310-1600 were updated.

WorkFirst participants must complete a comprehensive pathway development tool called an Individual Responsibility Plan (IRP) according to WAC 388-310-0500. The IRP is developed by the participant with their case manager (WorkFirst Program Specialist (WFPS) or WorkFirst Social Service Specialist (WFSSS)) using information gathered from the client's completed comprehensive evaluation and interviews with their case manager. The plan is a written statement describing the client's responsibilities, required activities, any support services provided, and need to become and remain employed as quickly as possible. The final IRP is signed by both the client and case worker. A printed copy is provided to the client and an electronic copy is retained in the Electronic Jobs Automated System (E-JAS).

The client is required to comply with each aspect of the IRP and nearly any deviation from the plan may result in non-compliance. The case manager can refer to the WorkFirst Handbook, Eligibility A-Z (EA-Z) Manual, and ACES Manual to review the policies and procedures surrounding WorkFirst participation requirements and sanction (**Control Activities**). WorkFirst activities include paid employment, self-employment, job search, on-the-job training, vocational education training, job skill training, substance abuse treatment, and mental health counseling. Client's progression in this participation is recorded in E-JAS by the case manager and WorkFirst partners. E-JAS integrates employability screening, evaluation, assessment, case staffing, referrals, service delivery outcomes, case narratives, information exchange, most support services payments, and caseload/management reporting functions. There is a link to E-JAS in ACES which can allow a case manager to review client eligibility information in ACES in real-time.

WorkFirst utilizes contracted and non-contracted providers who help clients meet their IRP requirements. Contracts with State Board of Community and Technical Colleges (SBCTC), Department of Commerce, and Employment Security Department (ESD) are referred to as WorkFirst Partners. In the Department's response to our internal control letter, Ivette noted that:

*Contracts were lowered to low risk July 1, 2021, which no longer require semi-annual visits. Annual self assessments are completed by the contractors to program, but program managers no longer review work verification hours or provided cases for review. State Board for Community & Technical Colleges (SBCTC), Employment Security Dept. (ESD), and Dept. of Commerce are contracted by the TANF program to complete checks on the sub-contractors (i.e. colleges). Contractors review each case they pull for actual hours and documentation and then provides feedback to the college. Program receives a summary of the monitoring visits (i.e. quarterly), but do not look at the work hours themselves for compliance.*

If a client fails to participate in a scheduled activity as required by their IRP, the contracted provider will refer the client back to their case manager or contact the case manager to inform them of the absence. WorkFirst partners have access to E-JAS and are required by the Department to enter attendance data for required activities in E-JAS by the 10th of every month. On an annual basis, program managers request the completion of a self-assessment from each of the three agencies to ensure they are accurately reporting the work verification hours and monitoring their contractors. (**Key Control #1 - Monitoring**). *Note: This is also a key control identified for Special Test #5.*

Case managers and supervisors rely on daily reports to prioritize their workload. These reports include the caseload management report (CLMR) and the Daily



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Customer Accountability Summary Report (CAR). When case managers run their daily CLMR they will get electronic notifications ("magenta flag") and a message that shows which clients have work participation issues. The case manager will review the case file, update the notes section in E-JAS, and attempt to contact the client to address the non-compliance. If the client has not completed their required WorkFirst activity and does not have good cause, the sanction/termination process is initiated in E-JAS. The Department sets up a meeting with the client and two case managers or staff professionals to review the required activities and non-compliance. If the client is unable to show good cause, then sanctions are recommended and a new IRP is made to address the required activities to return to compliance. If the client does not attend the meeting, the staff can still make a determination. The case manager completes the sanction review tool in E-JAS. Before any sanctions are imposed, a supervisor reviews and approves the sanctions determination (**Key Control #2 - Control Activities and Monitoring**).

Sarah explained that when a client is non-compliant and approved for sanctions their TANF benefits are reduced by 40 percent after no less than two months and no more than twelve months with 10 days notice. After twelve months of non-compliance, TANF benefits are terminated with 10 days notice. To remove sanctions, the client must come into compliance for four consecutive weeks. Jake noted that benefits reductions occur in ACES Online and actual terminations are recorded in ACES mainframe. If the client is approved for the reduction or termination sanction penalty, WF staff enter the penalty in ACES to reduce the family's grant by 40 percent or terminate benefits with 10 day notice (**Key Control #3 - Control Activities**).

Support services are not available until the participant agrees to begin or resume participation. If the client contacts the office within 30 days of closure, the case can be reopened with a reduced grant. If the client has a good reason not to participate in a required activity, the case manager considers the situation and may change the requirements in the client's IRP to help the client participate in appropriate activities.

Beginning on July 1, 2021, the State lifted COVID related exemptions with phased-enforcement beginning on September 1, 2021. Before initiating sanctions, the Department set up meetings with every client beginning in September and due to the large number of cases to enforce, this process took a few months. The first clients approved for a 40 percent reduction in benefits started as of December 1, 2021. *Note: Due to the timing of the phased-enforcement of sanctions (3 months), client meetings (September through approximately December), two-month window for coming back into compliance, and 10 months before termination of benefits, no cases or benefits would have been terminated during the audit period.*

### **Key Internal Control Identified:**

**Key Control #1** - WorkFirst program managers require WorkFirst Partners (contracted providers) to complete and submit an annual self-assessment to ensure the WorkFirst program is monitoring contracted providers and that the provider is accurately tracking and reporting work verification hours for TANF recipients. (**Monitoring**). *This is also a key control identified for Special Test #5.*

**Key Control #2** - WorkFirst program supervisors review and approve all cases recommended for sanctions or termination by case managers to ensure the case manager followed all required procedures and the final determination is accurate. (**Monitoring**).

**Key Control #3** - If the client is approved for sanction, ACES automatically reduces the family's grant by 40% or terminated with 10 day notice (**Automated Control Activities**).

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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 to determine if we can place reliance on the controls.

## **D.1.PRG - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS**

***Procedure Step:*** N4. Special Tests and Provisions - Controls - Lack of Child Care for Single Custodial Parent of Child under Age Six

***Prepared By:*** TF, 7/20/2022

***Reviewed By:*** AMG, 8/10/2022

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 Test and Provision:

- **Special Test #4 - Lack of Child Care for Single Custodial Parent of Child under Age Six**

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to **Special Test #4 - Lack of Child Care for Single Custodial Parent of Child under Age Six.**

To provide a preliminary control risk assessment based upon our understanding of the internal controls **Special Test #4 - Lack of Child Care for Single Custodial Parent of Child under Age Six.**

### **Source:**

Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)  
Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager  
Sarah Garcia, WorkFirst Program Manager

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## **Conclusion:**

### **Special Test #4 - Lack of Child Care for Single Custodial Parent of Child under Age Six**

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 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*

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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: |
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## 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 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 risks when designing our tests of compliance.

- Multiple locations and/or departments are responsible for administering the requirement.

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.

From Part Four of the Compliance Supplement (April 2022):

#### **Lack of Child Care for Single Custodial Parent of Child under Age Six**

*Compliance Requirements* - If an individual is a single custodial parent caring for a child under the age of 6, the state may not reduce or terminate assistance for the individual's refusal to engage in required work if the individual demonstrates to the state an inability to obtain needed child care for one or more of the following reasons: (a) unavailability of appropriate child care within a reasonable distance from the individual's home or work site; (b) unavailability or unsuitability of informal child care by a relative or under other arrangements; or (c) unavailability of appropriate and affordable formal child care arrangements. The determination of inability to find child care is made by the state. HHS may penalize a state for up to 5 percent of the SFAG for violation of this provision (42 USC 607(e)(2) and 609(a)(11); 45 CFR sections 261.15, 261.56, and 261.57).

*Audit Objectives* - Determine whether the state has improperly reduced or terminated assistance to single custodial parents who refused to work because of inability to obtain child care for a child under the age of 6.

#### *Suggested Audit Procedures*

- a. Gain an understanding of the criteria established by the state to determine benefits for a single custodial parent who refused to work because of inability to obtain child care for a child who is under the age of 6.

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- b. Select a sample of single custodial parents caring for a child who is under 6 years of age whose benefits have been reduced or terminated.
- c. Ascertain if the benefits were improperly reduced or terminated because of inability to obtain child care.

### **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 with their internal controls over Special Test 4 - Lack of Child Care for Single Custodial Parent of Child under Age Six. On July 14, 2022 we received the Department's response, see [Internal Control Request Letter - ST4 Lack of Child Care for Single Custodial Parent of Child under Age Six](#).

We requested and reviewed the Department's written policies and procedures related to the compliance area to gain an understanding of the internal controls, which are contained in [Chapter 388-310](#) of the Washington Administrative Code (WAC) and Chapter [2.3](#) and [3.5.1](#) of the [WorkFirst Handbook](#).

On July 19, 2022, we met with the following Department staff to gain an understanding of the internal controls for Special Test #4 - Lack of Child Care for Single Custodial Parent of Child under Age Six:

- Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)
- Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager
- Sarah Garcia, WorkFirst Program Manager

Sarah explained that according to WAC 388-310-1600 (3), if a parent cannot locate affordable, appropriate, and local child care then that is a good reason or "good cause" for the parent not to participate in WorkFirst activities. This "good cause" established by the State meets the compliance requirement that *"the State may not reduce or terminate assistance based on an individual's refusal to engage in required work if the individual is a single custodial parent caring for a child under age six who has a demonstrated inability to obtain needed child care."* Federal regulations (see [45 CFR 261.14 \(a\)](#)) allow the State to set good cause exceptions. *Note: The State allows a good cause exception for lack of child care for children under age thirteen, however, we will test controls and compliance based on the federal standard of children under age six.*

A parent who receives TANF and participates in WorkFirst activities is eligible for the Working Connections Child Care (WCCC) program which provides subsidized child care for working parents. An application for the WCCC program is processed by a Financial Service Specialist (FSS) at a Community Service Office (CSO) or Customer Service Contact Center (CSCC). Once eligibility for WCCC is determined, the client is given time to find a child care provider. The client can choose to use a licensed/certified child care home or center, relatives who provide care in their home, or adults who come to the client's home to provide service. The Department works with the client as much as possible to help them find a safe, affordable and appropriate child care provider.

All TANF applicants complete an Individual Responsibility Plan (IRP) with a WorkFirst Program Specialist (WFPS) or WorkFirst Social Service Specialist

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(WFSSS). The plan is a "pathway development tool" and relies on information collected from the client's (applicant) comprehensive evaluation and interview. The IRP typically outlines required activities, participation requirements, start and end dates for each activity and requirement, and assistance or support the client will receive in order to participate fully in the WorkFirst Program and to find and obtain child care. The WorkFirst - IRP is described according to WAC 388-310-0500. These policies are communicated to the client with the understanding that any deviation from the IRP may result in non-compliance and reduction or termination of benefits. The WorkFirst Handbook and Eligibility A-Z Manual both contain additional information on the sanction process and penalties that may result from refusal to participate in the WorkFirst program. The final IRP is signed by both the client and program specialist, the client is provided a paper copy, and an electronic copy is maintained in E-JAS. (Information and Communication)

Sarah explained that the sanction process begins when a client does not meet or complete the required activities of their IRP and a meeting is set up to determine if there is good cause for non-participation. Two program specialists meet with the client either in office or through home visit. If the client does not show-up or refuses to participate, the program specialists will still meet to discuss the case and determine if there is good cause including a review of child care. If there is not good cause, the program specialists will complete the sanction review tool. Sarah added that there have been some modifications to the sanctions process documented in Case Load Management Reports (CLMR) but these would not impact good cause determinations. All sanctions are reviewable in E-JAS, the payment and work registration screens in ACES, and in any letters stored in ACES and Barcode.

When a case is referred for sanction, a WorkFirst supervisor reviews the case in E-JAS and determines if the client should be approved for sanction. The supervisor will only approve the sanction for valid sanction reasons and not for an inability to obtain child care (**Key Control #1 - Monitoring**). If the client has a good cause reason not to engage in a required activity due to inability to obtain child care, the WorkFirst supervisor and program specialists may modify the client's IRP to help them participate in appropriate activities.

Beginning on July 1, 2021, the State lifted COVID related exemptions with phased-enforcement beginning on September 1, 2021. Before initiating sanctions on any client, the Department set up meetings with every client beginning in September and due to the large number of cases to enforce, this process took a few months. The good cause process was unchanged and the Department also recognizes that the availability of child care is diminished due to COVID impacts. After the meetings, any client in non-compliance is given two months to come back into compliance either by modifying their IRP or meeting program requirements. If the client remains in non-compliance after two months, their benefits would not be terminated for another 10 months. *Note: Due to the timing of the phased-enforcement of sanctions (3 months), client meetings (September through approximately December), two-month window for coming back into compliance, and 10 months before termination of benefits, no cases or benefits would have been terminated during the audit period.*

### **Key Internal Controls Identified:**

**Key Control #1** - Work First supervisors review and approve sanctions to ensure single custodial parents of children under age six are not sanctioned for an inability to obtain child care. (**Monitoring**)

**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 to determine if we can place reliance on the controls.

### D.1.PR.G - 93.558-Temporary Assistance for Needy Families (TANF) - DSHS

**Procedure Step:** N5. Special Tests and Provisions - Controls - Penalty for Failure to Comply with Work Verification Plan

**Prepared By:** TF, 8/18/2022

**Reviewed By:** AMG, 9/15/2022

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 Test and Provision:

- **Penalty for Failure to Comply with Work Verification Plan**

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to **Penalty for Failure to Comply with Work Verification Plan**

To provide a preliminary control risk assessment based upon our understanding of the internal controls for **Penalty for Failure to Comply with Work Verification Plan**.

#### **Source:**

Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)

Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager

Teresa Blanchett, Deputy Director, Program Integrity Administrator for WorkFirst Validation and SNAP Focused Accuracy

Loraine Chargualaf, Program Integrity Manager, WorkFirst Validation and SNAP Focused Accuracy Review Programs

Sharon Kim, Social and Health Program Consultant

Sarah Garcia, WorkFirst Program Manager

#### **Conclusion:**



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## Penalty for Failure to Comply with Work Verification Plan

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 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*

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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.

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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,

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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**

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.

From Part Four of the Compliance Supplement (April 2022):

### **Penalty for Failure to Comply with Work Verification Plan**

*Compliance Requirements* - The state agency must maintain adequate documentation, verification, and internal control procedures to ensure the accuracy of the data used in calculating work participation rates. In so doing, it must have in place procedures to (a) determine whether its work activities may count for participation rate purposes; (b) determine how to count and verify reported hours of work; (c) identify who is a work-eligible individual; and (d) control internal data transmission and accuracy. Each state agency must comply with its HHS-approved Work Verification Plan in effect for the period that is audited. HHS may penalize the state by an amount not less than 1 percent and not more than 5 percent of the SFAG for violation of this provision (42 USC 601, 602, 607, and 609); 45 CFR sections 261.60, 261.61, 261.62, 261.63, 261.64, and 261.65).

*Audit Objectives* - Determine whether the state agency is complying with its Work Verification Plan, including adequate documentation, verification, and internal control procedures.

#### *Suggested Audit Procedures*

- a. Review the state's Work Verification Plan and operating procedures concerning this requirement.
- b. Test a sample of TANF cases that have been reported to HHS under 45 CFR sections 265.3(b)(1) and 265.3(d)(1) and ascertain if the work participation rate data have been documented, verified, and reported in accordance with the state's Work Verification 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 requested the Department provide us with their internal controls over Special Test 5 - Penalty for Failure to Comply with Work Verification Plan. On July 14, 2022, we received the Department's response, see [Internal Control Request Letter - ST5 Penalty fo Failure to Comply with Work Verification Plan](#).

On July 27, 2022, we met with the following Department staff, including the Division of Program Integrity (DPI), to gain an understanding of the internal controls for Special Test #5 - Penalty for Failure to Comply with Work Verification Plan:

- Summer Garcia, ESA Staff Services & Operations Consultant (ESA Audit Liaison)
- Ivette Dones-Figueroa, External Audit and Strategic Initiatives Manager
- Teresa Blanchett, Deputy Director, Program Integrity Administrator for WorkFirst Validation and SNAP Focused Accuracy
- Loraine Chargualaf, Program Integrity Manager, WorkFirst Validation and SNAP Focused Accuracy Review Programs
- Sharon Kim, Social and Health Program Consultant
- Sarah Garcia, TANF/WorkFirst Program Manager

Loraine noted that the Department continues to work from the 2019 Work Verification Plan, see [2019 DSHS Work Verification Plan](#) and that DPI's internal process aligns with the state plan requirements. We reviewed the Work Verification Plan, including Section IV - Internal Controls. Below is a summary of those agency-identified internal controls:

1. **Quality Assurance Process:** Use a statistically valid sample of all cases with an active TANF recipient to review cases, determine causes and initiate corrective action for staff and/or system errors. Process includes monthly meetings with headquarters, information technology and field staff to review potential problem cases from case reviews and identify ways in which discrepancies may be eliminated. Another focus of the monthly meetings is to identify discrepancy-prone cases, policy or automation issues and staff training needs. Case reviews or ongoing samples will assure that data in Washington State's automated eligibility and participation tracking systems correspond to reported data. During case reviews, State staff (who are not field or contract staff responsible to enter participation or other required data into the automated systems) reviews cases to determine whether:
  - a. Reported activities met the federal definitions and were reported under the correct category.
  - b. Staff entered the correct number of hours of participation and have sufficient documentation to substantiate the actual hours of participation.
  - c. Policies and procedures, such as the excused absence or FLSA deeming policies, were correctly applied.

The State also uses a defined protocol for detecting potential errors, correcting conditions that may lead to future errors and correcting data errors and inconsistencies for future months' transmissions to HHS. The State uses data accuracy initiatives to assess whether data is free of data input errors and omissions and to eliminate factors that may generate errors. These initiatives will likely change over time based on root causes or errors identified by case reviews. The initiatives focus on reducing data input discrepancies and identifying potential system errors.

2. **Contract monitoring** is used to determine whether providers are meeting contractual supervision and documentation requirements and providing accurate and timely reporting of actual hours of participation each month in Washington State's electronic tracking system (eJAS). Contracts are structured to allow withholding of payment if the contractor does not meet work verification requirements as described in the contract.

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3. **Data Integrity:** The State builds on current system controls to identify system and programming errors and validate reporting data used in the TANF federal report. The State may conduct focused reviews on significant areas of concern that emerge from its quality assurance case reviews and process. These focus reviews will determine causes, such as data systems constraints or State staff and contractor practices and be used to take appropriate corrective action.
4. **Policy and Training:** The State will develop training and manual materials to describe new processes and federal requirements so staff and contracted providers are able to correctly apply work verification requirements.

### ***Quality Assurance Process***

Loraine explained that she is the DPI program manager for the WorkFirst validation process and Teresa provides division oversight of this quality assurance process. The primary responsibility of the quality assurance team at DPI is to conduct case reviews to verify that the actual hours logged for WorkFirst activities by TANF recipients are properly recorded and coded by WorkFirst partners. The validation process is an ongoing, year-round activity at DPI. The team schedule is to audit each monthly period two months after it has closed. For example, the team is currently auditing May 2022 during the month of July. Loraine added that after some delays due to COVID-related issues in the past, the team is now on schedule and managing its workload effectively. Loraine noted that case review completion is more timely due to increased reliance on virtual and electronic monitoring and documentation instead of on-site visits and verification of "wet" signatures, as well as increased performance optimization from the team's recent transition to a SQL server data warehouse from Access. The typical workflow is that the audit of Month 1 begins during Month 3, is completed during Month 4, and the results are uploaded to a WorkFirst partner report and dashboard by Month 5. DPI maintains a calendar showing the start, verification, and end dates, as well as sample sizes, for each audit which the team uses to manage workload and monitor the progress of each monthly case review (**Monitoring**). We requested a copy (see [DPI WorkFirst Validation Review Timeline SFY21](#)).Add working paper

The Quality Assurance WorkFirst Team completes reviews of cases with an active TANF recipient. They explained that the team works with their assigned data team to pull a statistically valid sample of case reviews based on the WorkFirst Partner (contractor). Sharon Kim is the program lead for data pulls and manages the SQL data warehouse for data requests and storage. On a monthly basis, the random sample is pulled from ACES and a request is made to the external partner for all verification reports and logs entered by each partner that recipients completed required WorkFirst activities. Some partners, such as Commerce, do not have access to Department systems and must provide logs. These data requests are done securely typically via secured emails or secure file transfer depending on the partner. Once the team receives the verifications and logs, they cross-match with the data in ACES to validate that the information was properly and accurately recorded. Using both ACES and E-JAS, the reported work hours are documented and reviewed. Barcode also includes data used for case reviews. The case reviews are completed by a Quality Control Specialist (QCS). The focus of their reviews are to ensure the activities reported were allowed and reported under the correct category, general employment hours were reported correctly, and that policies were applied correctly. Teresa added that the Division still holds monthly update meetings but these are less important now that the quality assurance process is on schedule and timely. The Division of Program Integrity Team performs quality assurance case reviews based upon their plan to ensure the contractors are reporting correctly and are tracked using the state fiscal year WorkFirst Validation Review Timeline to ensure they are completed (**Key Control #1 - Monitoring**).

### ***Contract Monitoring***

As part of the work verification plan, the Department is required to conduct monitoring of the three agencies; Department of Commerce, Employment Security Department, & State Board of Community and Technical Colleges, by receiving supporting documentation from the agencies that provide WorkFirst services. Program managers use a WF Contractor Monitoring spreadsheet to track when monitoring reports are received and reviewed to ensure that the agencies

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are complying with their contracts (**Key Control #2 - Monitoring**). When the program managers receive the monitoring reports, the assigned program manager reviews the reports for compliance with their contracts. The program managers complete the contract monitoring checklist as part of the review process. Each program manager will then go through and mark off each section of the checklist as well as note any areas of concern to be discussed with the agency.

Sarah explained that as part of the monitoring of partners, an annual report is completed. Before COVID, this verification was done through on-site monitoring and the report was completed semi-annually. The Department moved all of the contracts to low-risk. Sarah noted that these changes have also added increased efficiency to the entire quality assurance and contract monitoring processes. This monitoring includes checking that each partner is tracking and verifying its own subcontractors, such as individual offices or colleges, to ensure WorkFirst participation agencies are monitoring their contractors and their work participation data. On an annual basis, program managers request the completion of a self-assessment from each of the three agencies to ensure they are accurately reporting the work verification hours and monitoring their contractors (**Key Control #3 - Control Activities and Monitoring**).

### Summary of Key Controls:

**Key control #1** - The Division of Program Integrity Team performs quality assurance case reviews based upon their plan to ensure the contractors are reporting correctly and are tracked using the state fiscal year WorkFirst Validation Review Timeline to ensure they are completed. (**Monitoring**)

**Key Control #2** - Program managers use a WF Contractor Monitoring spreadsheet to track when monitoring reports are received and reviewed (**Monitoring**).

**Key Control #3** - On an annual basis, program managers request the completion of a self-assessment from each of the three agencies to ensure they are accurately reporting the work verification hours and monitoring their contractors **Control Activities and 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 to determine if we can place reliance on the controls.

### D.3.PR.G - 93.575/596-Child Care & Development Fund (CCDF) Cluster - DCYF

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

**Prepared By:** SAG, 3/21/2023

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**Reviewed By:**

CCM, 3/27/2023

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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

**Source:**

Stefanie Niemela, Audit and Policy Liaison

**Conclusion:**

Because we confirmed that during SFY22, the Department continued its practice of processing Journal Vouchers that moved child care payments to different funding sources without supporting documentation, it was determined that these CCDF expenditures in AFRS were again unauditable. Since these issues had not been corrected, the conditions found in the prior audit are still applicable to the SFY22 audit period and we therefore have determined that no further review or tests over the compliance area will be performed and instead a finding for a material weakness and noncompliance with questioned cost (\$260,552,978.94 federal expenditures) for Activities Allowed/Unallowed and Allowable Costs/Cost Principles of Provider Payments will be issued at 2022-041 The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with requirements to ensure payments to child care providers for the Child Care and Development Fund Cluster programs were allowable a.

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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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:**

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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).

#### ----- **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

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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:

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

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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).

### 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

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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 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;

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- (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 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).

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### **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                            |
| <i>Formula (rounded up)<br/>where N = population size</i> | $N * 1 / \text{SQRT}(N) * 0.68$             | $N * 1 / \text{SQRT}(N)$ | $N * 1 / \text{SQRT}(N) / 0.68$ |

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|                     |    |    |               |
|---------------------|----|----|---------------|
| 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 <b>types</b> 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 <b>only</b> 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 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:

### **A-B. Activities Allowed/Cost Principles: Provider Payments - Controls**

Prior to our audit, we requested to receive the Department's asserted internal controls over the compliance area, which were provided on pages 6-9 at [Department Responses to Internal Control Request Letters](#). We also received a copy of the Department's Corrective Action Plan (CAP) for the area, which can be seen on page 1 at [Corrective Action Plans for SFY21 CCDF Findings](#). However, upon the course of our audit, we determined further inquiries were needed, as described below in more detail.

Payments are made to child care providers through the Social Service Payment System (SSPS). These payments are uploaded into AFRS and allocated to each funding source. In the SFY21 audit, we determined the CCDF provider payment expenditures reported in AFRS were not supported by child-level payment details made within their payment system, SSPS. We found that the Department was processing Journal Vouchers that moved child care payments to different funding sources without supporting documentation. This made it so that the connection between the original payment and the funding source was broken and therefore there was no longer a way to trace federal funds back to the child care payments they funded.

As a result, it was determined that these CCDF expenditures in AFRS were unauditable and multiple findings for material weakness and noncompliance were issued, covering the following compliance requirements:

- Activities Allowed/Unallowed and Cost Principles (Provider Payments)
- Matching
- Level of Effort
- Earmarking
- Period of Performance
- Reporting (Financial Report ACF-696)

Due to the material weaknesses, material noncompliance, and excessive known questioned costs being related to such significant compliance requirements, we concluded that the identified noncompliance was material and pervasive throughout the program. Because we were unable to

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obtain sufficient and appropriate audit evidence, a limitation of scope was present and therefore, we issued a ***disclaimer of opinion*** for the program.

Prior to starting work on the SFY22 audit, we inquired with the Department to determine if the provider payment expenditure data for the current audit period would be adequately supported by child-level payment data from SSPS. On September 28, 2022 we were informed via email from Stefanie Niemela, Audit and Policy Liaison that this issue has not been resolved (see: FW Confirmation of CCDF child care payment JV activity for fiscal year 2022).

During our expenditure analysis at SFY22 CCDF Final Revenues & Expenditures, we determined Provider Payments (SubObject NB) was material (more than 5%) to the program for SFY22. The Department of Children, Youth, and Families had expended total monthly child care provider costs related to CCDF during SFY22 of \$260,552,978.94 or 39% of total federal expenditures and \$37,374,730.64 in state expenditures, see SFY22 CCDF Final Revenues & Expenditures.

Since this issue not been corrected, we have concluded that the provider payments for child care services made during the audit period are not supported by child-level payment details and therefore are again not auditable. Because of this, the conditions found in the prior audit are still applicable to the SFY22 audit period and we have therefore determined we will not perform further review or tests over the compliance areas listed above.

We will issue a finding for a material weakness and noncompliance with questioned cost (\$260,552,978.94 federal expenditures) for Activities Allowed/Unallowed and Allowable Costs/Cost Principles of Provider Payments at 2022-041 The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with requirements to ensure payments to child care providers for the Child Care and Development Fund Cluster programs were allowable a.

Additionally, because a large portion of provider payments are made with TANF funds (ALN 93.558), we found the above mentioned conditions to be present to the payments applicable to TANF expenditures and therefore, conclusions for this program will be included as part of this major program's audit record at A-B. Activities Allowed/Cost Principles - Compliance - NB Payments to Providers & ER Other Contractual Services.

### D.3.PR.G - 93.575/596-Child Care & Development Fund (CCDF) Cluster - DCYF

***Procedure Step:*** A-B. Activities Allowed/Cost Principles: ARPA Stabilization Payments

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**Prepared By:** KWF, 12/5/2022

**Reviewed By:** SAG, 12/21/2022

## 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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

### **Source:**

Kelsey Boyce, Child Care Grants Manager

Heidi Goddard, Program Manager

Amy Russell, Early Learning Deputy Director

Stefanie Niemela, Audit and Policy Liaison

### **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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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:**



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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).

#### ----- **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

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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:

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

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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).

### 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

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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 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;

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- (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 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).

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### **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                            |
| <i>Formula (rounded up)<br/>where N = population size</i> | $N * 1 / \text{SQRT}(N) * 0.68$             | $N * 1 / \text{SQRT}(N)$ | $N * 1 / \text{SQRT}(N) / 0.68$ |

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|                     |    |    |               |
|---------------------|----|----|---------------|
| 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 <b>types</b> 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 <b>only</b> 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 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:

### **A-B. Activities Allowed/Cost Principles: ARPA Stabilization Payments - Controls**

#### **Inherent Risk of Noncompliance**

##### **Step 1**

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 risks when designing our tests of compliance.

- The compliance requirement is new to the agency
- The Department had a massively significant increase in brand new federal funding for stabilization of child care, which necessitates the implementation of new processes over a short timeline
- The compliance requirement is one that is susceptible to potential fraud, waste, and abuse

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 scope of work

We reviewed the scope of work per the grant agreement (see: [FFY21 ARPA Stabilization Grant Award Letter with Terms & Conditions](#)), Part 4 of the Compliance Supplement, and any available program guidelines to determine which activities and costs are allowed or unallowed. Per review of the grant award, we found that the State shall reserve not more than 10 percent of the Child Care Stabilization funds to administer subgrants, provide technical assistance and support for applying for and accessing the subgrant opportunity, publicize the availability of the subgrants, carry out activities to increase the supply of child care, and provide technical assistance to help child care providers. Additionally, Child Care Stabilization funds must be obligated by September 30, 2022 and liquidated by September 30, 2023.

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We identified the following from the Technical Assistance Administrative Manual for Stabilization Grants (see: [Technical Assistance Administrative Manual Stabilization Grants](#)):

- The Child Care Stabilization Grant for licensed child care providers is broken into three sections:
  - Program Amount: This amount is reflective of different costs associated with each program size and is based on licensed capacity. The minimum program amount for licensed child care providers is \$15,000 and the maximum is \$75,000
  - Workforce Amount: This amount is awarded in addition to the program amount for licensed child care providers, and is based on estimated worker units at each facility, assuming a 5:1 child to staff ratio. The minimum workforce amount is \$9,000 and the maximum amount is \$42,000. This must be used for increasing wages (increases in payroll), or other recruitment and retention activities.
  - Verifiable Add-Ons: Licensed child care providers who meet verifiable criteria may be eligible to receive an additional "add-on" amount on top of their program amount and workforce amount. These verifiable add-on amounts are stackable. Licensed child care providers will get \$10,000 for each add-on criteria they meet. More information can be found [online](#).
- Funds must be spent on items which sustain the child care business. The approved expense categories for the program amount and add-on amount only are listed as follows:
  - Payroll (salary, benefits)
  - Copayment or tuition waivers for families receiving care
  - Rent or mortgage costs
  - Business operating costs, utilities, maintenance
  - Mental health supports for children and child care employees
  - Internet access for providers serving school-age children
  - Food related to child care
  - Health and nutrition activities
  - Vaccination access
  - Personal protective equipment
  - Cleaning or sanitizing supplies and services
  - Training related to health/safety practices
  - Purchases of or updates for equipment and supplies for Covid-19
  - Outreach to families who may have stopped attending due to cost
  - Increased labor standards (such as health care, retirement contributions, family-level wages to support recruitment and retention)

We identified the following from the Compliance Supplement:

### A. Activities Allowed or Unallowed

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### 2. Activities Allowed for CCDF ARP Act Stabilization Funds

a. States, territories, and tribes shall use stabilization funds appropriated by the ARP Act (Pub. L. No. 117-2) to make awards to child care providers to support the stability of the child care sector during and after the COVID-19 public health emergency. Child care providers may use stabilization funds to cover the following expenses: (A) personnel costs, including payroll and salaries or similar compensation for an employee (including any sole proprietor or independent contractor), employee benefits, premium pay, or costs for employee recruitment and retention; (B) rent (including rent under a lease agreement) or payment on any mortgage obligation, utilities, facility maintenance or improvements, or insurance; (C) personal protective equipment, cleaning and sanitization supplies and services, or training and professional development related to health and safety practices; (D) purchases of or updates to equipment and supplies to respond to the COVID-19 public health emergency; (E) goods and services necessary to maintain or resume child care services; and (F) mental health supports for children and employees.

### 3. Activities Unallowed

a. No funds may be expended through any grant or contract for child care services for any sectarian purpose or activity, including sectarian worship or instruction (42 USC 9858k(a)).

b. With regard to services to students enrolled in grades 1 through 12, no funds may be used for services provided during the regular school day, for any services for which the students receive academic credit toward graduation, or for any instructional services that supplant or duplicate the academic program of any public or private school (42 USC 9858k(b)).

c. No funds can be used for the purchase or improvement of land, or for the purchase, construction, or permanent improvement (other than minor remodeling) of any building or facility (42 USC 9858d(b)).

(1) "Construction" is defined as the erection of a facility that does not currently exist. "Major renovation" is considered permanent improvement and is defined as (1) structural changes to the foundation, roof, floor, exterior or load-bearing walls of a facility, or the extension of a facility to increase its floor area; or (2) extensive alteration of a facility such as to significantly change its function and purpose, even if such renovation does not include any structural change (45 CFR section 98.2).

(2) Exception: Tribal Lead Agencies may use funds for the construction and major renovation of child care facilities with ACF approval (42 USC 9858m c)( 6); 45 CFR section 98.

(3) Exception: State, territory, and tribal Lead Agencies may use Child Care Disaster Relief Funds (Assistance Listing 93.489) for renovating, repairing, or rebuilding child care facilities with ACF approval (Pub. L. No. 116-20).

### B. Allowable Costs/Cost Principles

As indicated in Appendix I to the Supplement, "Federal Programs Excluded from the A102 Common Rule and Portions of 2 CFR Part 200," grantees (Lead Agencies) expend and account for CCDF funds in accordance with the laws and procedures they use for expending and accounting for their own funds (45 CFR section 98.67).

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We identified the following from the Administration for Children and Families (ACF) ([ARP Act Stabilization IM](#), page 16 and 23):

- Subgrant finds must be provided to child care providers in advance of provider expenditures. In general, lead agencies may not require child care providers to incur expenses to receive reimbursement.
- September 30, 2022 - All stabilization funds must be obligated by states, territories, and tribes.
- September 30, 2023 - All stabilization funds must be liquidated by states, territories, and tribes.

### Indirect Costs

As defined in Title 2 CFR Part 200 for Public Assistance Cost Allocation plans, DCYF - 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 DCYF 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. In the expenditure analysis at [SFY22 CCDF Final Revenues & Expenditures](#), we noted \$10,727,382.34 in indirect costs charged to CCDF. This is 1.6% of total CCDF expenditures. Indirect costs are not direct and material to the program. Additionally, DCYF Cost Allocation is reviewed centrally at [DCYF Centralized Cost Allocation](#), therefore, we will pass further examination for program indirects.

### Material Expenditures

During our expenditure analysis at [Expenditure / Revenue Analysis](#), we determined Provider Payments (SubObject NB) was material (more than 5%) to the program for SFY22. The Department of Children, Youth, and Families had expended total lump-sum child care ARPA Stabilization costs related to CCDF during SFY22 of \$328,310,969 or 49.10% of total expenditures, see [SFY22 CCDF Final Revenues & Expenditures](#). [Prelim Expenditures](#) We will also confirm that Object NB is still material in the final expenditures after year end close at and document any changes at . Additionally, we requested to receive a report listing all stabilization payments made to providers during SFY22, broken out by provider type and detailing the break-down of expenditure category. We were provided this, and upon analysis of the expenditure composition, we determined that we would focus our understanding over licensed providers. We found that of the \$322,711,250 in stabilization payments made, payments to licensed providers totaled \$321,244,500 (99.5% of stabilization payments) and payments to FFN providers totaled \$1,466,750 (0.45% of stabilization payments). Therefore, because the amount received by FFNs is below our materiality threshold of 5%, we have determined them to be immaterial and will pass on further review. Our scope will be designed around the focus of the processes in place to ensure licensed providers' payment amounts are allowable.

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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. On August 23rd, 2022, we met with the following staff at DCYF to gain an understanding of controls the Department has established to ensure compliance with activities allowed/unallowed requirements over American Rescue Plan (ARP) Act Stabilization Payments made to providers:

- Stefanie Niemela, External Audit and Policy Liaison
- Kelsey Boyce, Child Care Grants Manager
- Heidi Goddard, Program Manager
- Amy Russell, Early Learning Deputy Director

In lieu of requesting to receive the Department's written asserted internal controls over the compliance area, we sent an email inquiry to Stefanie on September 26th, 2022 to ensure all parties agree upon the key controls identified by SAO during our control understanding meeting. On September 29, 2022, we received confirmation of their agreement to the control identified in the "Summary of Key Controls" section within this ROWD.

The Department started developing provider communications in the Summer of 2021 and in September, providers received these notifications announcing that ARPA Stabilization grant funds will be made available for applications beginning October 13th, 2021. It was mentioned that the Department had prepared for this by reviewing federal guidance, informational memos, and attending webinars. Guidance on the Office of Children's and Families website, such as FAQs and best practices for administering grants, was also reviewed to develop the best way to create processes over managing the ARPA Stabilization funds.

It was mentioned that the guidance required for Lead Agencies to maintain an online platform for applications to be submitted through. Providers who are interested in applying must do so electronically, as there are no call-in or paper applications accepted. It was explained that this is due to automated processes in the system in evaluating the providers' eligibility requirements in real time and performing specific functions to ensure applications are complete. Applications include a certification portion at the end where the provider must agree to certain terms and conditions, which include references to compliance requirements such as not reducing employee pay and providing relief to families from fees to the extent possible. For additional details over the controls applicable to provider eligibility for receiving the ARP Stabilization Payments, see N. ST4: Child Care Provider Eligibility for ARP Act Stabilization Funds - Controls. We asked to receive ballpark figures for how many applications they receive monthly and they said that in total to date, they had received approximately 6,100, but the majority of these had been received prior to January 2022. Only about 8%-9% of providers who would be considered eligible, have not applied. Because the Department is making a focus on outreach

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services for encouraging these providers to take advantage of these funds while they are available, the application date had been extended from the original time of June 30th to September 30th, 2022.

Once a provider is determined to be eligible, as described at [N. ST4: Child Care Provider Eligibility for ARP Act Stabilization Funds - Controls](#), the Department can begin to take steps in processing payments. For licensed providers, payments are broken into three components or payment categories, as follows:

- Program Amount: This amount is reflective of different costs associated with each program size and is based on licensed capacity. The minimum program amount for licensed child care providers is \$15,000 and the maximum is \$75,000.
- Workforce Amount: This amount is awarded in addition to the program amount for licensed child care providers, and is based on estimated worker units at each facility, assuming a 5:1 child to staff ratio. The minimum workforce amount is \$9,000 and the maximum amount is \$42,000. This amount must be used for increasing wages (increases in payroll) or other recruitment and retention activities.
- Verifiable Add-Ons: Licensed child care providers who meet verifiable criteria may be eligible to receive an additional “add-on” amount on top of their program amount and workforce amount. These verifiable add-on amounts are stackable. Licensed child care providers will get \$10,000 for each add-on criteria they meet:
  - Operating in a Child Care Desert
  - Serving or located in Communities of Color
  - Serving or located in marginalized, low-income communities
  - Supporting racial equity
  - Located in area with high COVID impact
  - Missed Quality Improvement Award due to COVID
  - Waiting in the queue for data collection as a result of COVID

To ensure providers receive the correct and allowable amount of stabilization funds, program and workforce payment components are automatically calculated by WaCompass based on licensed capacity (**Key Control 1 - Control Activities**)(**Automated**). Verifiable add-on amounts are calculated manually, based on factors such as zip code and subsidy data, on a spreadsheet using a VLookup template (**Key Control 2 - Control Activities**). To ensure providers utilize grant funds only for allowable activities, the Department requires all providers to complete a templated certification at application where they attest to comply with the grant terms and conditions, and to use grant funds for only allowable activities per the compliance supplement (**Key Control 3 - Control Activities**).

Because the Child Care Stabilization Grant has a rolling grant application period, DCYF will process batches of grant applications once per month during the application period. Payment dates are usually processed about a month after application with payments being processed at the end of each month through the Social Service Payment System (SSPS). Providers will receive a grant payment in one lump sum. If a provider currently or



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has previously received payments from SSPS, they will receive the DCYF Child Care Stabilization Grant payment in the same way. Providers who have not received payments through SSPS will receive payment via the U.S. Postal Service. Payments will be mailed to the address associated with the SSPS number.

- Federal guidance from the Administration for Children and Families (ACF) at ([ARP Act Stabilization IM](#), page 16 and 23) requires DCYF to make payment to providers in advance of expenditures by September 30, 2022 and that they be spent by September 30, 2023. As DCYF began providing grant payments to providers in 2021, they have a more restrictive condition stating that once an applicant has been awarded grant funds, all funds must be spent within one year of receiving the grant. [Federal Guidance?](#) Providers may apply grant funds to past expenditures back to January 1st, 2021, so long as they are applied to the allowable categories. Funds must be spent on items which sustain the child care business. The approved expense categories for the program amount and add-on amount only are listed as follows:
  - Payroll (salary, benefits)
  - Copayment or tuition waivers for families receiving care
  - Rent or mortgage costs
  - Business operating costs, utilities, maintenance
  - Mental health supports for children and child care employees
  - Internet access for providers serving school-age children
  - Food related to child care
  - Health and nutrition activities
  - Vaccination access
  - Personal protective equipment
  - Cleaning or sanitizing supplies and services
  - Training related to health/safety practices
  - Purchases of or updates for equipment and supplies for Covid-19
  - Outreach to families who may have stopped attending due to cost
  - Increased labor standards (such as health care, retirement contributions, family-level wages to support recruitment and retention)

Providers are required to keep all receipts from purchases made with the Child Care Stabilization Grant funds for five years, and may be asked to submit receipts to DCYF. If the provider is unable to submit receipts, they may be required to return part or all of the fund to the State of Washington. DCYF will perform receipt verification for a sample of Child Care Stabilization Grant recipients. Grant recipients are required to maintain records for all purchases made with their Child Care Stabilization Grant funds. Receipt collection will not begin until the 2023 Fiscal Year (July 1 2022 – June 30 2023).

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On December 2, 2022, we collaborated with Felicia DenAdel, Technical Support Specialist, to discuss concerns regarding the monitoring aspect of the distribution of ARPA Stabilization Grant funds. We informed her of our understanding of Federal guidance and DCYF policies and procedures. We suggested that in order to perform due diligence to ensure grant funds were properly spent on allowable activities, we would need to review documentation supporting expenditures in the SFY23 audit. Felicia agreed that federal guidance surrounding the documentation of expenditures is vague, allowing for broad interpretation. She concurred with our recommendations and that we should make our decision to review related expenditures in the next audit period known to the Department.

## Summary of Key Controls:

We identified the following key controls over the ARPA stabilization provider payment process:

- **Key Control 1 (Control Activities)(Automated):** To ensure providers receive the correct and allowable amount of stabilization funds, program and workforce payment components are automatically calculated by WaCompass based on licensed capacity.
- **Key Control 2 (Control Activities):** To ensure providers receive the correct and allowable amount of stabilization funds, verifiable add-on amounts are calculated manually on a spreadsheet using a VLookup template and are based on provider data such as zip code and subsidy data.
- **Key Control 3 (Control Activities):** To ensure providers utilize grant funds only for allowable activities, the Department requires all providers to complete a certification at application where they attest to comply with the grant terms and conditions, and to use grant funds for only allowable activities per the compliance supplement.

## **Evaluation of Results:**

We did not identify any control deficiencies over the requirements for activities allowed/unallowed and allowable cost/cost principles over ARPA Stabilization Provider Payments. We concluded that monitoring to ensure provider payments were for allowable activities is not required until the following year. Advance payments are allowed and there is broad discretion on the documentation required to support expenditures. Therefore, we will not review this process to ensure expenditures are for allowable activities this audit period, but we will include it in our review next audit period. In this audit period we will limit our review to provider certification attesting that funds will be spent on allowable activities and to determining that award amounts were properly calculated.

## **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.

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## D.3.PR.G - 93.575/596-Child Care & Development Fund (CCDF) Cluster - DCYF

***Procedure Step:*** E. Eligibility - Controls

***Prepared By:*** LS, 11/21/2022

***Reviewed By:*** SAG, 11/21/2022

### 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 identify key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to eligibility of participants.

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

#### **Source:**

Stefanie Niemela, Audit and Policy Liaison (DCYF)

Whitney Nickerson, Child Care Subsidy Quality Analyst

Matt Judge, Child Care Administrator

Amber Taylor, CSCC Child Care Program Manager

Jim Hoseth, Administrative Regulations Analyst

Jason Ramynke, Child Care Subsidy Program Administrator

Karin Carter, WMS 2 - QA Administrator

#### **Conclusion:**

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

### Testing Strategy:

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## 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:

- 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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.

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(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.**

***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.:

### Eligibility - Controls

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## **Inherent Risk of Noncompliance**

### **Step 1**

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 risks when designing our tests of compliance.

- The compliance requirement involves a relatively large degree of subjectivity by the agency in interpreting and carrying out the objectives of the program.
- In the past, multiple locations have been responsible for administering the requirement, and these responsibilities have recently transitioned from one agency to the other
- The compliance requirement is relatively complex and related activities are difficult to audit
- The compliance requirement is one that is susceptible to fraud
- During the audit period, a nationwide pandemic has had massive impacts on how agencies operate and modify their operations in response. The risk increases that eligibility changes have been made prior to receiving approval from the federal grantor or that staffing is not sufficient to ensure controls are in place during reactive panics

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**

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 Special Tests and Provisions. The Compliance Supplement states in part:

### **E. Eligibility**

**1. Eligibility for Individuals** - Lead Agencies must have in place procedures for documenting and verifying eligibility in accordance with the following Federal requirements, as well as the specific eligibility requirements selected by each State/Territory/tribe in its approved Plan. A Lead Agency is the designated State, territorial or tribal entity to which the CCDF grant is awarded and that is accountable for administering the CCDF program.

- a. Children must be **under age 13** (or up to age 19, if incapable of self care or under court supervision), who reside with a family

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whose **income does not exceed the specified percentage of State/territorial/tribal median income** for a family of the same size, and reside with a parent (or parents) who is **working or attending a job-training or education program**; or are in need of, or are receiving, protective services. Lead Agencies may choose to provide services during periods of job search. Tribes may elect to use State or tribal median income (42 USC 9858n(4); 45 CFR sections 98.20(a) and 98.81(b)).

b. States and Territories must establish **minimum 12-month eligibility periods** before re-determining eligibility of CCDF families and must consider a child to be eligible between eligibility re-determinations, regardless of (1) changes in income (as long as income does not exceed 85 percent of State median income); or (2) temporary changes in participation in work, training, or education activities. If a parent experiences a non-temporary loss of job, education, or training that affects eligibility, States have the option—but are not required—to terminate assistance prior to the next re-determination (i.e., prior to the end of the minimum 12-month eligibility period). However, if a State exercises this option, the State must provide (prior to terminating the subsidy) a period of continued assistance of at least 3 months to allow parents to engage in job search, resume work, or attend an education or training program as soon as possible. States and Territories must have implemented these eligibility provisions by September 30, 2016 unless the State or Territory requested and received approval for a temporary extension under a waiver (42 USC 9858c(c)(2)(N)).

c. Because a child meeting eligibility requirements at the most recent eligibility determination or re-determination is considered eligible between re-determinations as described in paragraph b. above, any payment for such a child shall not be considered an error or improper payment due to a change in the family's circumstances (45 CFR sections 98.21(a)(4) and 98.68(c)(2)). There is no Federal requirement for Lead Agencies to recoup CCDF overpayments, except in instances of fraud (45 CFR section 98.68(b)(2)).

d. States and Territories must have procedures to **permit enrollment of homeless children** (after an initial eligibility determination) while required documentation is obtained. States and Territories must also have a grace period that allows children experiencing homelessness and children in foster care to receive services while providing families a reasonable time to take any necessary action to comply with immunization and health and safety requirements.

e. Lead Agencies must establish a **sliding fee scale**, based on family size, income, and other appropriate factors, that provides for cost sharing by families that receive CCDF child care services (42 USC 9858c(c)(3)(B)(i); 45 CFR section 98.45(k)). Lead Agencies may exempt families meeting criteria established by the Lead Agency from making copayments and must establish a payment rate schedule for child care providers caring for subsidized children (45 CFR section 98.45).

f. Lead Agencies must, to the extent practicable, implement enrollment and eligibility policies that support the fixed costs of providing child care services by delinking provider reimbursement rates from an eligible child's occasional absences (42 USC 9858c(c)(2)(S)). Lead

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Agencies are not required to limit authorized child care services strictly based on the work, training, or educational schedule of the parent(s) or the number of hours the parent(s) spend in work, training, or educational activities (45 CFR section 98.21(g)).

**2. Eligibility for Group of Individuals or Area of Service Delivery** - The award of CCDF funds to a tribe shall not affect the eligibility of any Indian child to receive CCDF services in the State or States in which the tribe is located (42 USC 9858m(c)(5); 45 CFR section 98.80(d)). - Not Applicable

**3. Eligibility for Subrecipients** – Lead agencies determine eligibility for any subrecipients used to implement portions of the CCDF program, such as entities implementing quality improvement activities.

We confirmed the Department has one subrecipient which is the same subrecipient that they have been using for the past several years. Therefore, no new eligibility determinations have been made. No further review is required.

**4. Eligibility for Child Care Providers Receiving CCDF ARP Act Stabilization Funds-** States, territories, and tribes shall use stabilization funds appropriated by the ARP Act (Pub. L. No. 117-2) to make payments to qualified child care providers to support the stability of the child care sector during and after the COVID-19 public health emergency. To be qualified to receive stabilization funds, a provider on the date of application for the award must either be: (1) open and available to provide child care services, or (2) closed due to public health, financial hardship, or other reasons relating to the COVID-19 public health emergency. In addition, the provider must either (1) be eligible to serve children who receive CCDF subsidies at the time of application for stabilization funds, or (2) be licensed, regulated, or registered in the state, territory, or tribe as of March 11, 2021, and meet applicable state and local health and safety requirements at the time of application for stabilization funds. Child care providers include centers, family child care providers, and other providers that meet the qualifying eligibility criteria. Child care stabilization funds included in the ARP Act are for the benefit of qualified child care providers and are considered payments made to beneficiaries of a federal program.

Qualified providers receiving ARP Act Stabilization funds are therefore not categorized as “sub-recipients” as defined at 45 CFR 75.2 but instead as beneficiaries. The Single Audit Act requirements at 45 CFR Subpart F and the sub-recipient monitoring requirements at 45 CFR 75.352 do not apply to beneficiaries.

In their application for stabilization funds, a child care provider must certify:

1. That the provider will, when open and providing services, implement policies in line with guidance and orders from corresponding state, territorial, tribal, and local authorities and, to the greatest extent possible, implement policies in line with guidance from the Centers for Disease Control and Prevention (CDC).



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2. For each employee, the provider must pay at least the same amount in weekly wages and maintain the same benefits for the duration of the stabilization funding.
3. The provider will provide relief from copayments and tuition payments for the families enrolled in the provider's program, to the extent possible, and prioritize such relief for families struggling to make either type of payment.

Lead Agency must maintain documentation for child care providers receiving ARP Act stabilization funds to verify that child care providers met eligibility criteria, and that the providers gave the required certifications as part of their applications for funding.

We will gain an understanding over the Eligibility for Child Care Providers Receiving CCDF ARP Act Stabilization Funds separately. This is documented at [N. ST4: Child Care Provider Eligibility for ARP Act Stabilization Funds - 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.

Prior to our understanding meeting, we received and reviewed the Department's internal control letter response for eligibility, see pages 23-33 at [Department Responses to Internal Control Request Letters](#). We also received a copy of the Department's Corrective Action Plan (CAP) for the area, which can be seen on pages 3-4 at [Corrective Action Plans for SFY21 CCDF Findings](#).

We met with the following staff from DCYF on July 18, 2022 to discuss the processes in place over eligibility determination made for the CCDF program:

- Jason Ramynke, Child Care Subsidy Program Administrator
- Jim Hoseth, Administrative Regulations Analyst
- Whitney Nickerson, Child Care Subsidy Quality Analyst
- Amber Taylor, CSCC Child Care Program Manager
- Matt Judge, Child Care Administrator
- Stefanie Niemela, Audit Liaison

From SAO was Cassandra Metzler, Stephanie Garza, Laura Shackley, Collin Leslie, and Kelvin Fitzgerald.

We met again with the following staff from DCYF on Aug 1, 2022 to continue discussing the processes in place over eligibility determination made

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for the CCDF program:

- Jason Ramynke, Child Care Subsidy Program Administrator
- Jim Hoseth, Administrative Regulations Analyst
- Whitney Nickerson, Child Care Subsidy Quality Analyst
- Amber Taylor, CSCC Child Care Program Manager
- Karin Carter, WMS 2 - QA Administrator
- Stefanie Niemela, Audit Liaison

From SAO was Stephanie Garza, Laura Shackley, and Kelvin Fitzgerald.

We also met with the above DCYF staff on August 8, 2022 for a walkthrough of an eligibility case.

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

DCYF staff determine client eligibility, which takes about five or six days, on average, for handle time and case action to make an eligibility determination. The Department receives about 5,000 applications per month, with approximately 55% resulting in approved eligibility. Jason explained that a total of 33,000 families can be receiving subsidy care benefits at a time, though about half of the approved cases do not end up authorizing and utilizing child care for various reasons. Eligibility starts when a parent or guardian submits an application for child care assistance. They can do this one of three ways - by phone, by paper (through the mail), or online through [washingtonconnection.org](https://www.washingtonconnection.org), which is accessible through DCYF's working connections child care website. We were informed that most applications are taken over the phone or online. Historically, summer is the busiest time of year for applications.

The potential client shall provide the following information either on their application or to the intake worker at DCYF:

- A current Workfirst Individual Responsibility Plan (IRP) for consumers receiving TANF
- Name and phone number of employer
- Days and hours worked
- Hourly wage
- Gross income for the last 3 months or a tax return for the previous calendar year
- Amount of any unearned income received, such as child support or SSI benefits
- Current child support order for the child who needs care, if any
- Proof of child's citizenship or legal residency (birth certificate, etc)
- The verification form that states the child is enrolled in Head Start, Early Head Start or ECEAP (if the client wants 12-month eligibility)

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- If child is between age 13-19 and incapable of self-care or requires court supervision, a note from provider, IEP (Individual Education Program), or court order
- Information related to any non-custodial parents
- The name and phone number of the child care provider for the child
- Their phone number

Eligibility is based on the child, not the parent. Therefore, if there are 3 children in the household, there would be 3 different authorizations per family. CCDF does not currently provide services to new applicants when the parent is in a job search unless the applicant is through TANF. For existing approved households, CCDF will provide services during job search due to job loss during the 12-month eligibility period.

The intake or eligibility worker logs into the Barcode system to use the Working Connections Automated Program (WCAP) and records all of the information the client has submitted (or communicated over the phone.)

The first screen that comes up is the WCAP address screen. The eligibility worker inputs all of the information for the client's address and residential information and then clicks to the next screen, which is the household information screen. According to WAC, the child must be a resident of Washington State to receive benefits. If the applicant reports homelessness, the Department allows a one time 12-month grace period to provide the necessary verification to be considered eligible for subsidized care. Depending on the county the client resides in, a seasonal child care screen will be brought up, which allows the intake worker to indicate whether the client may need to be considered for seasonal child-care. The system will not allow seasonal child care to be assigned if the client does not live in a region that is approved for seasonal child care (**Control Activities**). (The seasonal child care program pays child care subsidies to eligible seasonally employed agricultural families. The program's purpose is to provide safe, licensed child care while parents work in agricultural settings.)

The next screen is the household members screen. Every member of the household is input on this screen with social security number and date of birth. If the client already exists elsewhere in the Automated Client Eligibility System (ACES) then, by inputting the SSN, the client ID will automatically populate. (If it is a new client, the client ID field will be left blank and a client ID will be assigned later). This screen also includes information on citizenship and the head of the household, as well as each child or household member's relationship to the head of household. Again, this will auto-load from ACES and cannot be modified, unless the client is new; if the client is new, the fields for this information are accessible and the information must be input manually by the eligibility worker. Case workers verify citizenship by obtaining either a birth certificate, SSN85 confirmation, or other legal documentation.

If an applicant claims to be in a single parent household, they must provide information for the other parent that is not living in the household and obtain a third party verification that the parent does not live with them. Staff must also verify household status in other systems or resources

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(ACES, SEMS, Tax Assessor Site, Department of Revenue - if self-employed) or by reviewing any Fraud Early Detection FRED referrals in Barcode before proceeding with the determination. Automation within the system has been added to flag the case if composition differs from other available systems such as ACES and SEMS. Staff will then document in Barcode how the household comp was verified, including systems and resources reviewed.

The screen after the household members screen is the activity/schedule screen. This is where each authorized child care activity can be viewed and each member of the household has their own tab for viewing the authorized activities for that member. The tab for the head of household has a field where information on their employment and work schedule can be manually input by the eligibility worker. If an approved activity is not entered into this screen, the system will show no approved activity in red at the top of the screen. The worker will then have the option to select and print a denial letter based on the reason for denial (**Key Control #1 - Control Activities**). This is also, where "needy" or "non-needy" status is indicated. During the meeting, it was explained to us that non-needy clients are clients who are not financially responsible for the child but who have the child in their care, therefore the income calculation is not used to determine eligibility. Needy clients are clients who are financially responsible; therefore, their income is used to determine eligibility. For needy clients, the income calculation is based on the average of their income earned over their reported employment history. This is obtained from the pay stubs that are submitted by the client as proof of their income when they have an existing employment history. They may accept an employer certification form in place of paycheck stubs. This form includes the wages and hours worked by the employee/claimant and the employers signature certifying accuracy of information. Staff will also utilize TALX and SEMS to verify income for the household. A special Self-Employment Team works applications from self-employed applicants. These clients typically will require a state or federal tax return or a profit and loss statement. To be eligible for CCDF, a client must have income less than 200% of the federal poverty level for a family of the same size (while the Compliance Supplement states the income restriction is 85% of state median income (65% after October 2021), Washington State's approved plan has more restrictive requirements which we will therefore test to). The system looks at income and the number of allowable household members to determine the amount a family would need to make to be below that amount. This information is programmed into Barcode and updated every year in April. During redetermination process, a client must have income below 220% FPL (**Note:** this is different from the initial determination, which is 200%) to remain eligible (in effect October, 2018). If the income is above 220%, the client is determined ineligible for services. The system will deny the application and state "Denied over Income" and a denial letter will be generated (**Key Control 2# - Control Activities**).

If it is new employment for the client, income is based on the employer's response, or ***self-attested from the client's statement for wages, expected gross income, and working schedule***. This is due to the fact that the client has no current wages to report. They are given the lowest co-pay and 60 days to submit actual wage data. Barcode will not allow a worker to set a eligibility date beyond 60 days without income verification (**Key Control #3- Control Activities**). This will allow the case worker to update the client's actual needs. The computer uses the working hours input by the eligibility worker to calculate the amount of time approved for child care - these fields are automatically populated. Wage data must be obtained from the Employer or TALX to verify wages of the recipient. SEMS and other systems are also utilized to determine if the applicant has

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any unearned income. Any unemployment obtained in response to the COVID-19 pandemic was considered, but that they did not utilize the stimulus funds received as a form of income. The "remarks" field is where the eligibility worker can manually input comments and details for travel times and work schedules. We were told that the eligibility worker will attempt to contact the client's reported employer to request written verification of the client's schedule. The case will then create a tickle to alert a case worker to follow-up on the pending items if income cannot be confirmed and conditional approval was provided. However, there is no rule that requires the verification of schedules, therefore, if one cannot be confirmed by a third-party, the worker will utilize the applicant's self-attested schedule (or use a standard Monday through Friday, 9:00am-5:00pm schedule), so long as it appears reasonable based on other information obtained during the process. Child schedules will also be completed in a similar fashion. If the child attends school, their daily schedule is loaded (or a standard school schedule of Monday through Friday, 8:00am-3:00pm is utilized), but if they are not of school age, the system uses the parent's schedule for calculating the level of care needs. The tabs for each child requiring care in the activity/schedule screen break down the number of hours the child is in school, other activities, or split custody and thus shows when care is not needed. The system will cross-check the parent and child schedules to determine the needed care hours. There is a "results" tab that simply reports the number of care hours needed per week. The tab for the child needing care gives a more detailed report of results.

The following screen is the income/eligibility screen. This screen reports information such as TANF eligibility/approved activity, family size, any child support paid by the client, whether or not the client must pay the initial co-pay, the eligibility beginning and end dates, the income earned by the client, and any other benefits or sources of income (if applicable.) If the client is in an approved activity due to TANF cooperation, the worker will enter an eligibility code of 1-TANF. If they are not a TANF approved activity, they are marked with an eligibility code of 8-NonTANF. The eligibility beginning and end dates are displayed in Barcode based on information entered by the eligibility worker to determine period of service. The earned income that is reported is information that is pulled over from what was input on the activities screen. Other benefits or sources of income are also entered manually. The income screen features buttons along the bottom that the worker can click for direct access to other systems DCYF uses to see the reported income for the client in those services and make a comparison, if necessary, to verify information like income, social security number, and date of birth. These tools include:

- ACES UI (unearned income)
- ACES EI (earned income as reported in ACES)
- ACES WAGES & UC - generated from ESD systems
- ACES DRS - Disqualified Recipient Systems - used to verify that applicant is not on the intentional program violation (IPV) database
- ACES SDX - State Data Exchange - provides information from Social Security Administration (SSA) regarding Supplemental Security Income (SSI) recipients in WA
- ACES PARIS - Public Assistance Reporting Information System - provides information regarding public benefits provided by other states, pensions from Veteran's Administration (VA), and earnings from Department of Defense (DOD)
- ACES Sanctions - shows support sanctions from DCS and other State agencies that would limit benefits due to non-cooperation

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- LMEN EI
- UTAB
- SPIDER (which shows both earned and unearned income)

Once all income sources are added, the worker clicks the "save" button at the bottom of the screen and the system auto-generates an eligibility determination letter if the client is approved for care based on income eligibility. The letter is generated using information that is entered into Barcode. It informs the client of the eligibility period, child care is approved for, copay amount, family size reported, gross income reported, reporting requirements for change of income and change in resources, rights and responsibilities and how to report changes. If the client is approved, the client's copay portion is calculated based on federally approved poverty guideline calculations. The poverty guideline and related graduated sliding fee schedule criteria are reviewed and approved by the federal grantor. Jim mentioned that during SFY22 some copays were waived or capped. Further details of these changes are later documented in the "COVID-19 Modifications" section of this ROWD. The wage input forms established according to the sliding fee scale are reviewed electronically through Barcode. If the client is not approved, the system will auto-generate a denial letter, instead. The denial letter will only be generated by this screen if the client has been determined to be ineligible based on their income. If some other factor had caused them to be ineligible in an earlier screen (no hours of needed care, for example) the denial letter would be populated prior to this step. If additional information is necessary from the client the worker will set a tickle to remind other workers to obtain this documentation by the due date. If it's not obtained before the initial eligibility application window closes the applicant must submit a new application. Ticks are automatically assigned to workers randomly. The Department also implemented a lead review of all cases that are worked that were not assigned to the case worker through the automated caseload assignments.

The federal grantor states that clients may be determined eligible for services for a 12-month time period. The client does not need to report changes in income as long as their income does not exceed the State Median Income (SMI) threshold. During SFY22, the SMI threshold was 85% from July-October. As a part of the corrective action plan, the Department changed the SMI threshold to 65%. The Department informs the clients of the appropriate income reporting level using the eligibility determination letter (**Key Control #4 - Control Activities**). The letter states that they must report within 10 days if their family monthly income exceeds a specific amount. The amount entered into the letter is determined by taking the household size and determining what the correct SMI is for that size. This amount is automatically generated from income tables within Barcode. The Department does not check the SMI requirement throughout the continuous eligibility period, but instead relies on the client to communicate if they have exceeded this limit. At that point, the Department would take appropriate action to discontinue services, even if it occurs during the continuous eligibility period. Other than leaving the state, fraud, or death, there are no other changes of circumstances during this period that would render the client ineligible for the 12-month eligibility period.

***(2) amounts paid to the recipient have been properly calculated in accordance with program guidelines,***

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After determining eligibility and the client is approved, the worker must authorize actual care for the eligible child. The worker does this by going into the authorization screen in Barcode, which shows all Social Service Payment System (SSPS) authorizations available for the client. This screen also shows all previous SSPS authorizations and providers associated with the client (by client #), authorization numbers, and dates sent to SSPS. By clicking the provider button, the worker can select a provider from this screen to associate with the client if the provider is licensed. A list of providers will come up and the worker can search for a provider by name or by provider number. Unlicensed (in home and relative care providers) can also be selected for child care, but require a different process. Whitney mentioned that effective January 1, 2021, newly eligible families, will have 12 months to obtain a child care provider once approved. After a provider is selected, the family will receive a 12 month authorization starting the month the provider was selected. Between these time frames, the eligibility for the newly eligible family does not need to be redetermined.

Once the worker has selected the provider to be used, they click the "next" button, which will take them to a screen which shows the amounts that the Department will pay and the beginning and end service dates for the provider (these are the same dates as for the client.) Staff explained to us that the worker can select what kind of service payment it will be using with a SSPS drop-down menu, and that the only SSPS codes available for selection are those that have been pre-populated based on all the information the worker has entered up to this point based on provider type (Control Activities). The service code will auto-populate in the service code box after they select an option from the drop-down menu.

SSPS codes are five digits, and typically start with "0" followed with a four digit service category type (codes are broken down by provider type, licensed centers, licensed in-home centers and exempt providers). For each category of service identified by a 4 digit code, the identical service types which require outside the normal standard care amounts, are then preceded by a 9. Intake workers use 9-codes in order to identify exceptional care amounts exceeding the normal full-time care requirements. For each provider type, additional care beyond a typical working schedule is defined as the following:

- For licensed providers (center and in-home), typical full-time care allows up to 23 working days of care (23 full-time units), capped at a 10 hour care day. Full-time care for school-age children during the school year is capped at 30 half day units (30 HDU). They have also added a code that allows a school-aged child to receive 30 half time units during the school year and 23 full time units during the summer months. *Note:* due to the pandemic, during SFY22, school-aged children were allowed 23 full time units during school year if child was in school remotely.
- For exempt providers, full-time care is defined similarly to the school-age and non-school age children above, however is described in hours as their standard units. School-age children during the summer, and non-school-age children receive 230 units of care and part time care is allotted at 115 units of care (school-age children and children needing less care).
- 9-codes also are used to identify special needs enhancement care rates for children with special needs.

Regardless of which additional care category the 9-code service identifies, an authorization is required for approval and review from a supervisor prior to authorizing the services attached for the client, and prior to any provider payments for services provided is rendered (**Monitoring**). If the

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worker selects a 9-code for use in WCAP, the worker will be notified that their request to use the code has been submitted into a queue for supervisory review and approval. The 9-code review is used only once during the initial authorization and eligibility determination for services granted (once per authorization period, which is a yearly authorization). The 9-code review is not used as a monthly tool to review the needs of the client's current service levels, nor as a review for provider's monthly billing.

The worker manually enters the child care payment rate. Barcode will automatically look at the age of the child, the provider, the reported child care rates associated with that specific provider, and the area (region) they are in, and will then notify the worker if they have entered an unallowable rate based on what they input to the payment rate field. Staff told us that it is DCYF policy to always pay the lower of the state calculated rate or the providers rate and that the worker cannot move on to the next screen until the correct rate is input to the payment rate field. If the approved rate for child care determined by the system is higher than the approved provider rate, the worker must enter a lower rate than the maximum provider rate amount. Barcode is programmed to auto-populate the number of approved units based on the service payment selected **(Key Control #5- Control Activities)**. The number of approved units usually auto-populates as 23 full days or 30 half days based on the service payment selected (or both if they are school-aged children that will need additional hours in during the summer). In some cases when the child care need is significantly smaller (or an additional amount beyond the full time care level is needed), the worker must manually adjust the number. Modification to authorizations are triggered by changes in the child's age, school, schedules, activity, or provider. KC Over Payment Amount Accuracy?

All of this information is submitted from Barcode to SSPS each night for the purpose of generating a payment when the provider submits a bill to the Department after receiving an auto-generated invoice in the mail. The provider will receive an invoice twice a month - the supplemental invoice goes out the 5th of each month and the regular invoice goes out the 20th. When the provider receives the invoice, they can either use the automated phone system (Invoice Express), send it through the mail or use the SSPS provider portal. The invoice shows each line of service authorized for that specific provider, and this information matches what has been authorized in Barcode's WCAP. Staff told us the providers cannot claim more than what they are authorized per their line items on the invoice. If the provider uses Invoice Express, the information goes directly into SSPS. If they submit the bill through the mail, a worker must manually input the information into SSPS.

### ***(3) services/benefits are discontinued after recipients are deemed ineligible***

Forty-five days before the end of a certification period, Barcode will automatically generate a re-application packet to be mailed to the client and the provider, notifying them that they will need to redetermine their eligibility. If they do not respond, Barcode establishes a tickle alert for case workers to review and act on the case as appropriate. Once this alert goes through, and is opened by the case worker, the case worker reviews the electronic documentation within the ECR in Barcode, and can either send out another request to the client, attempt to call the client for the confirming information, grant another request and subsequent extension for documents pending request, or allow Barcode to auto-close the



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authorization on the last day of eligibility. It is required that each client have their eligibility redetermined every twelve months. If the client is not redetermined to be eligible by the end date in the system, SSPS will stop payment and the client will not receive further payment for services until they reapply (**Key Control #6 - Control Activities**). Barcode will not allow a worker to set a clients service end date beyond the eligibility date (**Key Control#7- Control Activities**).

***(4) subawards were made only to eligible subrecipients.***

We confirmed the Department has one subrecipient which is the same subrecipient that they have been using for the past several years. Therefore, no new eligibility determinations have been made. No further review is required.

### **Processes For Ensuring Proper Eligibility Determination and Detecting Errors**

We discussed the process in place over the internal audit and reviews of approved eligibility cases. Staff explained that there are four types of audits and one main review process that are performed on approved cases; 1% audits (Centralized), Focused Audits (Local Teams), Audit the Auditor, New Employee Review, and Quality Assurance audits for eligibility (**Key Control #8 - Monitoring**).

#### Audits:

*1% audits* - There are two staff that work the 1% centralized audits. The number of cases that needs to be reviewed monthly is determined by calculating 1% of the total number of cases approved the previous year. To obtain the monthly audit sample, Amber will pull an ad-hoc report out of Barcode. She explained that there are numerous reports that were programmed to select cases that meet specific criteria, for example, all clients that were determined eligible but they are only receiving CCDF and not any other services (negative client ID). Some of the other focuses are 9-codes, self-employment and special needs. The system will pull all approved cases from that month that meet the criteria that was entered into the ad-hoc report. Because cases are selected the month after approval, these cases would not have the potential to be selected again unless the case is updated. The two central auditors will then split these cases and review them for the specific focus that they were selected for. For example, if the case was selected due to having a negative client ID, the auditor would ensure that the client was not actually receiving additional benefits under a different client ID and all information supported that they should be receiving CCDF benefits. They explained that the amount of review depends on the focus. These audits can be an audit of the entire case from client contact through authorization or it can be a focus on one of the steps in between.

*Focused Audits* - These audits are performed at each field office. Each lead worker is required to review 2-3 cases for each employee that they supervise. It was stated that each month there is a specific focus (like those under the 1% audits) that each supervisor is auditing to. It was noted that the 1% audit focus is not necessarily the local audit focus for that month. Each lead worker must then perform a full audit for those cases

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selected. If errors are identified, the supervisor will communicate this to the staff worker and ensure the error is fixed. They will also ensure that an overpayment is assessed if applicable.

*Audit the Auditor* - This function is done by the central staff. They receive a report from each field office of the cases that were reviewed the prior month. The two auditors will then select five lead workers and review their work (audit). Of the five lead workers, they will select five cases that the lead worker audited and review them for accuracy. It was noted that the audit the auditor function is not a full case review, but instead, is a review of the focus for that month. They will look at the focus and the areas it could effect and ensure the lead worker addressed all issues if they were present. For example, if the focus was income, the central staff would ensure income, copay and the child's schedule was supported and accurate. Each of the central auditors keeps a spreadsheet to track what lead workers have been reviewed. This is to ensure that all lead workers are audited throughout the year.

*Centralized Quality Assurance Audits for CCDF Eligibility and Weekly Meeting*- There are now 6 centralized quality assurance (QA) auditors that each review 4 (total of 24) different eligibility cases each month. At the beginning of each month, a Barcode report is ran to pull a list of all CCDF clients. Cases are randomly selected to review **all** eligibility requirements. DCYF utilized SAO's testing attributes to develop this review process to help ensure they are reviewing cases in the same manner as SAO and the federal government. The QA auditors each individually use the "Audit Calibration Tool" to complete the reviews separately and then meet centrally to see if they identify the same errors. On a weekly basis, the QA auditors have a calibration meeting to review any of the selected cases that are more difficult to determine eligibility. This meeting is intended to be a training opportunity for the QA auditors to ensure they are reviewing cases in a consistent manner and according to rule and its intent. Each month the results of these reviews are summarized to allow the quality assurance team to identify trends of incorrect eligibility determinations and coaching opportunities.

*Eligibility Lead Worker Quality Assurance Audits and Monthly Meeting (Key Control #8 - Monitoring)*- This consists of a centralized team of six quality assurance auditors for eligibility, similar to the centralized provider quality assurance auditors. Centralizing the auditors provides segregation between the auditor and the local supervisor, removing any chance for a conflict of interest in supervising the auditor of their own team. The centralized auditors are responsible for conducting the statewide random audits for all workers not under 100% audit. This responsibility change allows local lead workers to assist, at the direction of their supervisor, staff who need additional coaching on the correct application of rules and policies. This team began in May 2021. A monthly calibration meeting is held with all of the auditors and lead workers. Everyone audits the same case using the modified audit tool and then they go over that audit looking for variances in the application of rule/policy. The goal is to have the same audit results from their internal audits as received from the SAO. This is to allow for accurate root cause analysis throughout the year rather than just once annually. This calibration meeting is facilitated by the QA supervisor and policy analyst and attended by both child care field administrators, the quality assurance administrator and the procedure program manager. The attendance by these various levels within child care subsidy. The centralized auditors conduct four targeted audits on each of their PBS per month.

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*New Employee Review* - Supervisors for each unit are responsible for reviewing new employee eligibility determinations for accuracy and conformity to DCYF policy. The lead workers will review all (100%) of the new employees work until they are certain of the accuracy. It was stated that they must be at least 95% accurate on the determinations before they no longer have all of their work reviewed. The lead worker is responsible for reviewing the entire eligibility determination. If exceptions and/or errors are identified, they will communicate this to the employee so that the error can be fixed prior to the claimant being determined officially eligible for services.

*Overpayment Review Panel* - In addition to the audits outlined above, twice a month, a group of 5 employees review overpayment cases (including provider and consumer) to make sure rules were applied correctly and that everyone comes to the same conclusion. All overpayments are reviewed for the correct application of rules by supervisors and the overpayment review panel. The review panel analyzes overpayment data to improve policy, procedures, and audit practices. Overpayment reduction efforts are captured annually in the overpayment report to the legislature. **(Key Control #9 - Monitoring).**

*Quality Monitoring (QM)* - Each worker gets 6 QM audits a year, completed by a supervisor. Only calls lasting longer than 5 minutes are pulled for review so that the more detailed calls are covered. The supervisor will go over the call with the staff and give feedback. It is noted that staff is receptive to these QMs and are fairly involved throughout the process.

*Improper Payment Information Act (IPIA) Audit* - conducted once every 3 years and will happen again in Nov 2022.

It was noted that Lead Auditors now meet every Tuesday morning to discuss understandings of rules so that they remain on the same page on audit determinations.

### COVID-19 Modifications

We also inquired about changes regarding eligibility and provider payments formulated in response to the pandemic and noted the following key changes:

- April-June 2022 consisted of enrollment based payments
- Providers bill based on state rate as of March 2022 and no private rates are taken into consideration.
- Copayments waived July 1, 2021 - September 30, 2021.
- October 2021 state median increased income limits and transitioned to a new copay model. The new range is \$0-\$215 copayments.
- There are new copay tables as of October 2021

### Summary of Key Controls: KC Identified and Testing Plan

We identified the following key controls over CCDF eligibility:

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- **Key Control 1 - Control Activities:** If a client is not in an approved activity, Barcode will not allow the worker to proceed. **(Automated)**
- **Key Control 2 - Control Activities:** Barcode is programmed with a table of allowable income levels and will automatically deny a client's eligibility if they are over the income threshold. **(Automated)**
- **Key Control 3 - Control Activities:** Barcode will not allow a worker to set a eligibility date beyond 60 days without income verification. **(Automated)**
- **Key Control 4 - Control Activities:** The eligibility determination letter informs the client that they must report if they exceed the state median income threshold within 10 days and informs the client what that amount is.
- **Key Control 5 - Control Activities:** Barcode is programmed to auto-populate the number of approved units based on the service payment selected **(Automated)**
- **Key Control 6 - Control Activities:** If the client is not redetermined to be eligible by the end date in the system, SSPS will stop payment and the client will not receive further payment for services until they reapply. **(Automated)**
- **Key Control 7 - Control Activities:** Barcode will not allow a worker to set a clients service end date beyond the eligibility date. **(Automated)**
- **Key Control 8 - Monitoring:** Quality assurance auditors and lead workers perform monthly reviews of four case audits per worker to determine if eligibility staff are making accurate determinations that are properly supported and to detect possible errors in these determinations.
- **Key Control 9 - Monitoring:** Semi-monthly overpayment review panel reviews overpayment cases to determine if eligibility workers properly issued overpayments.

### Evaluation of Results:

The Department provided us with their corrective action plan for finding 2021-002 (see pages 3-4 [Corrective Action Plans for SFY21 CCDF Findings](#)).

During the audit period, the Department continued to improve processes and internal controls by implementing the following:

- In July 2020:
  - Created an overpayment review panel that meets semi-monthly to review assigned overpayments. This panel will ensure correct rule application and identify areas of program vulnerability.
  - Performed continued quality improvement reviews for procedural modifications related to household composition changes that were implemented late in the fiscal year to address the prior year's audit finding.
- In August 2020, replaced the Audit 99 auditing system with an updated audit platform that includes a database for root cause analysis.
- In January 2021, began conducting monthly audit calibration meetings with all lead workers and internal audit staff to ensure agency audit standards are consistently followed.

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- In April 2021:
  - Hired a Quality Assurance Administrator to facilitate program integrity efforts based on audit findings and program needs.
  - Verified lead workers conduct coaching and auditing based on program needs to ensure consistency and compliance with program rules.
- In May 2021:
  - Established a centralized audit team to conduct program audits following the requirements of the statewide single audit in accordance with the Uniform Guidance

The Department has continued to simplify rules for workers to establish eligibility and for families to be approved for child care. The Fair Start for Kids Act was enacted October 2021, which included several components to simplify the rules and expand eligibility:

- Increased the income threshold to 60% of State Median Income (SMI) for applications and 65% of SMI for reapplications. SMI Threshold
- Created four copayment amounts based on a consumer's household income range.
- Standardized the provider payment rates to be paid at the State rate only.

In addition, the Department will continue to improve processes and internal controls, as follows:

- Create and deliver staff training, including an annual refresher course, on using data systems and performing income calculations, specifically the Division of Child Supports (SEMS) system and Employment Security Division systems.
- Add language to the Consumer's Rights and Responsibilities Form to include the fraud penalty notice and the fraud reporting hotline number.

The CAP has an estimated completion date of September 2022.

Taking into consideration the CAP was partially implemented throughout the audit period and the importance of the newly implemented audit reviews, we determined that internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **remote** and the magnitude of potential noncompliance is **less than material**. We determined internal control design is likely to be effective to prevent or detect noncompliance with grant requirements, therefore our risk assessment is **LOW**.

### **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.

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## D.3.PR.G - 93.575/596-Child Care & Development Fund (CCDF) Cluster - DCYF

**Procedure Step:** G. Matching - Controls

**Prepared By:** SAG, 10/5/2022

**Reviewed By:** CCM, 11/9/2022

### 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 key internal controls the agency has established to prevent or detect noncompliance with matching requirements.

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

#### **Source:**

Stefanie Niemela, Audit and Policy Liaison

#### **Conclusion:**

Because we confirmed that during SFY22, the Department continued its practice of processing Journal Vouchers that moved child care payments to different funding sources without supporting documentation, it was determined that these CCDF expenditures in AFRS were again unauditible. Since these issues had not been corrected, the conditions found in the prior audit are still applicable to the SFY22 audit period and we therefore have determined that no further review or tests over the compliance area will be performed and instead a finding for a material weakness and noncompliance for Matching will be issued at 2022-042 The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with matching, level of effort, and earmarking requirements for the Child Care and Development Fund Cluster.

### Testing Strategy:

#### **Matching - 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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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:**

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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).

### **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:

### **G. Matching - Controls**

Prior to our audit, we requested to receive the Department's asserted internal controls over the compliance area, which were provided on pages 21-27 at Department Responses to Internal Control Request Letters. We also received a copy of the Department's Corrective Action Plan (CAP) for the



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area, which can be seen on pages 5-6 at Corrective Action Plans for SFY21 CCDF Findings. However, upon the course of our audit, we determined further inquiries were needed, as described below in more detail.

Payments are made to child care providers through the Social Service Payment System (SSPS). These payments are uploaded into AFRS and allocated to each funding sources. In the SFY21 audit, we determined the CCDF provider payment expenditures reported in AFRS were not supported by child-level payment details made within their payment system, SSPS. We found that the Department was processing Journal Vouchers that moved child care payments to different funding sources without supporting documentation. This made it so that the connection between the original payment and the funding source was broken and therefore there was no longer a way to trace federal funds back to the child care payments they funded.

As a result, it was determined that these CCDF expenditures in AFRS were unauditable and multiple findings for material weakness and noncompliance were issued, covering the following compliance requirements:

- Activities Allowed/Unallowed and Cost Principles (Provider Payments)
  - Matching
  - Level of Effort
  - Earmarking
  - Period of Performance
  - Reporting (Financial Report ACF-696)

Due to the material weaknesses, material noncompliance, and excessive known questioned costs being related to such significant compliance requirements, we concluded that the identified noncompliance was material and pervasive throughout the program. Because we were unable to obtain sufficient and appropriate audit evidence, a limitation of scope was present and therefore, we issued a ***disclaimer of opinion*** for the program.

Prior to starting work on the SFY22 audit, we inquired with the Department to determine if the provider payment expenditure data for the current audit period would be adequately supported by child-level payment data from SSPS. On September 28, 2022 we were informed via email from Stefanie Niemela, Audit and Policy Liaison that this issued has not been resolved (see: FW Confirmation of CCDF child care payment JV activity for fiscal year 2022).

During our expenditure analysis at SFY22 CCDF Final Revenues & Expenditures, we determined Provider Payments (SubObject NB) was material (more than 5%) to the program for SFY22. The Department of Children, Youth, and Families had expended total monthly child care provider costs related to CCDF during SFY22 of \$268,526,835.16 or 40.2% of total expenditures. The Department relies upon these expenditures when performing

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procedures to ensure they meet the Matching requirement.

Since this issue not been corrected, we have concluded that the provider payments for child care services made during the audit period are not supported by child-level payment details and therefore are again not auditable. Because of this, the conditions found in the prior audit are still applicable to the SFY22 audit period and we have therefore determined we will not perform further review or tests over the compliance areas listed above.

We will issue a finding for a material weakness and noncompliance for Matching at 2022-042 The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with matching, level of effort, and earmarking requirements for the Child Care and Development Fund Cluster.. NOTE: The linked finding combines the three compliance areas of matching, level of effort, and earmarking in one singular finding.

### D.3.PR.G - 93.575/596-Child Care & Development Fund (CCDF) Cluster - DCYF

***Procedure Step:*** G. Level of Effort - Controls

***Prepared By:*** SAG, 10/5/2022

***Reviewed By:*** CCM, 11/9/2022

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 key internal controls the agency has established to prevent or detect noncompliance with level of effort requirements.

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

**Source:**

Stefanie Niemela, Audit and Policy Liaison

**Conclusion:**

Because we confirmed that during SFY22, the Department continued its practice of processing Journal Vouchers that moved child care payments

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to different funding sources without supporting documentation, it was determined that these CCDF expenditures in AFRS were again unauditale. Since these issues had not been corrected, the conditions found in the prior audit are still applicable to the SFY22 audit period and we therefore have determined that no further review or tests over the compliance area will be performed and instead a finding for a material weakness and noncompliance for Level of Effort will be issued at 2022-042 The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with matching, level of effort, and earmarking requirements for the Child Care and Development Fund Cluster.

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.*

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**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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.***

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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## 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.

## **G. Level of Effort - Controls**

Prior to our audit, we requested to receive the Department's asserted internal controls over the compliance area, which were provided on pages 21-27 at Department Responses to Internal Control Request Letters. We also received a copy of the Department's Corrective Action Plan (CAP) for the area, which can be seen on pages 5-6 at Corrective Action Plans for SFY21 CCDF Findings. However, upon the course of our audit, we determined further inquiries were needed, as described below in more detail.

Payments are made to child care providers through the Social Service Payment System (SSPS). These payments are uploaded into AFRS and allocated to each funding sources. In the SFY21 audit, we determined the CCDF provider payment expenditures reported in AFRS were not supported by child-level payment details made within their payment system, SSPS. We found that the Department was processing Journal Vouchers that moved child care payments to different funding sources without supporting documentation. This made it so that the connection between the original payment and the funding source was broken and therefore there was no longer a way to trace federal funds back to the child care payments they funded.

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As a result, it was determined that these CCDF expenditures in AFRS were unauditable and multiple findings for material weakness and noncompliance were issued, covering the following compliance requirements:

- Activities Allowed/Unallowed and Cost Principles (Provider Payments)
- Matching
- Level of Effort
- Earmarking
- Period of Performance
- Reporting (Financial Report ACF-696)

Due to the material weaknesses, material noncompliance, and excessive known questioned costs being related to such significant compliance requirements, we concluded that the identified noncompliance was material and pervasive throughout the program. Because we were unable to obtain sufficient and appropriate audit evidence, a limitation of scope was present and therefore, we issued a ***disclaimer of opinion*** for the program.

Prior to starting work on the SFY22 audit, we inquired with the Department to determine if the provider payment expenditure data for the current audit period would be adequately supported by child-level payment data from SSPS. On September 28, 2022 we were informed via email from Stefanie Niemela, Audit and Policy Liaison that this issued has not been resolved (see: [FW Confirmation of CCDF child care payment JV activity for fiscal year 2022](#)).

During our expenditure analysis at [SFY22 CCDF Final Revenues & Expenditures](#), we determined Provider Payments (SubObject NB) was material (more than 5%) to the program for SFY22. The Department of Children, Youth, and Families had expended total monthly child care provider costs related to CCDF during SFY22 of \$268,526,835.16 or 40.2% of total expenditures. The Department relies upon these expenditures when performing procedures to ensure they meet the Level of Effort requirement.

Since this issue not been corrected, we have concluded that the provider payments for child care services made during the audit period are not supported by child-level payment details and therefore are again not auditable. Because of this, the conditions found in the prior audit are still applicable to the SFY22 audit period and we have therefore determined we will not perform further review or tests over the compliance areas listed above.

We will issue a finding for a material weakness and noncompliance for Level of Effort at [2022-042 The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with matching, level of effort, and earmarking requirements for the Child Care and Development Fund Cluster.](#) NOTE: The linked finding combines the three compliance areas of matching, level of effort, and earmarking in one singular finding.

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## D.3.PR.G - 93.575/596-Child Care & Development Fund (CCDF) Cluster - DCYF

**Procedure Step:** G. Earmarking - Controls

**Prepared By:** SAG, 10/5/2022

**Reviewed By:** CCM, 11/9/2022

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 key internal controls the agency has established to prevent or detect noncompliance with earmarking requirements.

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

### **Source:**

Stefanie Niemela, Audit and Policy Liaison

### **Conclusion:**

Because we confirmed that during SFY22, the Department continued its practice of processing Journal Vouchers that moved child care payments to different funding sources without supporting documentation, it was determined that these CCDF expenditures in AFRS were again unauditible. Since these issues had not been corrected, the conditions found in the prior audit are still applicable to the SFY22 audit period and we therefore have determined that no further review or tests over the compliance area will be performed and instead a finding for a material weakness and noncompliance for Earmarking will be issued at 2022-042 The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with matching, level of effort, and earmarking requirements for the Child Care and Development Fund Cluster..

Testing Strategy.

**Earmarking - 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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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:

### **G. Earmarking - Controls**

Prior to our audit, we requested to receive the Department's asserted internal controls over the compliance area, which were provided on pages 21-27 at [Department Responses to Internal Control Request Letters](#). We also received a copy of the Department's Corrective Action Plan (CAP) for the area, which can be seen on pages 5-6 at [Corrective Action Plans for SFY21 CCDF Findings](#). However, upon the course of our audit, we determined further inquiries were needed, as described below in more detail.

Payments are made to child care providers through the Social Service Payment System (SSPS). These payments are uploaded into AFRS and allocated to each funding sources. In the SFY21 audit, we determined the CCDF provider payment expenditures reported in AFRS were not supported by child-level payment details made within their payment system, SSPS. We found that the Department was processing Journal

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Vouchers that moved child care payments to different funding sources without supporting documentation. This made it so that the connection between the original payment and the funding source was broken and therefore there was no longer a way to trace federal funds back to the child care payments they funded.

As a result, it was determined that these CCDF expenditures in AFRS were unauditable and multiple findings for material weakness and noncompliance were issued, covering the following compliance requirements:

- Activities Allowed/Unallowed and Cost Principles (Provider Payments)
- Matching
- Level of Effort
- Earmarking
- Period of Performance
- Reporting (Financial Report ACF-696)

Due to the material weaknesses, material noncompliance, and excessive known questioned costs being related to such significant compliance requirements, we concluded that the identified noncompliance was material and pervasive throughout the program. Because we were unable to obtain sufficient and appropriate audit evidence, a limitation of scope was present and therefore, we issued a ***disclaimer of opinion*** for the program.

Prior to starting work on the SFY22 audit, we inquired with the Department to determine if the provider payment expenditure data for the current audit period would be adequately supported by child-level payment data from SSPS. On September 28, 2022 we were informed via email from Stefanie Niemela, Audit and Policy Liaison that this issued has not been resolved (see: FW Confirmation of CCDF child care payment JV activity for fiscal year 2022).

During our expenditure analysis at SFY22 CCDF Final Revenues & Expenditures, we determined Provider Payments (SubObject NB) was material (more than 5%) to the program for SFY22. The Department of Children, Youth, and Families had expended total monthly child care provider costs related to CCDF during SFY22 of \$268,526,835.16 or 40.2% of total expenditures. The Department relies upon these expenditures when performing procedures to ensure they meet the Earmarking requirement.

Since this issue not been corrected, we have concluded that the provider payments for child care services made during the audit period are not supported by child-level payment details and therefore are again not auditable. Because of this, the conditions found in the prior audit are still applicable to the SFY22 audit period and we have therefore determined we will not perform further review or tests over the compliance areas listed above.

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We will issue a finding for a material weakness and noncompliance for Earmarking at 2022-042 The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with matching, level of effort, and earmarking requirements for the Child Care and Development Fund Cluster. NOTE: The linked finding combines the three compliance areas of matching, level of effort, and earmarking in one singular finding.

## D.3.PR.G - 93.575/596-Child Care & Development Fund (CCDF) Cluster - DCYF

**Procedure Step:** H. Period of Performance - Controls

**Prepared By:** SAG, 10/5/2022

**Reviewed By:** CCM, 11/9/2022

|                      |
|----------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with period of performance requirements.

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

**Source:**

Stefanie Niemela, Audit and Policy Liaison

**Conclusion:**

Because we confirmed that during SFY22, the Department continued its practice of processing Journal Vouchers that moved child care payments to different funding sources without supporting documentation, it was determined that these CCDF expenditures in AFRS were again unauditale. Since these issues had not been corrected, the conditions found in the prior audit are still applicable to the SFY22 audit period and we therefore have determined that no further review or tests over the compliance area will be performed and instead a finding for a material weakness and noncompliance for Period of Performance will be issued at 2022-043 The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with period of performance requirements for the Child Care and Development Fund.

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## 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.

"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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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.

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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).

#### [§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

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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.   |

Record of Work Done.:

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## **H. Period of Performance - Controls**

Prior to our audit, we requested to receive the Department's asserted internal controls over the compliance area, which were provided on pages 28-31 at [Department Responses to Internal Control Request Letters](#). We also received a copy of the Department's Corrective Action Plan (CAP) for the area, which can be seen on page 7 at [Corrective Action Plans for SFY21 CCDF Findings](#). However, upon the course of our audit, we determined further inquiries were needed, as described below in more detail.

Payments are made to child care providers through the Social Service Payment System (SSPS). These payments are uploaded into AFRS and allocated to each funding sources. In the SFY21 audit, we determined the CCDF provider payment expenditures reported in AFRS were not supported by child-level payment details made within their payment system, SSPS. We found that the Department was processing Journal Vouchers that moved child care payments to different funding sources without supporting documentation. This made it so that the connection between the original payment and the funding source was broken and therefore there was no longer a way to trace federal funds back to the child care payments they funded.

As a result, it was determined that these CCDF expenditures in AFRS were unauditable and multiple findings for material weakness and noncompliance were issued, covering the following compliance requirements:

- Activities Allowed/Unallowed and Cost Principles (Provider Payments)
- Matching
- Level of Effort
- Earmarking
- Period of Performance
- Reporting (Financial Report ACF-696)

Due to the material weaknesses, material noncompliance, and excessive known questioned costs being related to such significant compliance requirements, we concluded that the identified noncompliance was material and pervasive throughout the program. Because we were unable to obtain sufficient and appropriate audit evidence, a limitation of scope was present and therefore, we issued a ***disclaimer of opinion*** for the program.

Prior to starting work on the SFY22 audit, we inquired with the Department to determine if the provider payment expenditure data for the current audit period would be adequately supported by child-level payment data from SSPS. On September 28, 2022 we were informed via email from Stefanie Niemela, Audit and Policy Liaison that this issued has not been resolved (see: [FW\\_\\_Confirmation of CCDF child care payment JV activity for](#)



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fiscal year 2022).

During our expenditure analysis at SFY22 CCDF Final Revenues & Expenditures, we determined Provider Payments (SubObject NB) was material (more than 5%) to the program for SFY22. The Department of Children, Youth, and Families had expended total monthly child care provider costs related to CCDF during SFY22 of \$268,526,835.16 or 40.2% of total expenditures. The Department relies upon these expenditures when performing procedures to ensure they meet the Period of Performance requirement.

Since this issue not been corrected, we have concluded that the provider payments for child care services made during the audit period are not supported by child-level payment details and therefore are again not auditable. Because of this, the conditions found in the prior audit are still applicable to the SFY22 audit period and we have therefore determined we will not perform further review or tests over the compliance areas listed above.

We will issue a finding for a material weakness and noncompliance for Period of Performance at 2022-043 The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with period of performance requirements for the Child Care and Development Fund.

## D.3.PR.G - 93.575/596-Child Care & Development Fund (CCDF) Cluster - DCYF

***Procedure Step:*** L. Reporting - Controls

***Prepared By:*** SAG, 10/5/2022

***Reviewed By:*** CCM, 11/15/2022

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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

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## **Source:**

Stefanie Niemela, Audit and Policy Compliance Liaison  
Hannah Mendieta, Management Analyst  
Michelle Salinas, Budget Coordinator

## **Conclusion:**

- FFATA: Based on our understanding of internal controls over FFATA Reporting, we assessed preliminary control risk as low.
- ACF-696: Because we confirmed that during SFY22, the Department continued its practice of processing Journal Vouchers that moved child care payments to different funding sources without supporting documentation, it was determined that these CCDF expenditures in AFRS were again unauditable. Since these issues had not been corrected, the conditions found in the prior audit are still applicable to the SFY22 audit period and we therefore have determined that no further review or tests over the compliance area will be performed and instead a finding for a material weakness and noncompliance for ACF-696 Reporting will be issued at 2022-044 The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with financial reporting requirements for the Child Care and Development Fund Cluster.

## 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**

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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.*

**AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

**Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

*(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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## 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

**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)<br/>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**

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 Reporting.

Per Part 4 of the Compliance Supplement:

#### **1. Financial Reporting**

*ACF-696, Child Care and Development Fund Financial Report*

#### **2. Performance Reporting**

Not applicable.

#### **3. Special Reporting**

Not applicable.

#### **4. Special Reporting for Federal Funding Accountability and Transparency Act (FFATA)**

Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282), as amended by Section 6202 of Public Law 110-252, hereafter referred as the "Transparency Act" that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). In accordance with OMB Memorandum M-20-21, Implementation Guidance for Supplementing Funding Provided in Response to the Coronavirus Disease 2019 (COVID-19), existing Transparency Act subaward reporting requirements may be leveraged to meet the transparency requirements outlined in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).

Where the Reporting type of compliance requirement is marked as a "Y" in the Part 2 Matrix of Compliance Requirements, indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines Reporting to be direct and material and the recipient makes first tier awards.

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### *Federal Funding Accountability and Transparency Act*

Aspects of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to subaward reporting (1) under grants and cooperative agreements were implemented in OMB in 2 CFR part 170 and (2) under contracts, by the regulatory agencies responsible for the Federal Acquisition Regulation (FAR at 5 FR 39414 et seq., July 8, 2010). The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts. There are limited exceptions as specified in 2 CFR part 170 and the FAR. The guidance at 2 CFR part 170 currently applies only to federal financial assistance awards in the form of grants and cooperative agreements (e.g., it does not apply to loans made by a federal agency to a recipient), however the subaward reporting requirement applies to all types of first-tier subawards under a grant or cooperative agreement.

As provided in 2 CFR part 170 and FAR Subpart 4.14, respectively, federal agencies are required to include the award term specified in Appendix A to 2 CFR part 170 or the contract clause in FAR 52.204-10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards subject to the Transparency Act.

Consistent with the OMB guidance;

- The 2 CFR Part 170 "subaward" has the meaning given in 2 CFR 200.1 and means an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a Federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a Federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.
- FAR 52.204-10(a) defines "first-tier subcontract" to mean a subcontract awarded directly by a contractor to acquire supplies or services (including construction) for performance of a prime contract, but excludes the contractor's supplier agreements with vendors, such as long-term arrangements for materials or supplies that benefit multiple contracts or the costs of which would normally be applied to a contractor's general and administrative expenses or indirect cost.

While 2 CFR Part 170 and the FAR implement several distinct Transparency Act reporting requirements, including reporting of executive compensation, the Supplement addresses only the following requirements: (1) recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of \$30,000 or more in federal funds; and (2) contractor reporting of each first-tier subcontract award of \$30,000 or more in federal funds (this requirement was phased in based on the value of the new prime contract as specified below under "Effective Date of Reporting Requirements").

### *Reporting Site*

Grant and cooperative agreement recipients and contractors are required to register FSRS and report subaward data through FSRS. To do so, they will first be required to register in the System for Award Management (SAM) (if they have not done so previously for another purpose (e.g.,

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submission of applications through Grants.gov) and actively maintain that registration. Prime contractors have previously been required to register in SAM. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).

*Key Data elements* – Subawardee Name; Subawardee DUNS #; Amount of Subaward; Subaward obligation/Action Date; Date of Report Submission; Subaward Number; Subaward Project Description; Subawardee Names and Compensation of Highly Compensated Officers.

*Note: The revisions to 2 CFR 170.220 published on August 13, 2020 raised the subaward reporting threshold from \$25,000 to \$30,000. As a result, recipients of awards made prior to November 12, 2020 are subject to the \$25,000 reporting threshold. Recipients of awards made on or after November 12, 2020 are required to report on subawards over \$30,000.*

### **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.

All grant award numbers and amounts can be seen under the Overview at [Overview](#). We identified grant awards that were open during the audit period (FFY20, FFY21, FFY22, CARES, ARPA, and CRRSA). Total grant expenditures for SFY22 can be seen at [Expenditure / Revenue Updates and Final](#). All grant awards were issued after 11/7/19 and follow Uniform Guidance.

On June 3, 2022 we sent Stefanie Niemela the internal control letter request and received a response on July 7, 2022, see p.32 in [Department Responses to Internal Control Request Letters](#). We also received a copy of the Department's Corrective Action Plan (CAP) for the area, which can be seen on page 8 at [Corrective Action Plans for SFY21 CCDF Findings](#). There are written procedures for FFATA reporting at [FFATA Reporting Procedures for Federal Grants 6-21-2021](#). There are no written procedures for the ACF-696 report.

We met with the following DCYF staff on July 13, 2022 to gain an understanding of how required reports are completed

- Stefanie Niemela, Audit and Policy Compliance Liaison
- Hannah Mendieta, Management Analyst
- Michelle Salinas, Budget Coordinator

[ACF-696 - Child Care and Development Fund Financial Report](#)



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The ACF-696 is populated for each federal fiscal year open and has numerous line items and also includes columns for Mandatory, Matching, Discretionary and the state share of MOE funds. Some of the line items on the report include, administration, quality activities, state share of expenditures, regular, pre-kindergarten services, federal share of expenditures, award amount, unobligated balance, and estimates on the amount of federal funds requested for the next quarter.

**Identified Weakness:** As part of our audit over Activities Allowed - Provider Payments, we have determined CCDF expenditures in AFRS are unreliable because of the Department's inability to tie the funds to individual transactions in SSPS as well as a large amount of JV transactions that can not be traced to original transactions. For additional details, see the "evaluation of results" section within this ROWD as well as detailed at [A-B. Activities Allowed/Cost Principles: Provider Payments - Controls](#).

### FFATA Reporting

Hannah also completes the FFATA reporting for CCDF's one subrecipient, Child Care Aware. Each month, Hannah uses the Contracts and Procurement System (CAPS) to run a report by federal grant and CCDF allocation codes to view open federal grants (**Key Control #1- Control Activities**). The Department uses CAPS to manage all of their contracts (vendor and subrecipient). CAPS was created in-house a little over ten years ago to strengthen controls over subrecipient monitoring. DCYF staff are able to use this system to create the contract, develop monitoring plans, track monitoring visits and document and track single audit requirements. They can also utilize CAPS for year-end reporting and federal disclosures provided to OFM.

Once she has obtained the grant information, Hannah enters all eligible subawards for the reporting month, including the subaward amount and number, obligation date, project description, Subawardee principle place of performance, DUNS number, and State Contract Number into the FSRS reporting system. Prior to submitting the report, Michelle reviews information (this review was previously completed by Maria) (**Key Control #2- Control Activities/ Monitoring**). To aid in the review process, Hannah emails Michelle a folder that includes the federal grant information sorted by SFY, along with screenshots from CAPS. The report is due to be filed in FSRS before the last day of the month following the obligation date of the subaward.

We inquired about who has access to the FFATA FSRS system. For control purposes access to the system is limited. Currently, only Hannah has access to the system. She explained that if someone else needed to gain access to FSRS she would provide them with her login information, but this occurs only when necessary and on very rare occasion.

### **Summary of Key Controls:**

#### FFATA

**Key Control #1-**To ensure the timely completion of FFATA reporting, every month Hannah runs a CAPS report to identify open federal grants

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## (Control Activities).

**Key Control #2-** To ensure the FFATA is reported correctly in FSRS, a program manager or coordinator will review the information Hannah enters prior to its final submission. **(Control Activities/ Monitoring)**

## Evaluation of Results:

### FFATA

We did not identify any control deficiencies over FFATA reporting.

### ACF-696

Payments are made to child care providers through the Social Service Payment System (SSPS). These payments are uploaded into AFRS and allocated to each funding sources. In the SFY21 audit, we determined the CCDF provider payment expenditures reported in AFRS were not supported by child-level payment details made within their payment system, SSPS. We found that the Department was processing Journal Vouchers that moved child care payments to different funding sources without supporting documentation. This made it so that the connection between the original payment and the funding source was broken and therefore there was no longer a way to trace federal funds back to the child care payments they funded.

As a result, it was determined that these CCDF expenditures in AFRS were unauditable and multiple findings for material weakness and noncompliance were issued, covering the following compliance requirements:

- Activities Allowed/Unallowed and Cost Principles (Provider Payments)
- Matching
- Level of Effort
- Earmarking
- Period of Performance
- Reporting (Financial Report ACF-696)

Due to the material weaknesses, material noncompliance, and excessive known questioned costs being related to such significant compliance requirements, we concluded that the identified noncompliance was material and pervasive throughout the program. Because we were unable to obtain sufficient and appropriate audit evidence, a limitation of scope was present and therefore, we issued a ***disclaimer of opinion*** for the program.

Prior to starting work on the SFY22 audit, we inquired with the Department to determine if the provider payment expenditure data for the current audit period would be adequately supported by child-level payment data from SSPS. On September 28, 2022 we were informed via email from

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Stefanie Niemela, Audit and Policy Liaison that this issued has not been resolved (see: FW\_\_Confirmation of CCDF child care payment JV activity for fiscal year 2022).

During our expenditure analysis at SFY22 CCDF Final Revenues & Expenditures, we determined Provider Payments (SubObject NB) was material (more than 5%) to the program for SFY22. The Department of Children, Youth, and Families had expended total monthly child care provider costs related to CCDF during SFY22 of \$268,526,835.16 or 40.2% of total expenditures. The Department relies upon these expenditures when performing procedures to ensure they meet the Reporting requirement.

Since this issue not been corrected, we have concluded that the provider payments for child care services made during the audit period are not supported by child-level payment details and therefore are again not auditable. Because of this, the conditions found in the prior audit are still applicable to the SFY22 audit period and we have therefore determined we will not perform further review or tests over the compliance areas listed above.

We will issue a finding for a material weakness and noncompliance for ACF-696 Reporting at 2022-044 The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with financial reporting requirements for the Child Care and Development Fund Cluster.

**NOTE: Because no further review will be performed over the ACF-696, the control tests at L. FFATA Reporting - Tests of Controls and compliance tests at L. FFATA Reporting - Compliance will cover the FFATA Reporting portion of the compliance area only.**

### **Preliminary Control Risk Assessment** **Step 4**

#### FFATA

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.

### **D.3.PR.G - 93.575/596-Child Care & Development Fund (CCDF) Cluster - DCYF**

***Procedure Step:*** M. Subrecipient Monitoring - Controls

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**Prepared By:** KWF, 9/6/2022

**Reviewed By:** CCM, 9/8/2022

## 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 key internal controls the agency has established to prevent or detect noncompliance with subrecipient monitoring requirements.

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

### **Source:**

Sarah Hill - Project Coordinator,

Amy Russell - Early Learning Deputy Director

Stefanie Niemela, Audit and Policy Compliance Liaison

### **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.

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**(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 200.332(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).

**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

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 200.332(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.

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- 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.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).

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 200.331, .332, 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):

| <i>Subaward Contract Checklist</i>  |   |
|---|---|
| Element   | Element   |
| (i) Subrecipient name (which must match the name associated with its unique entity identifier);           | (viii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;   |
| (ii) Subrecipient's unique entity identifier;   | (ix) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;  |
| (iii) Federal Award Identification Number (FAIN);   | (x) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);   |
| (iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency; | (xi) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;  |
| (v) Subaward Period of Performance Start and End Date;  | (xii) Assistance Listings number and Title; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement; |
| (vi) Subaward Budget Period Start and End Date;   | (xiii) Identification of whether the award is R&D; and  |



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|  |   |
|--|---|
| (vii) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient; | (xiv) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs). |
|--|---|

### 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:

### **Subrecipient Monitoring - Controls**

#### **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.

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 Subrecipient Monitoring. The compliance supplement states:

Lead Agencies that use the other governmental or non-governmental subrecipients to administer the program must have written agreements in place outlining roles and responsibilities for meeting CCDF requirements. The contents of the written agreement may vary based on the role the subrecipient is asked to assume or the type of product undertaken, but must include, at a minimum, tasks to be performed, a schedule for completing tasks, a budget which itemizes categorical expenditures, and indicators or measures to assess performance. Lead Agencies shall oversee the expenditure of funds by sub-grantees, monitor programs and services, and ensure that sub-grantees that determine individual eligibility operate according to rules established by the program (45 CFR section 98.11).

#### **Understanding of Internal Controls**

##### **Step 3**

We received and reviewed the Department's internal control letter response for subrecipient monitoring, see p.37 at Department Responses to Internal Control Request Letters.

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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 met with Stefanie Niemela, Audit and Policy Liaison, and Chris Morrison Fiscal Integrity Unit Manager, on July 18, 2022, to discuss the processes in place over subrecipient monitoring. Also present in the meeting were Amy Russell, Operations Administrator; Rachel Reyes, Fiscal Team Review Manager; and Catherine DeBock, Fiscal Reviewer. Cassandra Metzler, Laura Shackley, Stephanie Garza, Collin Leslie, and Kelvin Fitzgerald joined from SAO. Stefanie reaffirmed that the only subrecipient that DCYF awarded CCDF funds to during SFY21 was Washington State Child Care Resources-Child Care Aware (CCA). She provided us a copy of the two amendments to contract 20-1002 (original contract was executed July 1, 2021 for 1 year term) that occurred during SFY22. CCA is an organization that works with child care providers, community organizations and advocacy groups to improve the quality of child care in Washington. CCA provides coaching for providers to help them ensure they are meeting quality improvement standards and are applying for any applicable awards that are available. They also provide statewide training for any new requirements that are implemented or any concerns that DCYF might have.

Amy has been monitoring the CCA contracts since 2010. She explained that the Department uses the Contracts and Procurement System (CAPS) to manage all of their contracts (vendor and subrecipient). Stefanie mentioned that CAPS was created in-house a little over ten years ago to address a lack of controls over subrecipient monitoring. DCYF staff are able to use this system to create the contract, develop monitoring plans, track monitoring visits and document and track single audit requirements. They can also utilize CAPS for year-end reporting and federal disclosures provided to OFM. She explained that CAPS is programmed to include all federal requirements and track all aspects of the contracting process. Although this is also a procurement system, we focused our understanding on the contracting portion.

**(a) Subrecipient Contracts:** *The entity includes all necessary information in the subrecipient contract per 2 CFR section 200.331(a)(1).*

When the Department receives a new federal award, this information, including award number, total amount, awarding entity, federal award identification number, award date, period of performance, and award description are entered into CAPS. This information will then populate a table behind the scenes that can be used to complete future documents. This is done so staff do not have to look-up the federal information up for every new or amended contract. All contracts are entered into the Contracts and Procurement System. When a new contract or amendment is awarded, program staff will complete the subrecipient specific information. This information includes the subrecipient name, specific identification number (DUNS), contract number, amount of award, award type and if the funding source is federal or state. CAPS is set up to include all 2 CFR section 200.331 requirements, so if the contract indicates that federal dollars were awarded, the system will pull the federal award information from the federal award table discussed above. Staff are required to fill in all subrecipient information within CAPS to address these requirements. The system guides them through each of the required fields. For example, the staff member would be required to mark "Yes" or "No" to "Is this an R&D award". If a field is missing, the system will alert the staff member so that they are sure to fill in all required fields. Without all federally required fields completed, the system will not generate a completed contract package or amendment package.

When the contract is routed to budget for review and coding, the Budget Analyst chooses from a drop down menu to indicate the federal funding source and the CFDA number. The contract is then routed through CAPS to the Grants Manager and program staff to determine if the contractor is a subrecipient and if so, will check the box to indicate that CAPS must also include all information pertinent to subrecipients, such as uniform guidance and suspension and

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debarment requirements. Once all information is input, the system will prompt the applicable staff member to complete a risk assessment, as discussed in step (b) below. Once the contract is completed within the system, CAPS will gather all important information and enter it at the end of the contract or amendment package. This ensures that the federal requirements are all in one place and easy for the subrecipient to locate. The Department ensures that all contracts/amendments have the federally required information by programming the CAPS system to generate the language with contract specific information for all executed and amended contracts. The contract is then signed by the contractor and DCYF staff. Prior to signing, the Contract Administrator reviews all contracts to ensure the pertinent federal language and terms and conditions are included and verifies that a risk assessment was completed. (**Key Control #1 - Control Activities/ Information and Communications**). D.3.38-40

*(b) Risk Assessments: The auditee performs a risk assessment of each subrecipient to determine the appropriate level of monitoring.*

CAPS is set up to include a risk assessment for all active contracts. When entering information into the CAPS system for a specific contractor, Amy completes the risk assessment and it is reviewed by Hannah Mendieta, Management Analyst. The risk assessment is a list of 18 risk factors that must be considered and rated to determine overall risk. Each risk factor has a range of points that can be assessed depending on the subrecipient being assessed. Amy mentioned that risk assessments are conducted during setup of the original contract and not for any amendments to the contract, though, when amendments are created, CAPS ensures the prior risk assessment was completed. Some of the risk factors also include information on how the area affects the monitoring plan. This information is used to assist the staff member in determining what needs to be added to the contract and what steps should be included in the monitoring plan. For example, if there are multiple components or complex deliverables/billings, the staff member would assess points from 0-3 and consider including an early monitoring requirements to ensure technical assistance issues are addressed. Once the risk assessment is completed, the points are totalled and an overall risk is assessed. This process is performed automatically by the CAPS system. This risk assessment can then be used to determine the total amount of monitoring that is required. The following is a list of points in relation to risk level:

- Low Risk - 0-15 pts.
- Medium Risk - 16-20 pts.
- High Risk - 21-60 pts.

A Contracts Administrator will then conduct a second review to provide additional assurance that risk levels are appropriately assigned and that the correct level of monitoring is determined which will provide reasonable assurance that each subrecipient is compliant with contract terms and federal guidelines. If the risk level is assessed as Medium or High, the Contracts Administrator will then ensure that the contract has the appropriate language to ensure that the adequate amount of monitoring visits occur and appropriate support is received (**Key Control #1 - Control Activities**). For example, if the subrecipient is considered High risk, they may increase the amount of monitoring visits performed during the year and could require that all supporting documentation would have to be submitted for payment requests.

*(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 they can prevent or detect non-compliance or unallowable costs.*

### Ongoing Monitoring

During our understanding meeting, Amy verified that CCA is required to request reimbursements monthly via an A-19 invoice voucher. Invoices are due on

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the last business day of each month for services provided the month prior. Documentation is received electronically and stored on a shared contract drive. Amy explained that each A-19 is accompanied by whatever documentation supports the specific request. For example, if the A-19 has a requested amount under travel, CCA would be required to submit the travel reimbursement requests and any additional support needed. She also explained that CCA will submit a monthly report that breaks out their expenditures by deliverable and also includes narrative on the deliverables. Depending on the reimbursement request, this monthly report crosswalks to certain amounts and services billed on the A-19 request and may be used to approve the requested amount.

CCA services are broken into six regions throughout Washington State. CCA will submit a Monthly Activity Report (commonly referred to as the Activity Report) that details call center activity by each region, including call volume, child care referrals, children served, language, etc. and are a hub of the referral services. The Monthly Activity Report also provides detail on all other ongoing services offered as a result of the contract such as meetings and events; pre-probationary consultation; Early Achievers coaching activities, and contact hours; regional Family, Friend, and Neighbor services; professional development and training delivery activities; and progress towards overall goals of the contract. The report is reviewed by the program specialist, Sarah Hill and administrator, Amy Russell to determine if CCA is operating in line with the agreed upon contract. We asked what is done if support does not accurately reflect the request or there are items that are not allowed for reimbursement and Amy stated that this is very uncommon, because they have built a positive business relationship which has allowed for excellent communication regarding deliverables and contract expectations. Though, she said if errors were identified, she would call the CEO and ask her to either resend a modified request or provide the necessary documentation to correct the issue.

The CCA CEO or Director of Finance is responsible for completing and submitting the monthly reimbursement request. When submitting the request, the CEO or Director of Finance will sign the A-19, certifying that to the best of their knowledge and belief, the invoice is true, complete and accurate and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the federal award. Sarah reviews the A-19 invoice to confirm that the invoice and supporting materials are filled out properly and that contract deliverables are met. Sarah signs invoice as the first level program review and sends to Amy who then reviews to ensure contract deliverables are being met and that the activities are performed in accordance with the contract (**Key Control #2 - Control Activities**). Because Amy oversees the CCA contract, she is aware of what is in the contract and what is allowable per the executed contract. Once Amy has reviewed and final approved the A-19 for payment, it is then submitted to fiscal for payment. Payments are also logged and recorded in CAPS so reimbursements can be easily tracked and current spending levels assessed.

In addition to the ongoing payment monitoring conducted each month when invoices are received, DCYF staff hold a monthly update meeting with CCA management. Amy uses this time to determine if CCA is operating in line with the contract and if they are accurately reporting information in the monthly reports. During this time, they may also discuss the Quarterly Budgets to Actuals Report that is prepared by CCA and provided to Amy, which compares how their actual expenditures compare to their budgeted amounts for each deliverable. Both parties will discuss and share successes, concerns, changes, budget, timelines, objectives, and any other pertinent information.

### Annual Monitoring

Annual monitoring is conducted via on site (virtual during SFY22 due to pandemic) performance monitoring conducted by the Operations Unit, and also via fiscal monitoring conducted by the Fiscal Integrity Unit.

### *Performance Monitoring*

Amy manages the annual performance monitoring and mentioned that her unit performs a monitoring visit of the six regional CCA offices (subcontractor)

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each year to determine if they are meeting objectives and contract general terms as well as ensuring services communicated to the Department on a monthly level are accurately reflected. Monitoring KC? Amy attempts to personally attend and observe as many of the visits as possible, if not all, which take approximately four to five hours each. Lastly, Amy explained that they attend some of the training classes that they contract with CCA to perform. They do this to ensure that CCA is conducting these training classes in line with the contract and to the level DCYF feels is appropriate. She mentioned that these have now been transitioned to electronic visits in response to the COVID-19 pandemic.

### *Fiscal Monitoring*

The Fiscal Review team conducts a monitoring visit annually to ensure compliance with federal requirements (**Key Control #3 - Monitoring**). Chris manages the annual fiscal monitoring of CCA. He mentioned that fiscal monitoring of subrecipients began in 2017 and they are on a cycle to review subrecipients each year. Chris provided us a copy of the results of the contract fiscal review conducted during the audit period as well as the letter provided to CCA, D.3.49 which relayed the results to the subrecipient. The fiscal review entailed monitoring compliance with certain elements of their contract such as procurement, payroll, equipment, indirects, and accounts payable. Chris explained that his unit requests policies and procedures for each area and will select high-risk transactions for their review while on site. Once the review is completed, the results are provided to the CEO and corrective action response is due back to Chris within 30 days, which identifies actions to address the identified exceptions and the anticipated implementation dates to avoid future fiscal review noncompliance, audit findings, and/or disallowances imposed by DCYF.

If something is noted during any of the monitoring visits or monthly report reviews, the staff member monitoring the contract can enter any pertinent details, issues and/or corrective actions into the audit tab in CAPS. If something of significance is identified, this information will be present for the next risk assessment and to determine if a new contract should be executed. At any point, staff can run an audit history report through CAPS to determine the status of any audits, including the fiscal review and external single audits, to see if any unresolved issues are outstanding. The tracking of subrecipient single audits is documented in item (d), below.

### **(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.*

The CAPS system is programmed to track the single audit requirement for all subrecipients. The system documents federal funding history and dollars awarded to each subrecipient by DCYF to help the Department estimate whether or not they anticipate the subrecipient will be required to have an audit completed. When initiating a contract, staff are required to enter the entity type. This information is used by CAPS to determine when a single audit would be required. For example, CCA's uses a state fiscal year (July 1 through June 30). The system will then enter this date on the top of the audit screen. The audit is due April 1 of the following year since the single audit due date is determined and generated at contract execution, each subrecipient's exact due date is included in the contract language under the uniform guidance federal requirements section. If a single audit report is provided to the Department prior to their due date, program or fiscal review team staff update CAPS with the results, including number of findings issued, and the number that are resolved. The staff member can also make notes that can be used to assess future risk.

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Each month a Fiscal Reviewer, will run a system report in CAPS through the Audit History function, to identify all subrecipients that are approaching their due date (usually one month prior) and have an incomplete status, indicating audit reports have not yet been provided to the Department (**Key Control #4 - Control Activities/Information and Communication**). The Fiscal Review Team can then use this list to send subrecipients a templated letter or email to remind the subrecipient that if they received funds over \$750,000, they are required to receive a single audit and upload it to the Federal Audit Clearinghouse and that they are due six months after issuance. If an audit is not uploaded into the system by the due date, the Fiscal Reviewer will identify those that are late when runs the monthly audit history report and will generate another letter informing the subrecipient that they have not completed their single audit requirement. If there are corrective actions required, the Fiscal Review Team and program staff are notified so they can conduct follow-up. Once follow-up is completed, CAPS is updated and the status will then show as complete.

### Summary of Key Controls:

- Key Control 1 - Control Activities: The Contract Administrator reviews all contracts to ensure the pertinent federal language and terms and conditions are included as well as a risk assessment completed prior to signing the contract.
- Key Control 2 - The Program Manager reviews the monthly A-19 and supporting monthly performance and progress report (Core Services Contract Report) to ensure contract deliverables are being met and that the activities are performed in accordance with the contract. KC1 & 2 Combine?
- Key Control 3 – Monitoring: The Fiscal Review team conducts a monitoring visit annually to ensure compliance with federal requirements.
- Key Control 4 - Control Activities/ Information and Communication: The Contracts and Procurement System is programmed to identify when a subrecipient is required to receive a single audit, tracks that one was actually submitted, and all follow-up was completed timely. A fiscal reviewer runs a monthly CAPS report to identify those subrecipients who have not yet submitted their report and follow-up communication is provided to the subrecipient in order to obtain a copy and perform follow-up timely.

### Evaluation of Results:

We did not identify any control deficiencies over subrecipient monitoring requirements related to the Child Care Development Fund.

### 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.

### D.3.PR.G - 93.575/596-Child Care & Development Fund (CCDF) Cluster - DCYF

*Procedure Step:* N. ST1: Health and Safety - Controls

*Prepared By:* LS, 12/29/2022

*Reviewed By:* SAG, 12/29/2022

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Purpose/Conclusion.:

**Purpose:**

To gain an understanding of the internal controls the agency has established that provide reasonable assurance of compliance with Special Tests and Provision #1 - Health and Safety.

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to Special Tests and Provision #1 - Health and Safety.

To provide a preliminary control risk assessment based upon our understanding of the internal controls for Special Tests and Provision #1 - Health and Safety.

**Source:**

Stefanie Niemela, Audit and Policy Liaison (DCYF)

Judy Jaramillo, License Exempt Services Administrator (DCYF) - FFN

Judy Bunkelman, Licensing Child Care Administrator (DCYF)

Karen Christensen, Area Administrator (DCYF)

Aliza Yair, Program Specialist (DCYF)

Kerrianne Vincent, Background Check Program Manager (DCYF)

**Conclusion:**

We gained an understanding of the internal controls the agency has established that provide reasonable assurance of compliance with Special Tests and Provision 1 - Health and Safety.

We identified key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to Health and Safety.

Based on our understanding of internal controls over Special Tests and Provision #1 - Health and Safety, 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



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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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**

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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:

### Special Test and Provision: Health and Safety - Controls

#### Inherent Risk of Noncompliance

##### Step 1

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 risks when designing our tests of compliance.

- The compliance requirement involves a relatively large degree of subjectivity by the agency in interpreting and carrying out the objectives of the program.
- Multiple locations are responsible for administering the requirement.
- The agency has experienced recent changes over laws and processes that address the compliance requirement.

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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. We identified the following per the Compliance Supplement:

**Compliance Requirements** As part of their CCDF plans, lead agencies must certify that procedures are in effect (e.g., monitoring and enforcement) to ensure that providers serving children who receive subsidies comply with all applicable health and safety requirements. This includes verifying and documenting that child care providers (unless they meet an exception, e.g., family members who are caregivers or individuals who object to immunization on certain grounds) serving children who receive subsidies meet requirements pertaining to health and safety. These requirements must address eleven specific areas--including first aid and CPR, safe sleeping practices, and administration of medication--and child care workers must be trained in these areas (42 USC 9858c(c)(2)(I); 45 CFR section 98.41).

**Audit Objectives** Determine whether lead agencies ensure that child care providers serving children who receive subsidies meet applicable health and safety requirements.

#### **Suggested Audit Procedures**

- a. Request that the Lead Agency identify health and safety requirements for child care providers serving children who receive subsidies.
- b. Review the Lead Agency's procedures, including any monitoring and enforcement procedures, for ensuring child care provider compliance with relevant health and safety requirements for those providers serving children who receive subsidies. This review should include, at a minimum, relevant information in the Lead Agency's CCDF Plan.
- c. Review a sample of Lead Agency files for child care providers serving children who receive subsidies to verify that the Lead Agency followed its procedures for ensuring child care provider compliance with relevant state health and safety requirements, including training requirements.

## **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 our understanding meeting, we requested to receive the Department's asserted internal controls over the compliance area, which were provided on pages 45-46 at [Department Responses to Internal Control Request Letters](#). We also received a copy of the Department's Corrective Action Plan (CAP) for the area, which can be seen on page 9 at [Corrective Action Plans for SFY21 CCDF Findings](#).

There are three types of child care providers that receive subsidy payments for CCDF: Licensed Centers, Licensed Family Homes, and License Exempt Family, Friends and Neighbors (FFN). There are non-relative FFN providers and relative FFN providers. ***Licensed Family, Licensed Centers, and non-relative FFNs***

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*are required to follow the health and safety requirements outlined by CCDF.* Remove?

### COVID-19 Waiver

On June 8, 2020, DCYF received an approved waiver from the Administration for Children and Families. The waiver includes the following exceptions as it relates to health and safety requirements effective February 29, 2020 through the duration of the state-declared emergency period, not to exceed one year initially.

- Non-relative FFN annual technical visits (since ongoing health and safety training is covered during these visits, the waiver extended to this requirement)
- Fingerprint background check for licensed providers, non-relative FFNs, and relative FFNs

For the same time frame noted above, DCYF also received an approved waiver on September 28, 2020 for the licensed provider annual unannounced visits.

As the expiration of the one-year waivers were nearing an end, the Department applied for an extension of the current waivers. The Department has detailed how they will ensure the health and safety of children under the supervision of child care providers to the federal grantor in their state plan. To account for emergency temporary changes in response to the COVID-19 pandemic, an amended state plan (amendment 4) was submitted to reflect changes outlined in the waivers. The state plan amendment changes were approved by Region X and extended (and amended some of) the waivers applicable to health and safety through September 30, 2021. (Note: though the approval letter inadvertently omitted the approval to waive requirements for the FFN annual monitoring, Matt Judge, Child Care Administrator, followed-up with Region X and provided documentation of approval provided via email to waive the FFN annual technical visits). Therefore, a waiver for the above mentioned areas, including licensed provider annual monitoring visits, were in effect until September 31, 2021, which covers three months of the audit period.

### WACs, Policies, and Procedures

The licensed entities for early learning programs adhere to chapter 110-300 WAC, updated January 7, 2022.

There are different WACs for the exempt FFNs. WACs most applicable to health and safety compliance are under Part III of Chapter 100-16 WAC:

- 110-16-0025 Health and Safety Training
- 110-16-0030 Health and Safety Activities
- 110-16-0035 Health and Safety Practices

Additionally, the Department follows a number of policies and procedures to ensure they are in compliance with the health and safety requirements for licensed providers. The policies can be seen at: <https://www.dcyf.wa.gov/practice/policy-laws-rules/child-care-licensing>. We noted the most significant to health and safety:

- 10.1.8 - Conducting Monitoring Visits (most recent update was June 1, 2021)
- 10.1.21 - Managing Child Care Inspection Reports (most recent update was December 21, 2021)
- 10.8.8 Managing Child Care Staff Training with LMS

Note: There are a few facilities that are legally exempt from licensing requirements, however, they may request to be certified as meeting state licensing requirements. Tribes, military, and OSPI programs are considered exempt providers. However, there are a few tribal sites that have requested to be certified as

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meeting state requirements. For these sites, a monitoring visit would be performed by the supervisor or regional administrator.

### **Licensed Centers and Homes**

On July 25, 2022, we had a meeting via Zoom with Stefanie Niemela - Audit and Policy Liaison (DCYF), Judy Bunkelman - Licensing Child Care Administrator (DCYF), Karen Christensen - Area Administrator (DCYF), Aliza Yair - Program Specialist (DCYF), Kerrienne Vincent - Background Check Program Manager (DCYF). Stephanie Garza, Laura Shackley, Cassandra Metzler, and Kelvin Fitzgerald joined from SAO. The goal was to gain an understanding of the controls in place over the Health and Safety Requirements special test for licensed centers and homes.

### **Monitoring Visits**

To ensure compliance with this requirement, the Department performs annual monitoring visits of all providers at licensed centers and in-home daycares. Judy Bunkelman stated there are approximately 83.5 licensors tasked with monitoring these providers from six regions.

The Department implemented **WA Compass** in June 2017. This system houses all information for licensed and exempt FFN providers in one central place. It tracks when monitoring visits occur, when they are due, complaints, etc. In WA Compass, each licensor has their own dashboard with the cases they are assigned and the supervisor can view it along with the regional Administrator.

The Department also uses the **Managed Education and Registry Information Tool (MERIT)**. This system holds training and background check results for early learning providers. Individual employees and providers create their own unique profiles to update their training and background checks with DCYF. Merit communicates with WA Compass so a licensor can easily see provider information.

The Department administers non-expiring licenses which allow providers to maintain their license as long as they are in good standing. To maintain this status, annually, all providers must pay a licensing fee, sign a declaration stating their intent to keep providing care and maintain compliance with state regulations, and ensure background checks are current. If these items are not completed, the license will be revoked. All the information is documented in the Department's WA Compass system. To receive an initial license, the center or in-home facility will receive a full monitoring visit. Within roughly 4 months, the licensor will go back on-site and complete another full checklist (to assess initial to full license) and if they are found to be in compliance they will receive their full license. Once they receive their full license, they will begin receiving their annual monitoring visit.

Because of the COVID-19 pandemic, all visits were conducted virtually in FY21, typically via Zoom. On-site health and safety visits were only performed if the children were considered high risk. Due to the difficulties associated with virtual visits, these monitoring visits were not pushed or forced, but they were heavily encouraged. If a provider was unable to attend a visit, there was no retribution. Judy asserted that 2,304 virtual visits were completed during FY22. Those that did not do a virtual visit in FY21 were prioritized for visitations in FY22.

Per DCYF Policy 10.1.8 , the Department is required to perform unannounced monitoring visits of licensed providers at least once during each state fiscal year. These visits are considered late if it occurs after the last day of the state fiscal year. Licensors are assigned cases based on their region and office location. A licensor typically has 60-65 cases per year with some variation throughout the state. It is the responsibility of each supervisor to track the case loads. However, due to the COVID-19 pandemic, no unannounced visits were being performed in SFY22. All visits were at the convenience of the provider. The state plan was updated and approved in SFY21 to allow for the annual monitoring visits to occur virtually and to be announced (see pages 206-214 at [CCDF Plan 2022-2024](#)).

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## Health and Safety Checklist

The DCYF licensor performs their annual monitoring visit of in-home and child care centers using the checklist generated by WA Compass. Starting in SFY20, the Department implemented a new health and safety checklist template that covers requirements outlined by CCDF, department policies, and WACs. There are four versions of the health and safety checklist based on risk that will rotate over a four-year period. Items classified as immediate risk are on the checklist every year and low risk are spread over the four versions. The Department created an Excel spreadsheet with all WAC requirements, each given a risk category, weighted importance, and schedule of what years the WAC will be included in checklist. Each year, every provider will receive one of the checklists and after the four-year cycle, all WAC requirements will be covered. Within each of these four versions, ALL CCDF health and safety requirements are addressed, including training requirements. Therefore, the health and safety requirements are monitored annually regardless of which checklist is used (**Key Control #1- Information and Communication**). The licensor does not have the ability to choose what checklist is used. The licensor is only able to mark out sections that are not applicable to a provider, such as pool safety requirements. On the checklist, each area has an associated WAC along with a risk level that determines the time frame of follow-up. There are three risk level classifications and a fourth was added on February 2, 2020 per management directive [Link?](#):

- **Immediate concern** - Rules of immediate concern are requirements developed by the department to protect the health and safety of children against substantial risk of injury, illness, or death. The provider *must correct any violation of rules of immediate concern as soon as possible, but in no case later than the next business day.*
- **Serious concerns** - Rules of serious concern are requirements developed by the department to protect the health and safety of children against imminent risk. *The provider must agree to correct the violation as soon as possible, but no later than five business days from the date of non-compliance.* The serious concerns risk category was added as the fourth concern level and became effective February 2, 2021.
- **Short term concern** - Rules of short term concern are requirements developed by the department to protect the health and safety of children against the risk of injury or illness that is likely to occur if a provider fails to comply over a short period of time. The provider must correct any violation of rules of short term concern as soon as possible. The provider *must demonstrate compliance to the department within 10 business days from the date of non-compliance.*
- **Long term concern** - Rules of long term concern are requirements developed by the department to protect the health and safety of children against the potential risk of injury or illness that is likely to occur if a provider fails to comply over an extended period of time. The provider must agree to correct any violation of rules of long term concern as soon as possible. The provider *must demonstrate compliance to the department within 20 business days from the date of non-compliance.*

During the monitoring visit, the licensor completes the checklist on a tablet that will be documented within the WA Compass. The licensor will note within the checklist a "C" for compliance, "N" for any instances of noncompliance, "NA" if the area is not applicable, or "NO" for not observed. Once the licensor has completed the review, he/she will meet with the provider. If there are noncompliance issues, the inspection report documents it, the applicable WACs, licensor observation, the provider plan of correction/action and the date it needs to be completed. The inspection report is signed by the provider and is kept electronically in WA Compass. When noncompliance is identified, the monitoring visit case in WA Compass will remain "in progress" until the noncompliance issues are corrected and the licensor switches the status to "complete." Then, when ready, the licensor will change the status to "finalize" and the report will be pushed to the public facing Child Care Check website.

Due to the COVID-19 pandemic, some changes had to be made to this process for FY22. In order to conduct announced virtual visits, the licensors would contact the provider once they were determined due for a visit, to schedule the visit. Licensors would request that providers have all checklist items ready and available

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for viewing prior to the visit to help make for a more efficient review. At the time of the visit, the licensor runs through the checklist with the provider and asks them to virtually demonstrate compliance with each of the checklist items. While the same checklist from prior years was still being used, doing the visits virtually did present some challenges. If there were required items on the checklist that the licensor could not see virtually, a response of "check on site" would be generated which prompted a second, smaller checklist in which the the licensor would do a brief on site visit. These visits lasted only three or four minutes, which allowed the licensor to quickly check the areas they were unable to confirm virtually. Additionally, because monitoring visits were not required, some providers will have to complete the year one checklist while others will be on the year two checklist.

### Re-checks of Noncompliance

The Licensor is required to check that the noncompliance issues identified on the inspection report are fixed. When noncompliance issues are fixed, the provider will go into the online provider portal to fill out the date completed on the inspection report. Prior to the public health emergency, the licensor would verify that it is completed by either an unannounced re-check visit or confirming documentation (such as a picture) was received from provider showing noncompliance issue was fixed. During SFY22, all noncompliance verification rechecks would be completed virtually, unless it was related to safe sleep practices or another serious health and safety violation. The licensor adds a "correction verification date" and then is able to close the monitoring report. All documentation of the follow-up work with the provider is documented with provider notes with category type "DCYF Health & Safety Recheck" within WA Compass.

DCYF practices first time forgiveness. It is legislature guidance that if a provider does not fix a low risk issue, DCYF provides technical assistance and licensor is not required to follow up. Health and safety violations are excluded from this practice.

DCYF has a WA Compass User Manual as guidance for licensors on how to document visits and re-checks. WA Compass has a re-check report that tracks when a inspection report is created with violations and shows the risk level associated with the violation. Licensors and supervisors can view this report to track when re-checks are due to ensure noncompliance violations are fixed (**Key Control #2 -Monitoring**). If a health and safety recheck is required, the Licensor must verify inspection report noncompliance issues are fixed within the following timelines per directive, policy, and procedure:

- **Immediate concerns** - Licensors must verify compliance on site as soon as possible but no later than 10 business days from date on non-compliance.
- **Serious concerns** - Licensors must verify compliance within 10 business days of the violation.
- **Short term concerns** - Licensors must verify compliance within 15 business days from date of non-compliance.
- **Long term** - These concerns do not require a licensor recheck.

Supervisors oversee monitoring visit progress to ensure all visits and re-checks are being completed on time. In WA Compass, supervisors have access to reports on the status of monitoring visits for the year, complaints with due dates, inspection reports missing completed dates, and more. These reports are used in meetings with licensors to track monitoring visit progress. Per Policy 10.1.8, supervisors are required to meet at least quarterly with each Licensor to discuss progress on annual monitoring visits and approve licensor's plans to complete visits by June 30th (**Monitoring**).

### Family, Friends, and Neighbors (FFN) Exempt Providers

On July 25, 2022, we had a meeting via Zoom with Judy Jaramillo - License Exempt FFN Administrator and Stefanie Niemela, Audit and Policy Liaison. Stephanie Garza, Laura Shackley, Cassandra Metzler, and Kelvin Fitzgerald joined from SAO. The goal was to gain an understanding of the controls in place over the Health and Safety Requirements special test for FFN providers.

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FFN providers are exempt from licensing by DCYF, but are subject to the health and safety requirements outlined by CCDF. The only exception to this requirement is providers who are caring only for their own relatives. Therefore, FFN non-relative providers are required to follow the health and safety requirements. DCYF FFN unit is comprised of a team lead and 10 specialists with about half onboarding new providers and the other half work with current FFN providers monitoring health and safety requirements. Five staff are assigned specifically to work the non-relative providers.

On August 12, 2021, WAC 110-16 was adopted to align with the health and safety requirements for exempt non-relative FFN providers.

WAC 110-16-0015, "Provider Responsibilities," states:

(5) Providers not related to the child, as described in subsection (4)(b) or (c) of this section must:

- (a) Complete the department-approved training required in WAC 110-16-0025; and
- (b) Have an annual technical assistance visit in the home where FFN care is provided.

WAC 110-16-0030, "Health and Safety Activities," states:

(1) Providers not related to the child as described in WAC 110-16-0015 (4)(b) or (c), must participate in an annual, scheduled visit conducted by department staff in the home where care is provided.

(3) A provider will be considered out of compliance with the requirements of this chapter if, after three attempts, the department is not able to complete an annual, scheduled visit in the home where care is provided.

(4) At the annual, scheduled visit, the provider must show, unless previously provided to the department:

- (a) Proof of identity;
- (b) Proof of current certification for first aid and cardiopulmonary resuscitation (CPR) in the form of a card, certificate, or instructor letter;
- (c) Proof of vaccination against or acquired immunity for vaccine-preventable diseases for all children in care, if the provider's children are on-site at any time with the eligible children. Proof can include:

(i) A current and complete department of health (DOH) certificate of immunization status (CIS) or certificate of exemption (COE) or other DOH approved form; or

(ii) A current immunization record from the Washington state immunization information system (WA IIS).

(d) Written permission from the parent to:

- (i) Allow children to use a swimming pool;
- (ii) Administer medication for treatment of illnesses and allergies of the children in care;
- (iii) Provide for and accommodate developmental and special needs; and
- (iv) Provide transportation for care, activities, and school when applicable.

(e) The written emergency preparedness and response plan required in WAC 110-16-0035 (8)(c).

At the beginning of our meeting, Judy Jarmillo explained that as a part of the Department's CAP, in July 2021 the Department consulted with the grantor on accepting email and verbal confirmation in lieu of signature on the health and safety agreement for FFN's. The CCDF State Plan was subsequently updated to reflect this change and the signature requirement was removed. We determined that because this requirement was only in place for one month out of our audit period we would scope it out of any testing.



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## Training

Effective August 12, 2021, per WAC 110-16-0025, Health and Safety Training, any non-relative FFN provider must complete the training required under subsections (1) and (2) of this section of the WAC. This training must be completed within ninety (90) days of the subsidy payment start date. Training requirements include, but is not limited to:

- Prevention and control of infectious disease.
- Emergency preparedness and response planning for natural disasters and human-caused event.
- Recognizing and prevention of shaken baby syndrome, head trauma abuse, neglect, and child maltreatment.
- Prevention of sudden infant death syndrome and safe sleep practices, if caring for an infant or toddler.

Judy Jaramillo stated the FFN specialists are monitoring this requirement through WA Compass. FFN specialists utilize the "FFN CCDF Status Report" in WA Compass to track providers' training (**Key Control #3- Information and Communication**). This report includes fields for CCDF FFN Training Status, CCDF Training Due Date, CCDF Requirement Status (compliant or noncompliant), along with many other fields. When a potential new provider is set-up, a next steps email is generated and sent that outlines all the providers' applicable requirements and tasks they must complete, with due dates, in order to begin receiving subsidy payment. At this same time, the FFN specialist sets a task in WA Compass for a 45-day check. If at that time the provider has not completed the training the FFN specialist calls and/or sends the provider an email reminder. The specialists performs another check at 75 days (15 days prior to expiration). If the provider has not completed the training at around the 75-day mark, then the FFN specialist submits a Subsidy Request for the account to be closed effective the 90th day, and a 10-day notice will be sent to the parent/guardian so they can find a new provider. The stop request goes to Barcode to discontinue all future payment authorizations. The payments do not stop automatically. The submission of the subsidy request by the FFN specialist is reviewed by Judy and she then sets the subsidy request to reviewed status. Once the subsidy request is in reviewed status it will be exported to Barcode the next morning. The subsidy team then takes action to inform the parent that the provider is no longer eligible. Additionally, specialists have a biweekly meeting with the FFN Administrator to discuss providers and areas of concern. If relevant, the monitoring of initial training will be discussed.

## *Ongoing training for existing non-relative FFN providers -*

WAC 110-16-0025 states existing non-relative FFN providers are required to annually renew portions of the initial training. The provider is required to take a minimum of two hours of health and safety training annually, using the subsidy payment begin date as the start date. This requirement came into effect in the fall of 2021 after the WAC was updated. Judy Jaramillo stated the objective is for non-relative FFN providers to receive this ongoing training as part of the annual technical visit. Staff check MERIT prior to conducting the annual visits to determine what ongoing training is needed. The ongoing training is based on health and safety topics that the provider requests more information on and areas of need as determined by the technical visit. This ongoing training will typically take 2-4 hours. This process is outlined in the state plan, pages 171-206 at [CCDF Plan 2022-2024](#). After any on-site training is completed, WA Compass will be updated by staff.

## Technical Visit

Effective August 12, 2021, the Department is required to conduct **annual** technical assistance visits for non-relative FFNs within a year of care start date to meet this health and safety requirement. These visits are treated differently from licensed providers. The purpose of the visit is to make sure parents and providers are following new health and safety rules, to observe the provider's interactions with the child, and to discuss health and safety habits. These are scheduled visits and the parent is encouraged to be there.

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Judy Jaramillo explained that due to the COVID-19 pandemic, virtual visits began in February of 2021. These visits are being performed in the child's home via FaceTime or Zoom. An annual checklist containing all health and safety requirements is used when conducting annual visits for licensed-exempt providers (**Key Control #4- Information and Communication**). The checklist is given to the provider in advance. Precedence for the annual virtual technical visits is given to the long-term providers first and then to the newer providers, since many FFN providers are temporary or short-term.

The specialist assigned to the provider sets a task in the WA Compass system to identify the due date of the visit (**Key Control #5- Information and Communication**). This will be set after the provider has completed all of the training. The specialist will then schedule the visit nine months following the payment start date.

### Finding Follow Up

We reviewed the Department's corrective action plan (CAP), (see page 9 Corrective Action Plans for SFY21 CCDF Findings), for finding 2021-009. The CAP is notes the following:

- In September 2020, in response to the COVID-19 pandemic, the grantor approved the revised CCDF State Plan to allow the Department to conduct annual, announced virtual monitoring visits of licensed providers rather than typical unannounced onsite visits.
- In July 2021, the Department consulted with the grantor on accepting email and verbal confirmation in lieu of signature on the health and safety agreement for Family, Friends & Neighbors providers. The CCDF State Plan was subsequently updated to reflect this change and the signature requirement was removed.

The Department has an estimated CAP completion date of September 2022.

Additionally, due to waivers being in place, some of the prior issues related to the CAP were not relevant in SFY21. The Department is currently still in the process of implementing processes for these areas. While the CAP completion date is estimated for September 2022, we reviewed the CAP and found significant changes were made prior to the start of our audit period to address the issues identified in the prior years finding. Therefore, we consider the weaknesses identified in SFY21 to be addressed but we will consider this finding unresolved. CAP Summary

### Summary of Key Controls

We identified the following key controls over CCDF Health and Safety:

- **Key Control #1** - Licensed provider health and safety compliance: An annual checklist containing all health and safety requirements is used when conducting annual visits for licensed providers (Information and Communication).
- **Key Control #2** - Licensed provider violations: Licensors, supervisors, and area administrators review re-check report to track outstanding non-compliance issues to ensure violations are fixed timely. (Monitoring).
- **Key Control #3** - FFN Specialists monitor FFN non-relative training requirements by continuously reviewing "FFN CCDF Status report" in WA Compass to determine if the provider meets all training requirements.(Information and Communication).KC 2 & 3
  - **Key Control #4** - An annual checklist containing health and safety requirements is used when conducting annual visits for FFN providers (Information and Communication).

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- **Key Control #5-** FFN Specialists set a task in the WA Compass system to ensure providers receive timely technical visits (Information and Communication)

### **Evaluation of Results:**

We did not identify any major 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 to determine if we can place reliance on the controls.

### **D.3.PR.G - 93.575/596-Child Care & Development Fund (CCDF) Cluster - DCYF**

***Procedure Step:*** N. ST2: Fraud Detection and Repayment - Controls

***Prepared By:*** KWF, 1/10/2023

***Reviewed By:*** CCM, 1/11/2023

|                      |
|----------------------|
| Purpose/Conclusion.* |
|----------------------|

#### **Purpose:**

To gain an understanding of the internal controls the agency has established that provide reasonable assurance of compliance with for Special Tests and Provision #2 - Fraud Detection and Repayment.

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to Special Tests and Provision #2 - Fraud Detection and Repayment.

To provide a preliminary control risk assessment based upon our understanding of the internal controls for Special Tests and Provision #2 - Fraud Detection and Repayment.

#### **Source:**

Rick Meyer, External Audit Compliance Manager (DSHS/OOS)

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Sherell Henderson, Operations Chief (DSHS/FFA/OFA)

Leah Stajduhar, Senior Director (DSHS/FFA/OFA)

Stefanie Niemela, Audit and Policy Liaison (DCYF)

## **Conclusion:**

We gained an understanding of the internal controls the agency has established that provide reasonable assurance of compliance with for Special Tests and Provision #2 - Fraud Detection and Repayment.

We identified key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to Special Tests and Provision #2 - Fraud Detection and Repayment.

Based on our understanding of internal controls over Special Tests and Provision #2 - Fraud Detection and Repayment, 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.

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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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).

Record of Work Done:

## **Special Test and Provision: Fraud Detection and Repayment - Controls**

### **Inherent Risk of Noncompliance**

#### **Step 1**

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 risks when designing our tests of compliance.

- The Compliance requirement involves a relatively large degree of subjectivity by the agency in interpreting and carrying out the objectives of the program.
- Multiple locations and departments are responsible for administering the requirement.

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**

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 Special Tests and Provisions. The compliance supplement states in part:

**Compliance Requirements** – Lead Agencies shall recover child care payments that are the result of fraud. These payments shall be recovered from the party responsible for committing the fraud (45 CFR section 98.60).

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**Audit Objective** – Determine if the Lead Agency correctly identified and reported fraud and took steps to recover payment.

## **Suggested Audit Procedures**

- a. Review the Lead Agency's procedures for identifying and recovering payments resulting from fraud, including the Lead Agency's definition of fraudulent child care payments.
- b. Request documentation of any fraudulent payments that have been identified by the Lead Agency. If fraudulent payments occurred, review a sample of those payments to verify that proper procedures were followed to authenticate that a payment was actually fraudulent and, as applicable, recover payment.

## **Understanding of Internal Controls**

### **Step 3**

We received and reviewed the Department's internal control letter response for special test 2 - fraud detection and repayment, see p. 39-40 at Internal Control Request Letters.

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 DSHS on July 26, 2022, to discuss the processes the Office of Fraud and Accountability (OFA) have in place over Fraud Detection and Repayment for the CCDF cluster. The following is a list of individuals that attended this meeting:

- Leah Stajduhar, Senior Director, (DSHS/FFA/OFA)
- Sherell Henderson, Operations Chief (DSHS/FFA/OFA)
- Rick Meyer, External Audit Compliance Manager, (DSHS/OOS)

In Washington State, DSHS Office of Fraud and Accountability (OFA) has delegated authority to conduct investigations related to allegations of fraud within programs administered by the Department of Social and Health Services (DSHS). According to RCW ~~43.216.730~~ any suspected incidents of child care subsidy fraud that is identified by the Department of Children Youth and Families (DCYF) must be referred to OFA. OFA investigates public assistance eligibility issues and allegations of client benefit or provider (vendor) fraud. OFA considers a fraud referral as a complaint from any person or source that is questioning an applicant/recipient's status. These referrals can come from many sources, including, staff, other agencies, the community, and law enforcement. Reports can be made directly on the DSHS website at [Web Referral - FITT \(wa.gov\)](#), via the hotline, fax, or mail.

Investigators coordinate with staff at the Community Services Offices (CSO) statewide; with county prosecutors; and with local, state, federal, and international

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law enforcement agencies when necessary.

This process begins with a referral from Barcode (client case management system) that is initiated by DCYF child care staff through CCDF client and provider reviews or a DSHS intake investigator based on a hotline complaint that is received. Referrals are initiated by creating a Fraud Early Detection (FRED) referral in Barcode, and the referral is sent automatically to FCMS. Referrals entered by intake investigators are initiated by a member of the community. A person can file a complaint by calling in a hotline complaint or submitting the complaint through the OFA website, mail or fax. An intake investigator will screen this complaint and write up a referral in Barcode. The SQL coding automatically scores the complaint based on criteria; such as, services received, pending hearings, type of referral, and frequency of referral (**Key Control #1 - Control Activities**). The rating ranges from 1 - highest priority to 5 - lowest priority. For a complete list of criteria see REVISED FRED Priority Calculator. We confirmed with Leah Stajduhar that this criteria has not been updated since 2018. It will then go to one of several pools based on the type of allegation (FRED, Intentional Overpayment/Criminal Investigations, Vendor, and EBT). Fraud Early Detecting (FRED) complaints are usually processed by investigators within 60 days. The Intentional Overpayment, aka Criminal, pool investigations can typically last 6 months to a year. The Vendor pool investigations general consist of child care providers claiming children who don't exist or requesting more money than necessary. EBT complaints don't impact CCDF. Once rated, a report is sent out to one of three teams based on the location of the client and the type of referral initiated. A supervisor from that team will assign cases based on rating and a FRED investigation case is then entered in the Fraud Care Management System (FCMS). This case will then be assigned to a FRED investigator. Regional managers must assign referrals rated 1 and 2 to their investigators (see directive at Directive Prioritizing FRED Cases). If all of these cases are assigned and investigators still have time, the supervisor will assign additional cases by rating (**Key Control #2- Control Activities**). However, referrals rated 3-5 can be allowed to age out, which happens after the referral is not worked within 90 days after initiated. In which case, they go back to the program area where they are reviewed to see if the allegation is still valid and should be re-referred or if it should be closed.

It was noted that if the client is no longer receiving assistance and the case has been closed for over 30 days, the FRED investigation is closed by the investigator. According to Leah, the Department considers fully staffed to mean 22 investigators in the FRED pool and 12 in the Criminal pool. However, they are currently down 5 and 3 investigators, respectively. Due to COVID- 19, on March 16, 2020, all field work and face to face contact with cases stopped temporarily. No field work was completed during SFY21, however, field work resumed on July 26, 2021. It was mentioned, though, that sometimes when field work attempts are made, investigators are met with refusal to open doors or meet face to face. In these cases, investigators will locate as much information as possible, conduct data mining, and check other state systems. There is no face-to-face requirement, so the Department will still continue with processing even if no in-person contact is made.

The FRED investigation is an extended review of a client's current eligibility for benefits. The FRED investigator reviews the case to determine the type of allegation and if the client violated program rules. Based on the type of allegation, the investigator will create a plan of investigation. At this point, a case file is created and evidence is gathered from various sources and documents. All of these details are added to the case file. All documentary evidence and interview notes are scanned in to FCMS, a determination is made and the report is finalized. If the case requires a criminal investigation (potential fraud), the investigator will refer the case in FCMS for criminal investigation. If the case warrants administrative action such as overpayment or an intentional program violation (IPV), the financial worker will complete this task. If the report is selected for investigation within the first ninety days or less from the date of the referral, an investigator completes an investigation of the allegations and the results of the investigation are then sent to the appropriate Community Services Office (Welfare Office).

According to RCW 74.04.004, "Fraud" means an intentional deception or misrepresentation made by a person with the knowledge that the deception could result



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in some unauthorized benefit to himself or herself or some other person. They stated that they define knowingly as actual knowledge of falsity, deliberate ignorance of truth or falsity, and/or reckless disregard of truth or falsity. The FRED investigation process and the definition of fraud are both on documents kept on the OFA Intranet and are available to all staff (**Information and Communication**). It was also mentioned that OFA created a Fraud Referral Checklist for staff to utilize when they are attempting to determine if a case should be referred to OFA for investigation and to ensure they have the proper documentation for this referral.

Once the investigation is complete, it goes back to DCYF counterparts where they process the remainder of the case and determine appropriate action such as termination of benefits, repayment of benefits, etc. Once a case is determined to be potentially fraudulent, it will be forwarded on to Intentional Overpayment Investigation unit (IOI) for further review. These investigators will gather further documentation to ensure cases can be forwarded onto the prosecutor's office that has jurisdiction of the case. To begin the investigators will obtain documentation/evidence and then send it to their regional manager for review. The Regional Manager will then review and determine whether or not the case should be submitted to the senior director for prosecution. To ensure that the case has all required documentation/evidence for prosecution the senior director will then review the case and approve it in the Case Management System for submittal to the prosecutor. (**Control Activity #3- Control Activities**) These cases are kept within the system until the prosecutor responds with a verdict. At this point the case can be forwarded to the Office of Financial Recovery (OFR) as an overpayment or as identified fraud. OFA will complete the overpayment letter and forward to OFR. To ensure that all overpayment letters have been made for non-prosecuted and prosecuted cases staff utilize a tracking spreadsheet and maintain it as updates to cases/overpayments occur (**Key Control #4- Control Activities**). When OFA completes the letter and enters it into Barcode OFR will be notified of the new task to collect the overpayment. OFR will then send the letter to the client/provider to inform them of their overpayment, the amount of the overpayment, and how they can repay the overpayment. At this point, OFR is responsible for tracking the case and making all attempts to retrieve the overpayment. We were provided a copy of the Client Enforcement Overview manual that outlines how fraudulent payments are to be collected.

During our initial meeting we found the Department uses a monthly report that tracks fraud cases by source, completed FRED'S, unassigned FRED/EBT referrals, investigative closures, criminal case workload, administrative hearings, and identified over-payments. This report is shared with regional and headquarters management on the DSHS Intranet to ensure that OFA's strategic objectives (**Key Control #5- Monitoring**).

It was noted that The Department uses a new tracking system, Fraud Investigation Tracking Tool (FITT), as of June 7, 2022. Access to the old system has been shut down, but all the old data was downloaded prior to shutdown.

Stefanie provided us with a spreadsheet that outlined identified frauds in SFY22. During the year, there were **eleven** identified fraudulent cases, totaling \$112,541.81 in restitution. Of the eleven cases, six resulted in diversions, while the remaining five were found guilty.

### Summary of Key Internal Controls

**Key Control #1 (Control Activities)** - To ensure all fraud referrals are evaluated using standard criteria, the Barcode SQL coding automatically scores the complaint based on criteria; such as services received, pending hearings, type of referral, and frequency of referral.

**Key Control #2 (Control Activities)** - To ensure cases with the highest potential for fraud are worked, management assigns all 1 and 2 priority FRED Cases

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before assigning lower level cases.

**Key Control #3 (Control Activities)** - To ensure a case has all required documentation and/or evidence for prosecution, the senior director will review and approve the case in the Case Management System for submittal to the prosecutor.

**Key Control #4 (Control Activities)** - To ensure all overpayment letters have been made for non-prosecuted and prosecuted cases, OFA staff use a tracking spreadsheet and update it as changes to cases and overpayments occur.

**Key Control #5 (Monitoring)** - To monitor progress of suspected and identified fraud cases, the OFR Director creates a monthly report that is shared with management for decision making on the DSHS Intranet.

### **Evaluation of Results:**

KC5 Purpose We did not identify any major deficiencies in fraud detection and repayment controls.

### **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.

### **D.3.PR.G - 93.575/596-Child Care & Development Fund (CCDF) Cluster - DCYF**

***Procedure Step:*** N. ST4: Child Care Provider Eligibility for ARP Act Stabilization Funds - Controls

***Prepared By:*** KWF, 2/28/2023

***Reviewed By:*** SAG, 2/28/2023

|                     |
|---------------------|
| Purpose/Conclusion: |
|---------------------|

### **Purpose:**

To gain an understanding of the internal controls the agency has established that provide reasonable assurance of compliance with Special Tests and Provision #4 - Child Care Provider Eligibility for ARP Act Stabilization Funds.

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to Special Tests

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and Provision #4 - Child Care Provider Eligibility for ARP Act Stabilization Funds.

To provide a preliminary control risk assessment based upon our understanding of the internal controls for Special Tests and Provision #4 - Child Care Provider Eligibility for ARP Act Stabilization Funds.

## **Source:**

Kelsey Boyce, Child Care Grants Manager

Heidi Goddard, Program Manager

Amy Russell, Early Learning Deputy Director

Stefanie Niemela, Audit Liaison

## **Conclusion:**

Based on our understanding of internal controls over Special Tests and Provision #4 - Child Care Provider Eligibility for ARP Act Stabilization Funds, 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.

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)

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(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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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).

Record of Work Done.:

### **N. ST4: Child Care Provider Eligibility for ARP Act Stabilization Funds - Tests of Controls**

#### **Inherent Risk of Noncompliance**

##### **Step 1**

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 risks when designing our tests of compliance.

- The compliance requirement is new to the agency
- The Department had a massively significant increase in brand new federal funding for stabilization of child care, which necessitates the implementation of new processes over a short timeline
- The compliance requirement is one that is susceptible to potential fraud, waste, and abuse

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**

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We reviewed the scope of work per the grant agreement (see: [FFY21 ARPA Stabilization Grant Award Letter with Terms & Conditions](#)), 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:

### Compliance Supplement

To be qualified to receive ARP Act stabilization funds, a provider on the date of application for the award must either be: (1) open and available to provide child care services, or (2) closed due to public health, financial hardship, or other reasons relating to the COVID-19 public health emergency. In addition, the provider must either (1) be eligible to serve children who receive CCDF subsidies at the time of application for stabilization funds, or (2) be licensed, regulated, or registered in the state, territory, or tribe as of March 11, 2021 and meet applicable state and local health and safety requirements at the time of application for stabilization funds. In their application for stabilization funds, a child care provider must certify:

- a. That the provider will, when open and providing services, implement policies in line with guidance and orders from corresponding state, territorial, tribal, and local authorities and, to the greatest extent possible, implement policies in line with guidance from the CDC.
- b. For each employee, the provider must pay at least the same amount in weekly wages and maintain the same benefits for the duration of the stabilization funding.
- c. The provider will provide relief from copayments and tuition payments for the families enrolled in the provider's program, to the extent possible, and prioritize such relief for families struggling to make either type of payment.

Technical Assistance Administrative Manual for Stabilization Grants (see: [Technical Assistance Administrative Manual Stabilization Grants](#)):

The Child Care Stabilization Grant is a one-time, non-competitive grant; all eligible providers who apply will receive a grant in the form of one lump sum payment. The grant application will remain open through June 2022 and applications will be processed and approved on a monthly basis. Because the Department is making a focus on outreach services for encouraging these providers to take advantage of these funds while they are available, the application date had been extended from the original time of June 30th to September 30th, 2022.

### **Who can apply?**

**Licensed Child Care:** This includes licensed family home, child care centers, school-age care, outdoor nature-based care, and certified providers. Providers must have an open license in good standing at the time of application and the time of award. Providers with an open license experiencing a temporary closure of up to two weeks (per occurrence) due to COVID-19 may apply. So long as the following is true:

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1. Open license in good standing
2. Providers with an open license experiencing a temporary closure of up to two weeks (per occurrence) due to COVID-19 may apply.

**Family, Friend, and Neighbor (FFN):** license-exempt FFN providers who have served families accessing state subsidy. So long as the following is true:

1. Served at least one child on subsidy in four of the last six months or two of the last three months and claimed for subsidy through the Social Service Payment System (SSPS).

### **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 our understanding meeting, we requested to receive the Department's asserted internal controls over the compliance area, which were provided on pages 51-54 at [Department Responses to Internal Control Request Letters](#). We were also provided the FAQ and provider resource materials at [ARPA Stabilization Grant FAQ & Applications for Licensed & FFN Providers](#).

On August 23, 2022 we met with the following DCYF staff to gain an understanding of ARPA Provider Eligibility:

- Kelsey Boyce, Child Care Grants Manager
- Heidi Goddard, Program Manager
- Amy Russell, Early Learning Deputy Director
- Stefanie Niemela, Audit Liaison

The Department started developing provider communications in the Summer of 2021 and in September, providers received these notifications announcing that ARPA Stabilization grant funds will be made available for applications beginning October 13th, 2021. It was mentioned that the Department had prepared for this by reviewing federal guidance, informational memos, and attending webinars. Guidance on the Office of Children's and Families website, such as FAQs and best practices for administering grants, was also reviewed to develop the best way to create processes over managing the ARPA Stabilization funds.

It was mentioned that the guidance required Lead Agencies to maintain an online platform for applications to be submitted through. Providers

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who are interested in applying must do so electronically, as there are no call-in or paper applications accepted. It was explained that this is due to automated processes in the system in evaluating the providers' eligibility requirements in real time and performing specific functions to ensure applications are complete. We asked to receive ballpark figures for how many applications they receive monthly and they said that total to date, they had received approximately 6,100, but the majority of these had been received prior to January 2022. Only about 8%-9% of providers who would be considered eligible, have not yet applied. Because the Department is making a focus on outreach services for encouraging these providers to take advantage of these funds while they are available, the application date had been extended from the original time of June 30th to September 30th, 2022.

The Department developed templated applications for FFN and Licensed Providers (**Key Control 1 - Control Activities**). Licensed Providers submit applications via WaCompass while FFNs submit applications via SmartSheet. Only Licensed Providers have access to submit applications via WaCompass. However, SmartSheet applications, which are submitted by FFNs are open to the public via the DCYF website and everyone has access. The applications include questions the provider must complete. These include basic questions about the number of children under their care as well as the age group(s) of those children. It was mentioned that the responses are not necessarily used to determine eligibility, but are more for the purposes of data gathering. The application also includes a general terms and conditions certification checklist at the end that the provider must complete. This requires the applicant to certify the information on the application is true and correct, that they will stay open and able to care for children, and that they will follow CDC guidelines. To be considered for ARPA funds, the provider must complete the entire templated application and the certification checklist (**Key Control 1 - Control Activities**). Additionally, for Licensed Providers, if an incomplete application is submitted, it will be automatically rejected by WaCompass (**Key Control 2 - Control Activities**). For FFNs, SmartSheet will reject applications that are submitted without all required fields populated (**Control Activities**). However, IT Audit determined in their work performed at (Evaluate automated controls) that anyone can apply and any random text populated into these fields will be accepted by SmartSheet, therefore we do not consider the auto rejection process to be a key control for FFN providers.

The grant application process differs slightly depending on if the provider is an FFN or a licensed center/home.

For licensed providers to apply for ARPA funds, they log into their WA Compass portal and complete an application that is specific to their license type and site (i.e. each YMCA location must individually apply, rather than one application for all YMCAs being submitted centrally). To be eligible for ARPA funds, the provider must have an open/active status in WaCompass, which is automatically reviewed by a system interface (**Control Activities**). They must also have an active license with no suspensions. The application consists of multiple questions the provider must complete (see pages 11-14 at ARPA Stabilization Grant FAQ & Applications for Licensed & FFN Providers). The provider must also respond to an attestation. The application will be completed and submitted in WaCompass. Additionally, beginning October 1, 2021, the system will not allow providers to access the application if they do not have a valid license at the time of application (**Control Activities**).



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For FFN providers, the application is accessed through a SmartSheet application. FFNs must have provided care for at least one child in four of the last six months or two of the last three months. Similarly to the licensed provider, the FFN will also respond to a variety of questions to complete the application (see pages 15-17 at [ARPA Stabilization Grant FAQ & Applications for Licensed & FFN Providers](#)). Each month, the subsidy team will generate a list of eligible providers, which is generated from SSPS source data indicating that a provider cared for at least 1 child for the required period of time (**Key Control 3 - Control Activities**).

Kelsey and her team review applications and "Verifiable Add-on" (described at [A-B. Activities Allowed/Cost Principles: ARPA Stabilization Payments](#)) amounts once per month, at which time they update the application data and mark it as approved in WaCompass, and send out award notifications to the providers that are deemed eligible (**Key control 4 - Control Activities**). Licensed providers are notified via batch process in WaCompass and FFNs are notified via email by a mail merge process made from spreadsheet templates. The system is not setup to auto-populate approval or denial notifications. Once a provider is determined to be eligible, the Department can begin to take steps in processing payments, as described at [A-B. Activities Allowed/Cost Principles: ARPA Stabilization Payments](#).

### **Summary of Key Controls:**

We identified the following key controls over CCDF Provider Eligibility for ARPA:

- **Key Control 1 - Control Activities:** All Providers: The Department utilizes templated applications which include a certification containing all required elements.
- **Key Control 2 - Control Activities (Automated):** Licensed Providers: WaCompass automatically rejects any incomplete applications submitted.
- **Key Control 3 - Control Activities:** FFNs: The subsidy team utilizes a monthly list of providers generated from SSPS source data indicating that a provider cared for at least 1 child for the required period of time to determine provider eligibility.
- **Key Control 4 - Control Activities:** Licensed Providers: The Child Care Grants team reviews applications and grant amounts before determining eligibility and approving in WaCompass.

**Evaluation of Results:** Did you identify any control deficiencies? 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 to determine if we can place reliance on the controls.

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## D.5.PR.G - 93.659-Adoption Assistance - DCYF

**Procedure Step:** Overview A-B. Activities Allowed/Cost Principles - Controls  
**Prepared By:** JDP, 10/13/2022  
**Reviewed By:** MKH, 10/13/2022

### Purpose/Conclusion.

#### **Purpose:**

To review the scope of work, determine the materiality of direct costs and indirect costs.

#### **Source:**

AFRS  
2022 Compliance Supplement  
SEFA

#### **Conclusion:**

We have provided an overview of material expenditure activities for the Activities Allowed compliance requirement. The following areas will be tested at Activities Allowed in Adoption:

- Subobject NB - (Program Index A1611 - Adoption Maintenance) Excluding SSO (EBPS)

The following areas will be tested at Centralized areas:

- Administrative costs related to payroll allocated via RMTS (See. DCYF Centralized RMTS)

### 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

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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.

### Indirect Costs

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

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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).

### 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)<br/>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 <b>types</b> 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 <b>only</b> 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 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:

**Note: New provisions that have been added to UG:**

2CFR 200.215 – Never contract with the enemy (effective November 12, 2020)

2CFR 200.216 - Prohibition on certain telecommunications and video surveillance services or equipment (Effective August 13, 2020)

**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:

Activities Allowed: According to the grant agreement and part four of the 2022 Compliance Supplement, the Department may expend program funds on the following activities:

- Adoption Assistance Payments
- Administrative Costs
- Program Administration (costs directly related to the administration of the program (i.e. Payroll))
- Nonrecurring adoption expenses (The Department may reimburse parents for legal fees related to the adoption)
- Adoption placement costs (costs the Department incurs in finding a suitable home for the child)
- Training

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- Demonstration Projects

### 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 (more than 5%) to the program the auditor must test the internal controls (and compliance) over them.*

We found that the Department does recover indirect costs with a cost allocation plan and had expended \$1,865,672.92 or (3.18%) (See. [9.28.2022 DCYF Adoption Assistance Final Expenditure Report](#)). We will not be testing the indirect costs as part of the Adoption program as they do not meet our 5% threshold. Indirect expenditures are identified with a program index starting with an R and Allocation 9100.

### Material Expenditures

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

- Subobject NB (Program Index A1611 - Adoption Maintenance) excluding SSO (EBPS): \$48,579,410.20 or 82.82%
  - The Department charged 82.82% (48.5 million) of total 2022 expenditures for Adoption Maintenance Payments. We found that there are multiple Subsubobject activities associated with the Program Index with their own set of unique internal controls for the activity. We removed the SSO's that had a different set of controls and were immaterial to the program. The remaining Subsubobject activities will be tested which are related to one time payments and monthly adoption payments. Evidence Based Practices was removed as it was immaterial 0.0001% and had different controls (See. [9.28.2022 DCYF Adoption Assistance Final Expenditure Report](#))

We then further analyzed these areas by identifying the Allocations that were associated with the Program Index. These Program Indexes and Allocations are what are used to allocate federal funding during the SFY. Because the Cost Allocation system utilizes the Program Index and Allocation to Cost Allocate expenditures we are able to identify the original transactions that were charged to the grant. To do this we run a new WebIntelligence report without the Cost Objectives in the query request, and utilize the PI and Allocations we identified with Subobject NB in the query request. This second report will provide the original transactions prior to the Cost Allocation system splitting the expenditure into Federal and State expenditures. The report will provide us with a cost allocation funding type (CAFT) of "blank", N, F, and S. The blank transactions will be the original transactions.

A quick overview of how the expenditures flow through at the Department is, when the Department enters a transaction into the system with a blank CAFT, they give it the necessary accounting coding and ensure the Program Index and Allocation is correct as this is the driver of the Cost Allocation system. At the end of the night the blank transactions are reversed out with the N CAFT and then redistributed based to bases and/or cost objectives based on the Program Index and Allocation that was tied with the original transactions which creates the F (Federal), and S (State) side of the transaction. Program Index and Allocation is important to know as it is the driver of the Cost Allocation system.

For more details on how CAS works refer to our work at Cost Allocation (See. [DCYF Centralized Cost Allocation](#))

- Objects A&B (Salaries and Wages; Employee Benefits)



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- Administrative costs related to payroll allocated via RMTS: \$3,053,537.01 or 5.21% (9.28.2022 DCYF Adoption Assistance Final Expenditure Report)
  - The Department charged 5.21% (3 million) of total 2022 expenditures via RMTS for payroll expenditures. We will test these expenditures at Centralized RMTS (See. DCYF Centralized RMTS).

### Summary of Activities Allowed (Direct and Material Areas being tested at Adoption)

- Subobject NB - (Program Index A1611 - Adoption Maintenance) Excluding SSO (EBPS)

### D.5.PR.G - 93.659-Adoption Assistance - DCYF

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

**Prepared By:** CL, 9/7/2022

**Reviewed By:** MKH, 9/14/2022

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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

#### **Source:**

Stefanie Niemala, Audit and Policy Liaison

Melanie Meyer, Administrator, Adoption Programs

Lindsay LeFever, Adoption Support Program Manager

#### **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 are unallowable.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

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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.***

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,

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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

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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 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

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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.

### 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

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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;
- (w) §200.467 Selling and marketing costs;
- (x) §200.470 Taxes (including Value Added Tax); and
- (y) §200.474 Travel costs.



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## **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).

### 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)<br/>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 <b>types</b> 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 <b>only</b> 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 |
|--|--|

**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."

**Note: New provisions that have been added to UG:**

2CFR 200.215 – Never contract with the enemy (effective November 12, 2020)

2CFR 200.216 - Prohibition on certain telecommunications and video surveillance services or equipment (Effective August 13, 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.

We requested the Department to complete the internal control document and received the following internal control letter response (See. Adoption Internal Control request letter Response- Activities Allowed-Cost Principles)

We met with staff on July 20, 2022 to gain an overview of the Activities Allowed area with the following staff:

Stefanie Niemala, Audit and Policy Liaison

Melanie Meyer, Administrator, Adoption Programs

Lindsay LeFever, Adoption Support Program Manager

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According to the compliance supplement, the Department may claim a federal reimbursement for adoption assistance payments so long as the following requirements are met:

- The payment must be made on behalf of a Child who is IV-E eligible.
- The payment must be made in accordance with a written and binding adoption assistance agreement.
- The Department must base payment amount on the needs of the child and the circumstances of the adopting parents. (not on any income eligibility requirements of the adopting parents)
- The payment may not exceed the foster care maintenance payment (in accordance with the Title IV-E agency's rate schedule) the child would have received in a foster family home.

Federally funded adoption support payments are only allowable when paid on behalf of an eligible child. This being the case, we will rely on the work performed in the eligibility portion of the audit in lieu of separately identifying and testing controls over eligibility here.

## Identifying Adoption Maintenance Payments

The Department utilizes the Cost Allocation System to identify costs and submit them to the proper benefiting federal programs. The Cost Allocation System utilizes Program Index and Allocation to allocate expenditures. The Department is able to identify Adoption Maintenance payments by Program Index. When the Department makes Adoption Assistance payments they utilize a distinct Program Index and Allocation that specifically identifies Adoption Maintenance payments. The Department provided the coding for these payments and we were able to identify the adoption maintenance payments that were made by the Department during our audit period. We broke down our payments in Subobject NB by Program Index to identify the specific activities that were material to our program. The Program Index for Adoption Maintenance payments is A1611.

**Adoption Support Agreement:** Once a prospective parent identifies a child with "special needs" whom they wish to adopt out of foster care, the parent submits an application. The objective of Adoption Support is to maintain the existing level of lifestyle that existed in the home before the child entered it. In addition to monthly payments, Adoption support also can consist of medical coverage or counseling. An adoption social worker reviews the application and compiles an adoption packet, which is documented in FamLink. An Adoption-Support Consultant social worker (consultant) then reviews the packet and determines if the child meets the eligibility requirements for Adoption Support. After the consultant determines the child is eligible for adoption support, the consultant and the parents negotiate a monthly support amount that, when combined with the parents' resources, will cover the ordinary and special needs of the child on an ongoing basis. The maximum allowable monthly support amount is determined by RCW 74.13A.047 as a set percentage of what would be the corresponding foster care maintenance payment. To ensure that the Adoption Support amount is allowable the consultant and the parents negotiate a monthly support amount that, when combined with the parents' resources, will cover the ordinary and special needs of the child on an ongoing basis and both parties sign the Adoption Support Agreement. **(Control Activities).**

The Department outlines the methodology for determining subsidy payments, one time reimbursements and the statutory subsidy limits in Policy 5700 Section 2-

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c. Because the policy does not list the specific statutory caps for each circumstance, management provided the consultants with a reference sheet that clearly outlines the statutory rate for each circumstance. **(Information and Communication)**.

If a third party, such as the prospective parent's employer is paying one time adoption expenses, that payment is considered before any one time expenses are paid out of Adoption support. To ensure that only allowable one time expenses are paid the consultant documents the subsidy amount in an adoption support agreement as well as any initial prorated maintenance payments (if any) and up to \$2,000 for any non-recurring legal and administrative expenses associated with the adoption process and to ensure that only families with adopted children are paid and for the maximum allowable amount, the Adoption Agreement and Adoption Decree is signed by the parent and the Adoption Consultant prior to initiating payment .

FamLink will continue to make the recurring subsidy payments until an automated system control suspends adoption support payments on the child's 18<sup>th</sup> birthday **(Control Activities, Automated Controls)**. Children are eligible for adoption support until their 18<sup>th</sup> birthday, unless the child meets the extended eligibility requirements.

### Summary of Key Controls:

**Key Control #1 - (Control Activities)** - To ensure that the Adoption Support amount is allowable the consultant and the parents negotiate a monthly support amount that, when combined with the parents' resources, will cover the ordinary and special needs of the child on an ongoing basis and both parties sign the Adoption Support Agreement.

**Key Control #2 - (Control Activities, Automated Controls)** FamLink will continue to make the recurring subsidy payments until an automated system control suspends adoption support payments on the child's 18<sup>th</sup> birthday

- The child turns 18 years old. (Or 21 if the IV-E agency determines the child has a mental or physical disability which warrants the continuation of assistance)
- The IV-E agency determines the parent is no longer legally responsible for the support of the child
- The IV-E agency determines the child is no longer receiving any support from the parents

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**Evaluation of Results:** Did you identify any control deficiencies? No

### 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.



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## D.5.PRG - 93.659-Adoption Assistance - DCYF

***Procedure Step:*** C. Cash Management - Controls

***Prepared By:*** JDP, 9/13/2022

***Reviewed By:*** MKH, 9/14/2022

Purpose/Conclusion.:

### **Purpose:**

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

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to cash management.

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

### **Source:**

Stefanie Niemela- Audit and Policy Liaison

Leon Terao- Cost Allocation Grants Manager

Michelle Salinas- Budget Coordinator, DCYF Financial and Business Services

### **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*

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*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.

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.

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**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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

(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)<br/>where N = population<br/>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**

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 2021 CMIA agreement and determined the Department is Subject to the CMIA Agreement. The following component and technique are prescribed:

- Component: Direct benefit payments and administrative and payroll costs.
- Technique: Modified Direct Program Costs - Admin, Payroll, Payments to Providers (ACH Drawdown on Payroll Cycle)

The compliance supplement did not list any specific program guidance in part 4.

## **Awards to Subrecipients**

We reviewed the compliance supplement and determined sub-recipient monitoring was 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.

We requested the Department provide us with their internal controls over Cash Management on June 2, 2022 (See: Internal Control request letter - Cash Management) and received the Department's response, (See: Adoption Internal Control request letter Response- Cash Management)

On July 18, 2022, we met with the following DCYF staff:

- Leon Terao, Cost Allocation and Grants Manager
- Stefanie Niemela-Audit and Policy Liaison
- Michelle Salinas- Budget Coordinator, DCYF Financial and Business Services

During this meeting, we discussed the internal controls the Department has in place over Cash Management for the Adoption grant. We learned how the Department operates the grant on a reimbursement basis.

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## Draw Process

In order to ensure it is compliant with the CMIA-specified funding technique, the Department relies on a set of policies/procedures (See: DCYF GMS Draw Procedures draft) that stipulate that the Department will make cash draws on a twice monthly basis on the day before payday (Information and Communication).

The grant manager for our programs is:

- Title IV-E programs (Foster Care, Adoption, CCDF), Cost Allocation and Grants Manager, Leon Terao

The department utilizes the Grant Management System (GMS), which has a nightly automatic upload of the expenditures and cash draws from AFRS. The department utilizes GMS to calculate draws for Title IV-E, Title 19 and other programs. **(Automatic Control)**

## Title IV-E Draw Process

Before a scheduled draw, the Grant Manager runs reports from GMS to determine the year-to-date draw-down and reimbursement amounts. GMS is automatically uploaded with AFRS data to calculate the draw down amount for the current periods draw down. For Title IV-E the Department utilizes GMS to calculate their cash draws.

The Grants Manager reviews the expenditure reports from the GMS system to determine cash draw for the period to ensure the amount is supported and accurate upon expenditures incurred year to date ... since the last draw and mark the draw status reviewed box indicating their review **(Control Activities)**.

The Budget Coordinator is notified to review the cash draw. To ensure the draw is supported and accurate and meets CMIA the Cost Allocation and Grants Unit Manager will review and then check the approved check box indicating their review **(Control Activities)**. Once the Cost Allocation and Grants Unit Manager approves the draw, its forwarded to, the Fiscal Analyst 5, who draws down the federal funds using the payment management system. Once this is complete, the Fiscal Analyst 5 submits the payment request, A8, draw reconciliation and AFRS report to the Management Analyst, who creates the voucher. She then sends the voucher and all supporting documentation to the accounting office. Once the revenue is received, Fiscal Analyst 5, will post the revenue to AFRS and clear the In-Process GL.

## Summary of Key Controls

**Key Control #1-** The department utilizes the Grant Management System (GMS), which has a nightly automatic upload of the expenditures and cash draws from AFRS. The department utilizes GMS to calculate draws for Title IV-E and other programs. **(Automatic Control)**

**Key Control #2-** The Grants Manager reviews the expenditure reports from the GMS system to determine cash draw for the period to ensure the amount is supported and accurate upon expenditures incurred year to date and mark the draw status reviewed box indicating their review **(Control Activities)**.

**Key Control #3-** To ensure the draw is supported and accurate and meets CMIA the Cost Allocation and Grants Unit Manager reviews and then checks the approved check box indicating their review **(Control Activities)**.

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## Key control #3

**Evaluation of Results:** Did you identify any control deficiencies? No

## 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.

## D.5.PR.G - 93.659-Adoption Assistance - DCYF

**Procedure Step:** E. Eligibility - Controls

**Prepared By:** CL, 11/4/2022

**Reviewed By:** JDP, 11/8/2022

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 identify key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to eligibility of participants.

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

### **Source:**

Stefanie Niemala, Audit and Policy Liaison

Melanie Meyer, Administrator, Adoption Programs

Lindsay LeFever, Adoption Support Program Manager

Becky Taylor, QA Program Manager

Ivy Martinez, Title IV-E Training and Policy Program Manager

Bob Ensley, Manager of Federal Funding



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## **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:

- 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the**

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document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.

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.**

***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,

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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 part 4 of the Compliance Requirement and found the following information was relevant to the eligibility requirement.

**Generally Eligible:** To be eligible for the Title IV-E Adoption Assistance, a child must meet the following criteria:

1. The child must be a US citizen or qualified alien **and**
2. The child must be less than 18 years of age or 21 if the Department determined the child had a mental or physical disability that warrants the continuation of assistance. **Note:** Youths who are 18 to 21 years of age and are not disabled may continue to receive support through the Extended Adoption program; see below for details.
3. The title IV-E agency must determine the child to have “special needs”. **Note:** A child is considered to have “special needs” if the following criteria are met:
  1. One or more of the following factors or conditions must exist, the child is:
    - i. Of a minority ethnic background and the child's ethnicity is creating a barrier to the child's adoption
    - ii. Six years of age or older at the time of application for adoption support
    - iii. A member of a sibling group of three or more or of a sibling group in which one or more sibling meets the definition of special needs, as defined in this section;
    - iv. Diagnosed with a physical, mental, developmental, cognitive or emotional disability; or

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v. At risk for a diagnosis of a physical, mental developmental, cognitive or emotional disability due to prenatal exposure to toxins, a history of serious abuse or neglect, or genetic history.

2. The state has determined that the child cannot or should not be returned to the home of the legal parent; and
3. The department, other public or private non-profit child welfare agency, or child placing agency that placed the child for adoption has documented that except where it would be against the best interests of the child, the placing agency made a reasonable but unsuccessful effort to place the child for adoption without adoption support.

**Categorically Eligible:** In FY 2010, the U.S. Department of Health and Human Services (HHS) revised portions of the title IV-E eligibility requirements to comply with the *Fostering Connections to Success and Increasing Adoptions Act of 2008*. Therefore, there are currently two different sets of rules for determining a child's title IV-E eligibility for adoption support. The child must be classifiable under one of two categories, applicable & non-applicable.

## Applicable Children:

A child is considered an Applicable Child if the following criteria is met:

- **Age** - The child has attained or will attain the "applicable age," as designed in PL 110-351, ACYF-CB-PI-09-10 (August 26, 2009) and Title IV-E Desk Guide Adoption Support Section any time before the end of the Federal fiscal year during which the adoption assistance agreement is entered into; or
- **Time in Foster Care** - The child has been in foster care under the responsibility of the State or Tribal title IV-E agency for 60 consecutive months. The 60 consecutive month period is any 60 consecutive months prior to finalization of the adoption; or
- **Sibling** - The child is a sibling of a child who meets either of the criteria above and is placed in the same adoption arrangement as his/her sibling.

After the above criteria is established, the following criteria is applied and one of them must be determined applicable to meet the criteria of an Applicable Child.

- **Previous Adoption Eligibility** - Has the child been previously adopted, the previous adoption has been dissolved (adoptive parents' rights terminated), or the adoptive parents have died, and the child was eligible for IV-E adoption support in the previous adoption or would have been eligible had the Adoption and Safe Families Act (ASFA) of 1997 been in effect at the time of the previous adoption?
- **SSI Eligibility** - Does the child meet all medical and disability requirements of title XVI Supplemental Security Income (SSI)? NOTE: The Applicable Child does not have to meet the needs based requirements of SSI.

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- **Child of a Minor Parent Eligibility** - Was the child residing in a foster family home or child care institution with his/her minor parent, whose removal from home was pursuant to a judicial determination that it was contrary to the minor parent's welfare to remain in the home, or pursuant to a voluntary placement agreement or voluntary relinquishment on behalf of the minor parent?
- **Judicial or Voluntary Removal Eligibility** - At the time of the initiation of adoption proceedings, was the child in care of a public or licensed private nonprofit child placement agency or Indian tribal organization pursuant to a voluntary placement agreement, voluntary relinquishment, or judicial determination that it was contrary to the child's welfare to remain in the home?

### Non-Applicable Children:

A child is considered a Non-Applicable Child if they do not meet any of the initial criteria such as Age, Time in Foster Care, and Sibling; seen above in the Applicable Children section. The following criteria questions are then asked for Not Applicable children to determine the eligibility:

- **Previous Adoption Eligibility** - Has the child been previously adopted, the previous adoption has been dissolved (adoptive parents' rights terminated), or the adoptive parents have died, and the child was eligible for IV-E adoption support in the previous adoption?
- **SSI Eligibility** - Is the child eligible for SSI benefits, the SSI Eligibility Date is prior to the date adoption is finalized, and there is proof of eligibility on file, such as an SSI award letter or SSI payment history?
- **Child of a Minor Parent Eligibility** - Was the child's parent in foster care and received a title IV-E foster care maintenance payment that covered both the minor parent's and child's needs at any time prior to finalization of the adoption? NOTE: Look only at the last unbroken placement episode preceding finalization of the adoption
- **AFDC Eligibility** - The following apply to children removed from home on or after 3/27/2000. Only if all criteria below is met is the child AFDC eligible.
  - Was the child living with a relative of specified degree (RSD) at the time of removal or at any time within six months of the eligible month?
  - Did the child meet AFDC financial need and deprivation factors (per July 16, 1996 AFDC rules) in the home of the specified relative from whom he/she was removed?
  - If the child was placed by court order, does the very first court order removing the child from home contain language to the effect that it was contrary to the child's welfare to remain in the home, or if removal was pursuant to a voluntary placement agreement, was the child IV-E reimbursable at some point prior to finalization of the adoption?

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The following additional eligibility provisions must be met in addition to the establishment of categorical eligibility:

- The child was determined by the Title IV-E agency as someone who cannot or who should not be returned to the home of his or her parents (42 USC 673(c)(1)).
- The child was determined by the Title IV-E agency to be a child with special needs. Special needs means that there is a specific factor or condition (such as ethnic background, age, or membership in a minority or sibling group, or the presence of factors such as medical conditions or physical, mental, or emotional handicaps) because of which it is reasonable to conclude that the child cannot be placed with adoptive parents without providing adoption assistance under Title IV-E and medical assistance under Title XIX. In the case of an applicable child, the child is also considered to have special needs if that applicable child meets all the medical or disability requirements for SSI and the Title IV-E agency determines that it is reasonable to conclude that the child cannot be placed with adoptive parents without providing adoption assistance under Title IV-E and medical assistance under Title XIX. The criteria for the factor or condition element of the special needs determination will be met if an applicable child meets all the medical or disability requirements for SSI (42 USC 673(c)(1)(B) and 673(c)(2)(B), as amended/added by Pub. L. No. 110-351).
- The Title IV-E agency has made reasonable efforts to place the child for adoption without a subsidy. The only exception to this requirement is where it would be against the best interests of the child because of such factors as the existence of significant emotional ties with prospective adoptive parents while in the care of the parents as a foster child (42 USC 673(c)(1)(B) and 673(c)(2) as amended/added by Pub. L. No. 110-351).
- The agreement for the subsidy was signed and was in effect before the final decree of adoption and contains information concerning the nature of services; the amount and duration of the subsidy; the child's eligibility for Title XX services and Title XIX Medicaid; and covers the child should he/she move out of state with the adoptive family (42 USC 675(3)).
- The prospective adoptive parent(s) must satisfactorily have met a criminal records check, including a fingerprint-based check (42 USC 671(a)(20)(A)). This involves a determination that such individual(s) have not committed any prohibited felonies in accordance with 42 USC 671(a)(20)(A)(i) and (ii). The requirement for a fingerprint-based check took effect on October 1, 2006, unless prior to September 30, 2005, the state has elected to opt out of the criminal records check requirement or state legislation was required to implement the fingerprint-based check, in which case a delayed implementation is permitted until the first quarter of the state's regular legislative session following the close of the first regular session beginning after October 1, 2006. The requirement applies to adoption assistance payments for calendar quarters beginning on or after the state's effective date for implementation (Pub. L. No. 109-248, Section 152(c)(1) and (3)). States that opted out of the criminal records check requirement at Section 471(a)(20) of the Social Security Act prior to September 30, 2005, had until October 1, 2008, to implement the fingerprint-based check requirement. Effective October 1, 2008, a state is no longer permitted to opt out of the fingerprint-based check requirement. The opt-out provision does not impact tribes since they only became eligible to administer a Title IV-E plan on October 1, 2009. The statutory provisions apply to all prospective adoptive parents who are newly approved after the Title IV-E agency's authorized date for implementation of the fingerprint-based background check provisions. Title IV-E agencies may also require that certain other adult individuals living in the adoptive home be subject to a criminal records check. The completion or lack of completion of criminal records checks for persons other than prospective adoptive parents does not, however, impact Title IV-E eligibility (42 USC 671(a)(20)(B); Pub. L. No. 109-248, Section 152(c)(2); 45 CFR sections 1356.30(b) and (c); and the Child Welfare Policy Manual section 8.4F Q/A#4).

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- The prospective adoptive parent(s) and any other adult living in the home who has resided in the provider home in the preceding five years must satisfactorily have met a child abuse and neglect registry check. This requirement became effective on October 1, 2006, unless the state requires legislation to implement the requirement, in which case a delayed implementation is permitted until the first quarter of the state's regular legislative session following the close of the first regular session beginning after October 1, 2006. The requirement applies to foster care maintenance payments for calendar quarters beginning on or after that date. Tribes first became eligible to administer a Title IV-E plan effective on October 1, 2009, and must, therefore, comply with this requirement (42 USC 671(a)(20)(B); Pub. L. No. 109-248, sections 152(c)(2) and (3)).
- Once a child is determined eligible to receive Title IV-E adoption assistance, he or she remains eligible and the subsidy continues until (i) the age of 18 (or 21 if the Title IV-E agency determines that the child has a mental or physical disability which warrants the continuation of assistance); (ii) the Title IV-E agency determines that the parent is no longer legally responsible for the support of the child; or (iii) the Title IV-E agency determines the child is no longer receiving any support from the parents (42 USC 673(a)(4)(A) and (B)). Beginning on October 1, 2010, a Title IV-E agency may amend its Title IV-E plan to provide for a definition of a "child" as an individual who has not attained 19, 20, or 21 years of age (as the Title IV-E agency may elect) (42 USC 675(8)(B)(iii)). This definition of a child will then permit payment of adoption assistance for a child who is over age 18 (when the Title IV-E agency does not determine that the child has a mental or physical disability which warrants the continuation of assistance up to age 21) if such a youth is part of an adoption assistance agreement that is in effect under Section 473 of the Social Security Act and the youth had attained 16 years of age before the agreement became effective. As an additional requirement, a youth over age 18 must also (as elected by the Title IV-E agency) be (i) completing secondary school (or equivalent), (ii) enrolled in post-secondary or vocational school, (iii) participating in a program or activity that promotes or removes barriers to employment, (iv) employed 80 hours a month, or (v) incapable of any of these due to a documented medical condition (42 USC 675(8)(B)).

Once a child is determined eligible to received Title IV-E adoption assistance, he or she remains eligible and the subsidy continues until one the following events occur:

- The child turns 18 years old. (Or 21 if the IV-E agency determines the child has a mental or physical disability which warrants the continuation of assistance).
- The IV-E agency determines the parent is no longer legally responsible for the support of the child.
- The IV-E agency determines the child is no longer receiving any support from the parents

**Extended Adoption Support, Eligibility Requirements:** 42 USC 673(a)(4)(A) permits the IV-E agency to define a child as an individual who has not attained 19, 20, or 21 years of age. This permits the Department to continue to claim reimbursement for adoption support payments to recipients over age 18 if the adoption agreement was executed after the child was 16 years old. If the Department has not already determined the child has a mental or physical disability which warrants the continuation of assistance up to age 21, adoption support may continue for a youth after age 18 under until the age of 21 if they have a valid extended-adoption-support agreement and:

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1. The child was age 16 or older at the time of adoption and is participating in one of the categories of the Extended Foster Care program, which are:

1. Enrolled in high school, GED, or other equivalent secondary education program
2. Enrolled in post-secondary education program (such as college or vocational school).
3. Enrolled in a Program or activity designed to promote employment or remove barriers to employment (such as Job Corps).
4. Employed 80 hours or more per month,

***Note:** The Department will continue to support adopted youths ages 18-21 who were adopted before the age of 16 if they are attending a full-time high school completion/GED/High School Equivalency Certificate Program. The Department will claim IV-E funds if the youth is disabled. If the youth is not IV-E eligible, the Department pays for this support with State funds.*

## **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 with their internal controls over Eligibility on June 2, 2022 (See: [Internal Control request letter - Eligibility](#)) and received the Department's response, (see: [Adoption Internal Control request letter Response- Eligibility](#))

To gain an understanding of what the Department does to ensure:

- Children receiving adoption support are eligible.
- Providers undergo required background checks
- Department discontinues support after the child is no longer eligible

On July 25, 2022 we met with the following Adoption Support Staff:

Stefanie Niemala, Audit and Policy Liaison

Melanie Meyer, Administrator, Adoption Programs

Lindsay LeFever, Adoption Support Program Manager

Becky Taylor, QA Program Manager

Ivy Martinez, Title IV-E Training and Policy Program Manager



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Bob Ensley, Manager of Federal Funding

## **Adoption Intake Process:**

Once a prospective parent identifies a child with “special needs” whom they wish to adopt out of foster care, they must submit an application. An adoption-support-social worker works with the prospective adoptive parent(s) to complete the application packet, which contains the following components:

- Adoption Support Check List (See: [Adoption support checklist 10-477](#))
- Reimbursement request for non-recurring adoption costs such as legal fees and other costs associated with the adoption process (See: [Adoption Support Reimbursement Nonrecurring Costs 09-998](#)).
- Worksheet outlining household income and expenses of the assistance unit to determine IV-E eligibility (See: [Adoption Support Income Calculation 14-293](#)).
- Prospective adopter’s latest federal income tax return
- Child’s birth certificate and Social Security card
- Court order documenting the termination of the biological parent’s parental rights, and
- Child’s family medical history.

Once the application packet is complete, the parent requests a pre-placement report, also known as a "home study" by the Department (See: [Home Study](#)). The home study is required by RCW 26.33.190, and explicitly mentions that all pre-placement reports must include federally required background checks.

**Note:** Most parents request the study from the Department's Division of Licensed Resources (DLR), though the law allows the parent to request the study from a private placement agency, a court approved individual or a qualified court employee.

When DLR performs the home study, the adoption social worker forwards the request to DLR along with background authorization forms for all members of the prospective adoptive parent's household (See: [Background Check Authorization](#)). The DLR licensor uses a Home Study Checklist (See for licensed: [Home Study Checklist Licensed 10-182](#)) and (See for unlicensed: [Home Study Checklist Unlicensed 10-182A](#)) (Note: Unlicensed is for kinship caregivers and is used to make updates to homes as well when household changes occur, ie divorce, new household members etc.) to ensure they perform all of the required procedures, which are outlined in Policy 5110, (See: [Policy 5110](#)) see procedure #2 on Pg. 4). The Licensor forwards the background check authorization forms to the Children's Administration Background Check Unit (CABC). At the CABC, a background check specialist performs background checks according to Policy 6800. After the Licensor completes the home study, they forward it to their supervisor for approval. The supervisor reads the home study to ensure the licensor completed all components, including provider and household background checks. If the parent requests the home study from someone other than the Department, the Adoption social worker performs a review to ensure the individual or private agency has performed the criteria outlined in RCW 26.33.190, including applicable background checks.

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The Adoption Support Consultant ensures each adoptive family has a completed homestudy and thereby completed the required background checks prior processing their adoption support request in Famlink and will save the information. To ensure the homestudy is accurate and complete and thereby all required background checks a supervisor will review their work and indicate their approval on a checklist/Famlink, Famlink also has built in segregation of duties controls where the licensor cannot approve their own homestudy work and license the facility (**Control Activities/Automated Control**).

Once the consultant receives the Adoption Application, they use an eligibility module in FamLink to make an eligibility decision. The consultant inputs the child's information into the module and the modules determines if the child meets the "special needs" criteria. After this, they notify a IV-E specialist in their region who uses the module to determine if the child is eligible and if so, which category of eligibility into which the child falls (i.e. applicable/non-applicable). After both workers have input their information, the module will determine if the child is eligible, record their category of eligibility and assign a corresponding source-of-funds code; SOF 2 for eligible and SOF 5 for non-eligible. The Adoption Support Consultant reviews/enters eligibility information related to the child such as their SSN, Birth Certificate and completes Form 14-319 (See: [14-319 IV-E Eligibility Determination for an Adoption Support Application](#))show and tell in FamLink to document the eligibility decision and ensure its eligibility is determined correctly (**Control Activities**). The Title IV-E Specialist will send the form back to the Adoption Support Consultant for them to retain in the child's file.

If the home study determines the parent(s) are suitable, the adoption consultant does two things. They notify Management Analyst, who creates a profile for the parent's into the Social Service Payment System (SSPS) so the Department can pay the parents and begin negotiating the monthly adoption support amount with the parents. The Adoption Consultant determines adoption support rates by following the guidance from the Child Welfare Policy Manual (documented in step 2).

The Department outlines the methodology for determining subsidy payments, one time reimbursements and the statutory subsidy limits in Policy 5700 Section 2-c. Because the policy does not list the specific statutory caps for each circumstance, management provided the consultants with a reference sheet that clearly outlines the statutory rate for each circumstance (**Information and Communication**).

The Adoption consultant documents the rationale for the subsidy amount, including any non-recurring costs, in FamLink before drafting the Adoption Support Agreement (See: [Adoption Support Agreement 10-228](#)). The agreement outlines the recurring payments, the ongoing monthly cash payment and reimbursements for legal costs up to \$1,500. The consultant sends the draft agreement to the adoption social worker, who presents it to the parents for their signature.

The Adoption Consultant and Administrative Services Director, Edith Hitchings (or her designee), authorize the agreement. Then the adoption social worker compiles the completed adoption packet and provides it to the parent's attorney and the court and works with the court to obtain the Adoption Decree. After the social worker obtains the decree from the court, they send the completed decree to the consultant. After the consultant receives the Adoption Decree, they set up the adoption support case in FamLink and notify a fiduciary-worker in the Payment Integrity Unit, who initiates the subsidy payments.

FamLink will continue to make the recurring subsidy payments until an automated system control suspends adoption support payments on the child's 18<sup>th</sup> birthday and it also has built in segregation of duties controls where a licensor cannot approve their own homestudy work and license the facility without supervisor approval (**Control Activities**). Children are eligible for adoption support until their 18<sup>th</sup> birthday, unless the child meets the extended eligibility requirements.

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## Notes for subsequent audit:

DCYF is implementing an online portal in November of 2022 which will change how supporting documents are gathered and stored. This will bring the usual risks associated with implementing a new system but will hopefully also make it easier for us to request support.

Due to a recent State Supreme Court decision (In re Dependency of KW), the department is no longer performing adopt only home studies ( those home studies for prospective parents who are not already licensed in the foster care system).

## Summary of Key Controls

**(Key Control #1)** - To ensure the homestudy is accurate and complete and thereby all required background checks a supervisor will review their work and indicate their approval on a checklist/Famlink, Famlink also has built in segregation of duties controls where the licensor cannot approve their own homestudy work and license the facility **(Control Activities/Automated Control)**.

key control #2**(Key Control #2)** -The Adoption Support Consultant utilizes the Form 14-319 in FamLink to determine the eligibility for children. The Adoption Consultant follows the form which has all eligibility criteria and reviews documentation and other information in FamLink to ensure eligibility is determined correctly **(Control Activities)**

(Adoption-Eligibility**Key Control #3)** -FamLink will continue to make the recurring subsidy payments until an automated system control suspends adoption support payments on the child's 18<sup>th</sup> birthday **(Automated Control)**

**Evaluation of Results:** Did you identify any control deficiencies? No

## 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.

## D.5.PR.G - 93.659-Adoption Assistance - DCYF

*Procedure Step:* G. Matching - Controls

*Prepared By:* JDP, 10/7/2022

*Reviewed By:* MKH, 10/7/2022

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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 key internal controls the agency has established to prevent or detect noncompliance with matching requirements.

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

**Source:**

Stefanie Niemela- Audit and Policy Liaison

Leon Terao- Cost Allocation Grants Manager

Michelle Salinas- Budget Coordinator, DCYF Financial and Business Services

**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.

**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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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 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**

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.

The compliance supplement states that the Department is required to provide contributions of state funds at a specified percentage to match their Federal award. The following is an abbreviated excerpt from the compliance supplement:

*The percentage of required State/tribe funding and associated Federal funding ("Federal financial participation" (FFP) varies by type of expenditure as follows:*

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- a. Third party in-kind contributions cannot be used to meet the State's cost sharing requirements.*
- b. The percentage of Federal funding in foster care maintenance payments will be the Federal Medical Assistance Program (FMAP) percentage. Maintenance payments incurred by participating tribes are to be calculated via the Federal Register that is available at [\[FMAP\]](#).*
- c. The percentage of Federal funding in expenditures for short- and long term training is 75%.*
- d. The percentage of Federal funding in expenditures for short-term training is 75%.*
- e. Administrative Costs:*
  - 1. The percentage of Federal funding for expenditures for planning, design, development, and installation and operation of a statewide or tribal service area-wide data collection system is 50%.*
  - 2. The percentage of Federal funding for expenditures for adoption placement non-recurring costs expenditures is 50% for up to \$2,000 for each adoptive placement.*
  - 3. The percentage of Federal funding of all other allowable administrative expenditures is 50%.*

### **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 with their internal controls over Matching on June 2, 2022 (See: [Internal Control request letter - Matching and Level of Effort](#)) and received a response on June 23, 2022(See: [Adoption Internal Control request letter Response- Matching and Level of Effort](#))

On July 19, 2022 the auditor met with Budget Coordinator, Michelle Salinas, Cost Allocation and Grants Manager, Leon Terao, and Audit and Policy Liaison, Stefanie Niemela to gain an understanding of the system of controls in place to ensure the Department provided the required amount of matching funds from an allowable source.

The Department uses expenditure coding in the cost allocation system (CAS) to track the matching rate for each type of expense; the CAS is a sub-system of AFRS. When expenses enter the AFRS system, either automatically or by manual entry, the expenses are assigned a schedule-link, which is a combination of a program index and an allocation code. The schedule link tells the CAS how to split the cost of each expense. Every night the CAS "pulls" the expense out of AFRS, splits the cost according to schedule-link and "re-enters" the expense. Before the beginning of the Federal Fiscal Year, the Cost Allocation and Grants Manager prepares an edit workbook with the appropriate match rates for the various revenue

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codes. After these updates are reviewed by the Budget Coordinator, they are entered into AFRS by a third individual and tested to ensure the Federal/State split is calculating correctly.

During the bi-weekly cash draw process, the DCYF Finance staff rely on the expenditure coding to run AFRS reports that identify program expenditures and their respective federal and state proportion. Finance requests the federal portion of the total expenditures and the remaining state portion is the match.

The Finance Division uses a two-step review process with a separation of duties to ensure any edits to the CAS are correct and input accurately. Each program within the Department is responsible for notifying the Finance Division when changes to matching rates become necessary. After the program designee requests an edit to its expenditure coding, one of two managers (either the Cost Allocation Manager or the Cost Allocation and Grants Manager), will prepare the edits on a standardized edit workbook. The Department uses accounting coding setup through edit forms to track expenditures related to matching funds to ensure compliance requirements are met (**Control Activities**). Regardless of who prepares the edits, the preparer submits the edit form to other manager for approval. The approver uses their knowledge of the program and associated references (e.g. FMAP tables, CB 496 instructions and the Tribal Federal Medical Assistance Percentage tables), to ensure the accuracy of the matching rates. The Department uses edit forms to ensure state expenditures will be matched at the correct Federal Medical Assistance Percentage (FMAP) and these forms are created by Cost Allocation and Grants Specialist and approved by grant manager (**Control Activities**). After the approver ensures the edits are accurate, they forward the edit workbook to another Finance staffer, who inputs the edits in the CAS. After the staffer inputs the edits, either the preparer or the approver double check the edits in the CAS to ensure they match the approved work book. To ensure the edits in CAS match the workbook another individual verifies the edits match between CAS and the workbook (**Control Activities**). Each individual in the process documents their role in the work book by attesting to their duties in the "staff roles" tab and by including the communications in the "emails" tab that demonstrate the delegation and completion of specific tasks.

We asked the Department if anyone monitors the Matching rate during Reporting and found that when the Department reports the CB-496 report that the report does not break out the amounts by activity type rather it gives the total amounts during the period. Because the matching requirements are applicable to the types of activities, monitoring the matching requirement during reporting is not effective to ensure correct matching rate is applied to correct activities.

We also issued a finding during the SFY21 audit. To see the finding (See: [FY21 Adoption Findings](#)) and the Corrective Action Plan (CAP) completed by the Department (See: [307 DCYF 2021-004 Adoption Assistance Matching CAP](#)). We spoke with Stefanie Niemela to determine if any updates were made to the Department's CAP it was stated that no updates were necessary for the CAP as it has already been completed.

### Summary of Key Controls

**Key Control #1:** The Department uses accounting coding setup through edit forms to track expenditures related to matching funds to ensure compliance requirements are met. (**Control Activities**).

**Key Control #2:** The Department uses edit forms to ensure state expenditures will be matched at the correct Federal Medical Assistance Percentage (FMAP) and these forms are created by Cost Allocation and Grants Specialist and approved by grant manager (**Control Activities**).

**Key Control #3:** To ensure the edits in CAS match the workbook another staff other than the inputter verifies the edits match between CAS and



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the workbook (**Control Activities**)

**Evaluation of Results:** Did you identify any control deficiencies? No

## **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.

## **D.5.PR.G - 93.659-Adoption Assistance - DCYF**

*Procedure Step:* G. Level of Effort - Controls

*Prepared By:* CL, 8/16/2022

*Reviewed By:* MKH, 8/19/2022

|                     |
|---------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with level of effort requirements.

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

### **Source:**

Stefanie Niemela- Audit and Policy Liaison

Leon Terao- Cost Allocation Grants Manager

Michelle Salinas- Budget Coordinator, DCYF Financial and Business Services

### **Conclusion:**

Based on our understanding of internal controls over Level of Effort requirements, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess **preliminary control risk as high and will report a finding for a material weakness.** Add Finding Issue We

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determined that for most of the audit period controls were not in place to ensure that the level of effort requirement to spend at least 30% of adoption savings is met. Allowed costs are not tracked against adoption savings for each FFY ended accrued adoption savings. While the Department is not tracking adoption savings to verify 30% is spent on post-adoption services, the level of effort requirement must be met when all adoption savings for a FFY that were accrued are expended. We will issue a control finding for a repeat issue (See: 2022-052 The Department of Children, Youth, and Families did not have adequate internal controls over level of effort requirements for the Adoption Assistance program.)

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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*

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*automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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.***

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,

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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.

## **Gather Information**

### **Step 2**

We began by reviewing the testing strategy and part 4 of the compliance supplement, which in brief, requires the Department to do the following:

- Use an ACF approved methodology to calculate the amount of any adoption savings, account for how such savings are spent, and report the spending separately from other spending;

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- Spend those savings back into the Adoption Support program on services allowable under Title IV-B or IV-E ([42 USC 673\(a\)\(8\)](#)), while ensuring to spend no less than 30 percent of the savings on post-adoption services, post-guardianship services, and services to support positive outcomes for children at risk of entering foster care and at least two-thirds of the 30 percent must be spent on post-adoption and post-guardianship services;
- Adoption savings are not required to be expended in the same FFY for which they are calculated, however, Title IV-E agencies must use the savings to supplement and not supplant any federal or nonfederal funds used to provide Title IV-B or IV-E services

### 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 with their internal controls over Level of Effort (See: [Internal Control request letter - Matching and Level of Effort](#)) and received the Department's response, (see: [Adoption Internal Control request letter Response- Matching and Level of Effort](#))

On July 19, 2022, we met with accounting and program staff to gain an understanding of the internal controls that were in effect at the time the Department submitted the CB-496, Part Four for FFY21. Present at the meeting were:

- Stefanie Niemala, Audit and Policy Liaison
- Leon Terao, Cost Allocation and Grants Manager Lead
- Michelle Salinas, Budget Coordinator
- Melanie Meyer, Administrator, Adoption Programs
- Lindsay LeFever, Adoption Support Program Manager

### Calculating Adoption Savings

To determine their savings amount, the Department uses the “CB Method with Actual Amounts”. This method requires the Department to compute the federal portion of adoption assistance payments and administrative costs paid on behalf of all recipients who would not have otherwise been eligible but for meeting applicable-child criteria. Leon Terao, Cost Allocation and Grants Manager Lead, is responsible for calculating the savings figures.

To calculate the savings amount, the Cost Allocation Grants Manager examines the Department's chart of accounts/expenditure-codes in relation to the CB-496 instructions and prepares a crosswalk-document that lists the reporting criteria (i.e AFRS Expenditure coding and/or other info to ensure that it will produce the information needed for each line of the CB-496 and signs the crosswalk indicating its approval for use (**Control Activities**) (*Note: This key control was identified in Reporting.*) . After the Cost Allocation Grants Manager has the crosswalk, they obtain the applicable child count information from the Data unit, and use additional SQL queries from the data team to calculate the applicable and non-applicable children. The queries return the person ID #s of all Title IV-E-eligible

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adoption agreements added to the Department's caseload during the current FFY. Leon then uses a second query to determine which category each child fell into (ie. applicable/non-applicable). To ensure that child count is correct the Cost Allocation Grants Manager reviews the sequel query data to ensure that it is for the correct period **(Control Activities)** *(Note: This key control was identified in Reporting)*. Then, he uses a logic statement in Excel to identify all applicable-child-only cases in the results. Next, Leon takes the list of applicable-child-only cases added to the Department's caseload during the current FFY and combines it to the total list of applicable-child-only cases from the previous year. Then he identifies all adoption support payments made to the recipients on the combined list during the current FFY. Leon then breaks down the child count and payment information by month and provides the information to Michelle Salinas, Budget Coordinator. Once the review is complete, the Budget Coordinator certifies and submits the report in OLDC indicating their review **(Control Activities)** *(Note: This key control was identified in Reporting)*.

**Note:** To determine whether an eligible child is applicable, non-applicable, or both, the Department uses the eligibility module in FamLink. The module determines the eligibility-category for each adoption support recipient and stores the information in their FamLink file.

-

### Expending the Savings

In order to use the savings to supplement the program, the Department began offering a number of services to adoptive parents and children that were not available prior to 2015 (when the level of effort requirement took effect). Currently, the Department spends adoption savings exclusively on post-adoption services. Child Welfare Program staff, in coordination with the Cost Allocation and Grants Management Unit, are responsible for ensuring the funds are spent according to federal requirements. The Department accounts for how such savings are spent and reports the spending separately from other spending. The Cost Allocation and Grants Manager reviews backup documentation to ensure it is accurate and supported **(Control Activities)**. Post-adoption services fall under three categories: evidence-based practices, pre-authorized counseling, and in-home support services. In the preceding years, Adoption Support management educated their staff on the post-adoption support services and directed staff to offer these services to adoptive parents. Additionally, the Department has produced informative literature about post-adoption services for the public and has noted post-adoption services in policy 5700 regarding Adoption Support. To avoid supplanting existing services, Michelle says that the Department only adds and pays for new services. Lindsay LeFever has created a flowchart showing the different programs that Adoption Savings fund (See: [FlowChartAdoptionSavings062022](#))

To track post-adoption spending, the Department implemented a series of service and reason codes in FamLink and the Social Service Payment System (SSPS) which feed into program index A16\* in AFRS and are tied to Funding Source 5, Fund 001, SubObject NB, and Allocation 0010. **(Control Activities)** The Department uses these codes exclusively for adoption savings spending. The Department began using these codes at the beginning of FFY 2018, (October 1, 2017) with a service effective start date of July 1, 2016.

The Department is meeting the above requirements, but if issues arise with spending levels, then the data is reviewed and expenditures are transferred as appropriate. Child Welfare Program staff are responsible for knowing how much in savings funds are available. Melanie and Leon work in tandem and Leon sends Melanie the adoption savings report upon request for review and tracking. The Department established a new position and hired Lindsay LeFever, Adoption Support Program Manager starting February 16, 2022 who will be responsible for the adoption savings program. Control WeaknessAdd documents

### Control Weakness

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Lindsay LeFever was hired to monitor Adoption Savings funds late in SFY22. Monthly meetings with fiscal only began in May of 2022. Monitoring was not adequate for the audit period **(Control Weakness)**.

## **Prior Year Finding**

In SFY21 we determined that The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with level of effort requirements for the Adoption Assistance program

(See: Final FI S1Washington SA21 DCYF-011 Adoption Assistance Level of Effort). The Department Completed its Corrective Action Plan for this finding (see: 307 DCYF 2021-011 Adoption Assistance Level of Effort CAP) in May of 2022. The CAP was implemented during the year, but until that time the finding was unresolved during the audit period . Reporting Section

## **Summary of Key Controls:**

**Key Control #1-Control Activities:** The Cost Allocation Grants Manager examines the Department's chart of accounts/expenditure-codes in relation to the CB-496 instructions and prepares a crosswalk-document that lists the reporting criteria (i.e AFRS expenditure coding and/or other info) to ensure that it will produce the information needed for each line of the CB-496 **(Control Activities)**

**Key Control #2-Control Activities:** To ensure the child count is correct the CAGML reviews the sequel query data to ensure that it is for the correct period **(Control Activities)**

**Key Control #3-Control Activities:** The Cost Allocation Manager reviews backup documentation to ensure it was derived from the instructions in the crosswalk, and that the supported-figure ties to the number on the draft report. Once the review is complete, the Cost Allocation Manger certifies and submits the report in OLDC indicating their review **(Control Activities)**.

**Key Control #4 - Control Activities:** The Department accounts for how such savings are spent and reports the spending separately from other spending. The Cost Allocation and Grants Manager reviews backup documentation to ensure it is accurate and supported **(Control Activities)**.

**Key Control #5 - Control Activities:** The Department spends adoption savings exclusively on post-adoption services. To track post-adoption spending, the Department implemented a series of service and reason codes in FamLink and the Social Service Payment System (SSPS) which feed into program index A16\* in AFRS and are tied to Funding Source 5, Fund 001, SubObject NB, and Allocation 0010. **(Control Activities)**.

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## Evaluation of Results: Did you identify any control deficiencies? Yes

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 **more than remote** and the magnitude of potential noncompliance is **material**.
2. Conditions are the same as for the control finding in prior year.

## Preliminary Control Risk Assessment

### Step 4

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).

We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.

- We determined that for most of the audit period controls were not in place to ensure that the level of effort requirement to spend at least 30% of adoption savings is met. Allowed costs are not tracked against adoption savings for each FFY ended accrued adoption savings. While the Department is not tracking adoption savings to verify 30% is spent on post-adoption services, the level of effort requirement must be met when all adoption savings for a FFY that were accrued are expended. We will issue a control finding for a repeat issue (See: 2022-052 The Department of Children, Youth, and Families did not have adequate internal controls over level of effort requirements for the Adoption Assistance program.)

## D.5.PR.G - 93.659-Adoption Assistance - DCYF

**Procedure Step:** L. Reporting - Controls

**Prepared By:** CL, 7/13/2022

**Reviewed By:** MKH, 8/11/2022

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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.



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

**Source:**

Stefanie Niemela- Audit and Policy Liaison  
Leon Terao- Cost Allocation Grants Manager

**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.*

**AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

**Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282)**

**(Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS.**

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Information input to FSRS is available at [USASpending.gov](https://www.usaspending.gov) as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).

For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.

In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.

(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).

### 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the**

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document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.

**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.***

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,

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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)<br/>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**

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

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specific requirements for Reporting.

We examined part four of the 2021 compliance supplement, which listed the following applicable areas:  
Form CB-496, Title IV-E Programs Quarterly Financial Report:

- Part 1, Expenditures, Estimates and Caseload Data, columns (A) through (D) (sections B and D for Adoption Assistance Program)
- Part 2, Prior Quarter Expenditure Adjustments – Adoption Assistance, columns (A) through (E)
- Part 3, Foster Care, Adoption Assistance and Guardianship Assistance Demonstration Projects, columns (A) through (F)
- Part 4, Annual Adoption Savings Calculation and Accounting Report, columns (A) through (C)

## 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 with their internal controls over Reporting on June 2, 2022 (See. Internal Control request letter - Reporting) and received a response on June 23, 2022 (See. Adoption Internal Control request letter Response- Reporting).

July 12, 2022 we met with Stefanie Niemela and Leon Terao to gain an understanding of the Department's reporting process and key controls. During the meeting, we discussed the internal controls identified in the internal control letter. We also asked they note any discernable differences between how the reporting for Adoption and Foster Care may differ in which, they reported that they used different coding to run the reports but the overall process is the same.

The Cost Allocation Grants Manager examines the Department's chart of accounts/expenditure-codes in relation to the CB-496 instructions and prepares a crosswalk-document that lists the reporting criteria (i.e AFRS expenditure coding and/or other info) to ensure that it will produce the information needed for each line of the CB-496 and signs the crosswalk indicating its approval for use. **(Control Activities)** After the Cost Allocation Grants Manager has the crosswalk, they obtain the applicable child count information from the Data unit, who acquires the information from FamLink via SQL Server query. To ensure the child count is correct the CAGM reviews the sequel query data to ensure that it is for the correct period **(Control activities)**. The CAGM then follows the instructions in the crosswalk and prepares the CB-496 report using a combination of source reports from AFRS and child count information for each line and records the information on a draft of the CB-496 reporting form in the ACF Online Data and Collection Center (OLDC) . The CAGM then sends the expenditure, child count information, and the draft report to the Cost Allocation Manager for review. The Cost Allocation Manager reviews backup documentation to ensure it was derived from the instructions in the crosswalk, and that the supported-figure ties to the number on the draft report. Once the review is complete, the Cost Allocation Manager certifies and submits the report in OLDC indicating their review **(Control Activities)**.

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Note about tribal expenditure information: The Lummi and Quinault Indian Tribes, which are the only tribes participating in the state's IV-E program, use separate FMAP rates for maintenance payments that differ from the state FMAP rate. The Department accounts for these tribal payments under two distinct COBJ codes. However, the cost allocation system (CAS) does not automatically allocate tribal maintenance payment-costs to these COBJs based on the respective tribal rates. This is because programming FamLink (which is where the CAS gets the information to know how to split the cost) to account for more than one FMAP rate would be prohibitively difficult. Therefore, FamLink codes all payments (including tribal payments) at the state FMAP rate, which the CAS allocates accordingly at 50/50 Fed/State. The cost allocation staff then retroactively correct the amounts via JV based on payment data provided by the data unit. Because it is possible to program FamLink to track tribal affiliation, the Data unit writes a SQL query to identify all maintenance payments made to recipients who were affiliated with the tribes during the reporting period. The cost allocation staff then use this information to JV the funds to the Quinault and Lummi COBJs respectively.

## **Summary of Key Controls:**

**Key Control #1-Control Activities:** The Cost Allocation Grants Manager examines the Department's chart of accounts/expenditure-codes in relation to the CB-496 instructions and prepares a crosswalk-document that lists the reporting criteria (i.e AFRS expenditure coding and/or other info) to ensure that it will produce the information needed for each line of the CB-496 (**Control Activities**)

**Key Control #2-Control Activities:** To ensure the child count is correct the CAGML reviews the sequel query data to ensure that it is for the correct period (**Control Activities**)

**Key Control #3-Control Activities:** The Cost Allocation Manager reviews backup documentation to ensure it was derived from the instructions in the crosswalk, and that the supported-figure ties to the number on the draft report. Once the review is complete, the Cost Allocation Manager certifies and submits the report in OLDC indicating their review (**Control Activities**).

**Evaluation of Results:** Did you identify any control deficiencies? No

## **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.

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### D.6.PR.G - 93.767-Children's Health Insurance Program (CHIP) - HCA

*Procedure Step:* A-B. Activities Allowed/Cost Principles - Controls  
*Prepared By:* AWW, 3/27/2023  
*Reviewed By:* SAG, 3/27/2023

#### 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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

##### **Source:**

SFY2022 ACFR General Fund audit over the Human Services line item at “D.4.PR.G : S1 Washington-FS22 : 12/22/2021 - Human Services”

##### **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)**

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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 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



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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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))

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(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

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**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)**

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.

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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 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.

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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)**

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

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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.

EXAMPLE:

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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**

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

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**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)<br/>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 <b>types</b> 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 <b>only</b> 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. |
|----------------------|

### **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

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### *1. Activities Allowed*

States have general flexibility in allocating their individual allotments toward activities needed to operate the CHIP (section 2105 of the Act (42 USC 1397ee(a)). In addition to expenditures for child health assistance under the plan for targeted low-income children, other allowable activities, to the extent permitted by 42 USC 1397ee(c), include payment of other child health assistance for targeted low-income children; expenditures for health services initiatives for improving the health of children (targeted and other low income) under the plan; expenditures for outreach activities; expenditures for translation and interpretation services in connection with the enrollment, retention of, and use of services under Title XXI by individuals for whom English is not their primary language (as found necessary by the secretary for the proper and efficient administration of the state plan); and other reasonable costs incurred by the state to administer the plan (42 USC 1397ee).

### Managed Care

A state may use managed care for the delivery of some or all its CHIP benefits and services for either all or a subset of the CHIP populations served under the CHIP state plan. Under managed care, the delivery of benefits and services are through contracted arrangements between state CHIP agencies and managed care plans that accept a set per member per month (capitation) payment for the services.

States must comply with the managed care regulations at 42 CFR Part 457, Subpart L, for utilization of a managed care delivery system. These regulations align CHIP rules with those of other health insurance coverage programs, such as Medicaid and the Marketplace, to reflect how states purchase managed care for beneficiaries, and to strengthen the consumer experience and key consumer protections.

CHIP managed care guidance can be found at [CHIP Managed Care | Medicaid](#).

### Health Services Initiatives (HSI)

Under section 2105(a)(1)(D)(ii) of the Act (42 USC 1397ee(a)(1)(D)(ii)), states have the option to develop state-

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designed health services initiatives (HSIs) that improve the health of low income and targeted low-income children. Under implementing regulations at 42 CFR 457.10, HSIs must include activities that protect the public health, protect the health of individuals, improve or promote a state's capacity to deliver public health services, or strengthen the human and material resources necessary to accomplish public health goals related to improving the health of children. HSIs may also be directed at low-income pregnant women or parents; however, HSIs may only provide services for adults if the project directly improves the health of children.

Federal funding for HSIs is expended from a state's available CHIP allotment for a fiscal year. Under section 2105(c)(2)(A) of the Act (42 USC 1397ee(c)(2)(A)), claims for HSIs and certain other expenditures such as administrative expenses cannot exceed 10 percent of the total amount of title XXI funds claimed by the state each quarter. States must fund all CHIP state plan benefits before using allotment for HSIs.

HSIs are implemented through an amendment to the CHIP state plan. States' approved HSI programs are described in section 2.2 of the CHIP state plan template. HSI budget information is provided at section 9.10 of the CHIP state plan.

CHIP HSI guidance can be found at [1005 NAS CIB \(medicaid.gov\)](#).

### Premium Assistance

A state may pay premiums for employer sponsored insurance on behalf of a CHIP beneficiary if it is cost effective to do so. When providing premium assistance, states must ensure that children have access to all mandatory benefits provided under the CHIP state plan, and that they are not required to incur greater out-of-pocket costs for premiums, deductibles, co-payments or similar cost sharing charges than under the CHIP state plan. Individual state premium assistance programs are described in the CHIP state plan.

### *2. Activities Unallowed*

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Federal funds may not be expended under the CHIP state plan to pay for any abortion or to assist in the purchase, in whole or in part, of health coverage that includes coverage of abortion, except, if necessary, to save the life of the mother or if the pregnancy is the result of incest or rape (Section 2105(e) of the Act (42 USC 1397ee(c))).

### B. Allowable Costs/Cost Principles

1. CHIP regulations under 42 CFR 457.628(a) make the Medicaid requirements at 42 CFR sections 433.50 through 433.74 regarding sources of nonfederal share and Health Care-Related Taxes and Provider Related Donations applicable to CHIP in the same manner as they apply to state Medicaid programs. Before calculating the amount of FFP, certain revenues received by a state will be deducted from the state's medical assistance expenditures. The revenues to be deducted are (1) donations made by health care providers or related entities (except for bona fide donations and, subject to a limitation, donations made by providers for the direct costs of out-stationed eligibility workers); and (2) impermissible health care related taxes that exceed a specified limit (Section 1903(w) of the Act (42 USC 1396b(w))); 42 CFR section 433.57).

(a) "Provider-related donations" are any donations or other voluntary payments (in-cash or in-kind) made directly or indirectly to a state or unit of local government by: (1) a health care provider, (2) an entity related to a health care provider, or (3) an entity providing goods or services under the CHIP state plan and paid as administrative expenses. "Bona fide provider-related donations" are donations that have no direct or indirect relationship to payments made under Title XIX (42 USC 1396 et seq.) to (1) the donating provider, (2) providers furnishing the same class of items and services as the donating provider, or (3) any related entity (42 CFR sections 433.58(d) and 433.66(b)).

(b) Permissible health care-related taxes are those taxes that are broad-based; are uniformly applied to a class of health care items, services, or providers; and do not hold a taxpayer harmless for the costs of the tax. A tax program for which CMS has granted a waiver may also be considered permissible health care-related taxes. Health care-related taxes that do not meet these requirements are impermissible health care-related taxes (42 CFR section

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433.68(b)).

These provisions apply to all 50 states and the District of Columbia, except those states whose entire Medicaid program is operated under a waiver granted under Section 1115 of the Act (42 CFR 433.50(c)).

2. The 42 CFR 457.628(b) makes 45 CFR Part 75—Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards (except as specifically excepted) applicable to the CHIP program.

3. The 42 CFR 457.1203 requires each Medicaid managed care plan to calculate and report a MLR for rating periods starting on or after July 1, 2017 and require each CHIP managed care plan to calculate and report a MLR for rating periods in CHIP managed care contracts as of the state fiscal year beginning on or after July 1, 2018. If a state elects to mandate a minimum MLR, that minimum MLR must be at least 85 percent. The regulation cross-references 42 CFR section 438.8(e)(4), which incorporates the standards adopted for the private insurance market MLR (45 CFR section 158.150) for the treatment of fraud prevention expenses in the numerator of the MLR calculation. The MLR is reported for a rating period, using data from that rating period.

With regard to capitation rate setting for CHIP managed care plans, under 42 CFR 457.1203(a), states must use payment rates based on public or private payment rates for comparable services for comparable populations, consistent with actuarially sound principles as defined at Section 457.10. In addition, for both Medicaid and CHIP managed care plans, the rates must be developed so that the managed care plan is projected to meet an 85 percent MLR (42 CFR 457.1203(c)(1)).

### Indirect Costs

The Authority administers a number of state and federal programs that provide financial or medical assistance and social services to eligible clients. Each Authority program is authorized and funded by federal statute and/or state law. Federal statutes specify what costs of administering the program are allowable or unallowable, and also specify the rate of Federal Financial Participation (FFP) at which the state is reimbursed for the costs. The FFP



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varies depending on the Federal Title, fiscal year of the grant, and when the costs are incurred. As is defined in Title 2 CFR Part 200 for Public Assistance Cost Allocation plans, the Authority - 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. These expenditures are cost allocated as incurred. The system consists of the written and the automated allocation plan. The Authority's 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. As subobject NB - Payments to Providers for Direct Client Services represents over 96 percent of CHIP expenditures, and is not subject to indirect cost rules as passthrough funding, total indirect costs were less than four percent of total expenditures and therefore immaterial. This was confirmed by Kari Summerour, External Audit Liaison, on January 1, 2022.

### Material Expenditures

We identified the following expenditure activities that are directly charged to the program and are quantitatively material (more than 5%): Subobject NB - Pymts to Prvdrs for Direct Client Srvcs; 96.94 percent (see FY22 CHIP Expenditures). Highlighted Section

### 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.

**Note: A portion of this understanding was gained simultaneously with the state fiscal year 2022 Annual Comprehensive Financial Report (ACFR) General Fund audit over the Human Services line item at**

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**“D.4.PRG : SIWashington-FS22 : 12/22/2021 - Human Services” . The control understandings were confirmed in subsequent meetings during the CHIP Single Audit. This procedure is a combination between information obtained in those subsequent meetings and *paraphrased portions* of the write-ups from the following ACFR procedures:**

- **"Controls - ProviderOne"**
- **"Key Control #5 (Manual)"**
- **"Key Control #6 (Manual)"**

**The associated ACFR procedures were reviewed by Scott Bills, Program Manager, in October 2022. These portions are identified below by indication of red text.**

### CHIP Clients

The approved CHIP State Plan details the allowable medical services (similar to Medicaid's State Plan), which includes a comprehensive list such as inpatient and outpatient services, physician, surgical, and clinic services, prescription drugs, mental health, dental, glasses, chiropractic, family planning, hearing aids, hospice, substance abuse, medical transportation, etc. Unallowable activities noted include abortions unless it is medically necessary to save the life of the mother or if the pregnancy is the result of incest or rape (42 USC 1397ee(c)). For a full listing of allowable and unallowable services, see Section 6 - Coverage Requirements for Children's Health Insurance (pages 103-135) of the CHIP state plan at [FY22 CHIP State Plan \(WA-22-1000\) State Plan](#), which was last updated April 7, 2022, and the Authority's Apple Health Coverage website (see [Services covered by Apple Health](#)).

In order for one of the listed expenditures to be allowable, the client must be eligible for CHIP and the service provider must be eligible to receive CHIP funds. We separately gained an understanding for both client eligibility (see [E. Eligibility - Controls](#)) and provider eligibility (see [N. Special Tests and Provisions: Provider Eligibility - Controls](#)). At the time a client is applying for services, they will provide all relevant information and the system will automatically determine whether the client meets the requirements for CHIP and will code them with a CHIP Recipient Aid Category (RAC) Code as well as the appropriate Coverage Group. The following RACs and Coverage Groups are

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applicable to the CHIP program:

- RAC 1206 & Coverage Group N13 - Tier 1 premium payment for children under 19 with income greater than 210 percent, but less than or equal to 260 percent of the Federal Poverty Line (FPL).
- RAC 1207 & Coverage Group N13 - Tier 2 premium payment for children under 19 with income greater than 260 percent, but less than or equal to 312 percent of the FPL.
- RAC 1211 & Coverage Group N33 - This is the "sister" to RAC 1206, but is designated for nonqualified non-citizens in Tier 1. These expenditures are stated funded.
- RAC 1212 & Coverage Group N33 - This is the "sister" to RAC 1207, but is designated for nonqualified non-citizens in Tier 2. These expenditures are stated funded.

Accounting codes are automatically determined for each CHIP transaction (claim) based on the program and system logic. After the client has been determined eligible for CHIP, when they have services provided, ProviderOne (P1) will assign the allocation code "241A" to payments that are made for CHIP children with the CHIP RAC code. A combination of Program Index (PI) and Allocation code determines Cost Objective (COBJ), which directs the payments to appropriate funding source.

### Gain an Understand of Internal Controls

The Medicaid Management Information System (MMIS) is the mechanized Medicaid benefit claims processing and information retrieval system required for Medicaid unless this requirement is waived by the Secretary. The Medicaid program is highly dependent on this system and the internal controls and security of MMIS are germane to the proper operation of the Medicaid program. Washington State's MMIS is ProviderOne. The Health Care Authority (HCA) contracted with the vendor Client Network Services, LLC. (CNSI) to develop ProviderOne to process state Medicaid payments. On May 9, 2010, the ProviderOne system went live, replacing the legacy Medicaid Management Information System (MMIS) as the State's primary provider payment processing system.

Since May 9, 2010, ProviderOne has been processing payments for managed care, hospital, medical, dental,

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medical supplies, vision, and nursing home claims in “Phase 1”. Since January 15, 2015, social service provider payments, such as adult family home, assisted living home and home care agency claim payments, have been processed through ProviderOne instead of the Social Services Payment System (SSPS) in “Phase 2”. Additionally, W2 social service provider payments were transferred from SSPS to IPOne, a new online billing system for W2 providers, as of March 2016. W2 provider payments, such as self-employed individual provider payments, have been processed through IPOne instead of the Social Services Payment System (SSPS) since March 2016.

Payments initiated from ProviderOne can originate from two different subsystems: Claims and Managed Care. Medical or social service claim payments to providers are processed through Claims; managed care monthly premiums are paid to Managed Care Organizations (MCO) through Managed Care. Premium assistances are paid to insurance organizations or clients through TPL.

HCA has implemented system edits in ProviderOne to adjudicate medical/social service claims and managed care monthly premium payments. These system edits allow HCA to automate the process of determining whether a claim should be paid. Essentially, the edits contain all the rules of the Medicaid program.

Some of the key attributes of a claim that are checked by the edits include:

- The provider is eligible to provide the specific service covered by the plan to the specific beneficiary (**Key Control #1 (Automated) - Provider Eligibility, Rights and Obligations**)
- The beneficiary is eligible for the particular category of service at the time it was rendered (**Key Control #2 (Automated) - Beneficiary Eligibility, Rights and Obligations**)
- The allowed amount is within reasonable and acceptable limits or if it differs from the allowable fee schedule amount by a certain percentage (**Key Control #3 (Automated) - Payment Reasonableness, Valuation**)
- The procedure code sare within the valid code set HIPAA Transactions and Code Sets (TCS) and are covered by the State Plan (**Key Control #4 (Automated) - Valid Codes, Rights and Obligations**)

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When processing claims, ProviderOne relies on information included in various subsystems such as:

- **Provider** – contains provider information to determine eligibility related to the claim
- **Client** – contains client information to determine eligibility related to the claim
- **Third Party Liability (TPL)** - contains information of third parties who are liable for Medicaid clients since Medicaid is not the primary payer for claims
- **Rate Setting** – contains procedure codes and associated payment limits (procedure codes are created in the Reference subsystem and the rate is attached within Rate Setting); fee schedules containing the rates are uploaded, reviewed, and approved by internal staff (Rate setting is described below as it addresses the valuation assertion for claims and monthly payments).
- **Prior Authorization (PA)** – certain procedures require authorization by the agency before a procedure can be provided to a client; this subsystem contains the authorization if it has been completed
- **Social Services** - social service payments require an authorization for services to be approved in the system prior claims being processed; this subsystem contains the authorizations related to each social service client.

Much of the information included in the above subsystems comes from completely separate systems that interface with ProviderOne. Some of these external systems include the:

- Automated Client Eligibility System (ACES), which contains client financial eligibility for various programs
- Comprehensive Assessment Reporting Evaluation (CARE) system, which contains client functional eligibility for social service clients
- Agency Contracts Database (ACD), which contains written contracts related to social service providers (among other contracts for the Department of Social and Health Services).

CNSI of Gaithersburg, MD, operates the ProviderOne system. CNSI serves as the fiscal agent responsible for operation and maintenance of the ProviderOne mainframe claims processing operation. HCA confirms general controls are in place at CNSI by requiring a biennial Statement on Standards for Attestation Engagements (SSAE)

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No. 16 Type II audit to occur at the vendor.

### **Rate Adjustment (Valuation)**

Fee-for-service and managed care premium payment rate factors are uploaded into ProviderOne. Ed Hicks' team is responsible for the fee-for-service rate uploads and Sam Trimble's area operates the managed care capitation rate factors.

For managed care, HCA pays a monthly premium rate to manage care organizations (MCOs) based on a rate per member per month (PMPM). There are about ten different rate templates for various medical and behavioral contracts as well as three rate templates for different foundational community support (FCS) contracts. There are five factors used to calculate the rates: base rate factor (BRF), age group factor (AGF), geographic region factor (GRF), risk adjust factor (ADF), and qualitative adjust factor (ADF). Pending on the managed care program they may use all or some of the rate factors. Ideally, HCA would like two months from the time a rate change is requested before it is uploaded and executed in ProviderOne. This time is required to adequately review changes, test for errors, receive proper approvals, and update ProviderOne.

For fee-for-service, HCA directly pays providers for services rendered on qualified Medicaid members. The number of items to review is not as complicated as managed care so rate turnaround time is usually about 48 hours. (target rate for quality control)

Managed care and fee-for-service follow the same process for inputting updated fee schedules into ProviderOne. For managed care, the rate changes will have a significantly larger number of line items to update compared to fee-for-service. Also, fee-for-service has rate updates more frequently than managed care. Rate data update requests are always input into ProviderOne via file upload (Excel spreadsheet) received from the business area.

The rate change process begins with the System Operations and Implementation Unit (SOIU) receiving a rate update request via a ServiceNow ticket through a shared inbox and are triaged for assignment to Information Technology Specialist (ITS) staff within SOIU. Each -ServiceNow ticket has a number that is used to track the

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progress of these requests. ITS staff first review the information provided to ensure it is complete. The review is only limited to data validation such as number formats and date ranges, etc. The ITS staff member then uploads the provided file into the ProviderOne User Acceptance Testing (UAT) environment. This allows them to verify that the file uploads appropriately before attempting to upload the file into production. ProviderOne has processing controls to help ensure the rate data uploaded is complete and valid. Updates that do not meet programmed edits will suspend to an error file that is reviewed by the ITS. If errors are identified, ITS staff notify the business area to make corrections and submit a new file attachment to the -ServiceNow ticket. Prior to uploading, Sam will also provide the business unit with a computed Rate Report for review. Once correct and successfully uploaded, ITS reviews the data and additionally compares the number of records in the source data to the number of records uploaded to ProviderOne. If everything processes appropriately, ITS then uploads the file into the production environment and the data goes through the same processing controls as in the UAT. When successfully uploaded, all rate updates will have an "In Review" status listed.

ITS then updates and sends the -ServiceNow ticket to Heidi DeVries, IT Specialist who acts as an internal quality assurance for -ProviderOne Operations (P1O). She reviews the rate data for accuracy and to ensure the requested changes conforms to medical related coding information which was provided to HCA from the Centers for Medicare and Medicaid Services (CMS). HCA's vendor for ProviderOne, CNSI, obtains these types of files from the CMS website and then uploads them to ProviderOne. HCA will also upload reference data based upon decisions made by its own Policy Division. Heidi reviews all relevant information and determines whether to approve or reject the changes. Each rate's status reflects her decision. She then updates the -ServiceNow ticket and sends it back to the ITS for closure, or closes the ticket herself.

Once approved, the system attaches dates to the rates data, including the effective date (when the rate was approved), the start date (when the new rate takes effect), and the end date. ProviderOne also has internal edits which will cause the claim calculation to fail out if data is invalid. After confirming the test runs produced correct results, P1O will push the rate changes to production (**Key Control #5 (manual), Rate upload review prior to production - Valuation**). When new rates are uploaded into the system, the previous data's effective dates are

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automatically updated to prevent payments outside of the correct to and from values. There are a select few certain general charge modes which are entered behind the scenes by the ProviderOne vendor, CNSI. For these items, ITS staff will run tests to verify that value output correctly corresponds to the associated rate.

### **How transactions are recorded in AFRS:**

Using the details included in a claim, system edits will verify eligibility and allowability of the claim based upon related information included in each of the above subsystems. This also allows the system to determine the type of claim. In this way, ProviderOne adjudicates all claims and assigns AFRS account codes to each transaction. When all the account codes are assigned, the Claims subsystem validates the assignment which includes checks for blank values, valid account codes, and AFRS table edits. As account code and table edits are updated in AFRS, there is an automated interface between AFRS and ProviderOne to update them in ProviderOne. If the transaction passes the edits in the subsystem, it is put into an Available for OFIN (Oracle Financials) status.

On a weekly basis, the Claims and Managed Care subsystems transactions are imported into the OFIN subsystem. It is within this subsystem that the Accounts Payable and Accounts Receivable netting and other processes occur to prepare the financial portion of the transactions to be sent to AFRS in batches. Transactions are sent via interface to AFRS for payment. AFRS and OST issue payments and sends a Warrant Wrap file to ProviderOne where OFIN and the original transactions are updated with the Warrant/EFT Number and Paid Date.

Accounting staff performs daily reconciliation between ProviderOne Batch Reconciliation Report 1280 and the AFRS Batch Interface log to verify the batches sent from ProviderOne are received and processed in AFRS. Payment will not be made unless hard edits in ProviderOne are satisfied for validity of the claim and the provider based on the information in ProviderOne.

Transactions other than Managed Care or Claim payments, are sent to AFRS daily. These daily files include PHIPP/ESI payments and cash applications in TPL and Drug Rebate.



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### DSHS

We met with Rick Meyer, External Audit Liaison, and Gwendolyn Dain, Program Services Manager, to update our understanding of DSHS procedures and processes regarding ProviderOne.

DSHS primarily relies on HCA for **rights and obligations (see Automated controls #1-4) and valuation (Key Control #5)** as HCA is the owner of ProviderOne. DSHS fiscal staff perform a similar daily reconciliation (**Key Control #6 P1 to AFRS Reconciliation, Completeness**) between ProviderOne report 1280 and AFRS Batch Interface log reports to ensure that batches are sent from ProviderOne to AFRS in their entirety. To track the reconciliation process, an Excel workbook is created at the beginning of the month to document this process daily. The reconciliation process begins with Ngan Nguyen, Fiscal Analyst 3, first accessing the ProviderOne system and running a ProviderOne batch reconciliation report (Financial Report #1280). The P1 batch report specifies agency, batch date, batch type, batch number, batch count (count of all batched transactions), and batch amount. The ProviderOne batch type is categorized as “AH” (ProviderOne warrant payment) or “AI” (ProviderOne warrant cancellation). She will take a screen shot of this report and paste it into the Excel workbook noted above with a new worksheet for each day of the month. Ngan then accesses the AFRS - Batch Interface (BI) system and then runs an AFRS batch interface report. The AFRS batch report also specifies agency, batch type, batch number, batch count, and batch amount. Ngan will take a screen shot of this AFRS report and paste it to the same worksheet as the ProviderOne batch reconciliation report. Laura verifies on the AFRS batch report that the batch date, batch number, batch count, and batch amount shown in the AFRS report matches to the ProviderOne batch report. If the batch item on both reports match, Ngan will electronically sign the top of the worksheet where it says “Reviewer” for this batch date.

If there is a discrepancy between the two reports, Ngan will send a copy of the worksheet with the two compared reports to Cheri Wright, Medicaid Accounting Manager, at HCA to resolve the issue. Documentation of the communication and resolution is also stored on the tab for the daily reconciliation.

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### **Summary of Key Controls**

Key Control #1 (Automated): ProviderOne verifies that the provider is eligible to provide the specific service covered by the plan to the specific beneficiary. (Information and Communication)

Key Control #2 (Automated): ProviderOne verifies that the beneficiary was eligible for the particular category of service at the time it was rendered. (Information and Communication)

Key Control #3 (Automated): ProviderOne verifies that the allowed amount is within reasonable and acceptable limits or if it differs from the allowable fee schedule amount by more than a certain percentage. (Information and Communication)

Key Control #4 (Automated): ProviderOne verifies that all coded data items consisting of procedure codes are within the valid code set HIPAA Transactions and Code Sets (TCS) and are covered by the State Plan. (Information and Communication)

Key Control #5 (Manual): Health Care Authority reviews and approves the input of fee schedules into ProviderOne prior to being available for payment in processing in the system. (Monitoring)

Key Control #6 (Manual): Both DSHS and HCA agency fiscal staff perform a daily reconciliation of ProviderOne to AFRS by verifying the batch data shown in the AFRS batch report matches the ProviderOne batch report (Control Activities)

**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.

### D.6.PRG - 93.767-Children's Health Insurance Program (CHIP) - HCA

*Procedure Step:* E. Eligibility - Controls

*Prepared By:* AMG, 2/22/2023

*Reviewed By:* RJC, 4/7/2023

#### 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 identify key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to eligibility of participants.

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

##### Source:

Kari Summerour, External Audit and Compliance Manager, Lead Liaison

William Sogge, Management Analyst 5, Audit Liaison

Giovanny Delgado, Medical Program Specialist 3

Emily Good, Medical Program Specialist 3

Ariel Pyrtek, Medicaid Eligibility Manager

##### Conclusion:

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

#### Testing Strategy.

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## 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:

- 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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.

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(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.**

*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

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## Step 1

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 risks when designing our tests of compliance.

- Modified Adjusted Gross Income (MAGI) eligibility is considered high risk by the Center for Medicare and Medicaid Services (CMS)
- Determining client eligibility for CHIP services is a relatively complex area
- Client eligibility is determined based on client statements and then verified as necessary
- Determination of client eligibility must be re-assessed annually under strict time lines
- During the audit period additional Covid guidelines were in place.

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

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 Eligibility, and noted the following:

#### Eligibility for Individuals

1. Eligibility Determination
1. States are required to include in their CHIP state plans a description of the standards used to determine eligibility of targeted low-income children.

States have the option to extend eligibility to low-income targeted pregnant women. There is no income eligibility level for pregnant women in CHIP that is lower than the state's Medicaid level, and states must cover pregnant women up to 185 percent of the federal poverty level before they can elect the option to include pregnant women in the CHIP state plan.

2. CHIP beneficiaries must either be U.S. citizens or qualified non-citizens (aliens). States must provide coverage under a separate child health program under Title XXI to all other otherwise eligible qualified aliens who are not barred from coverage under 8 USC 1613 (42 CFR section 457.320(b)(6)).

States may elect to provide medical assistance, notwithstanding section 401(a), 402(b), 403, and 421 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, to children and pregnant women who are lawfully residing in the United States and who are otherwise eligible for such assistance. This optional coverage in CHIP is only applicable if the state has elected to apply this allowance with respect to such category of children or pregnant women under Title XIX (Pub. L. No. 111-3, Section 214 (codified at section 2107(e)(1)(N) of the Act, cross referencing section 1903(v)(4) of the Act (42 USC 1396b(v)(4)).

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3. The CHIP agency must have facts in the case record to support the agency's eligibility determination, including a record of verification of income and citizenship or satisfactory immigration status for each individual. The state must provide notice of its decision concerning eligibility and provide timely and adequate notice of the basis for discontinuing assistance (42 CFR sections 457.330, 457.340).
  4. The determination of eligibility may not exceed 45 days.
  5. Regulations 42 CFR 457.348 and 457.350 require coordination between the CHIP agency and other insurance affordability programs, including the federal and state exchanges. States utilizing the Federally Facilitated Exchange (FFE) must enter into an agreement in which the FFE makes wither a determination or an assessment of CHIP eligibility and sends the individual's electronic account to the agency for enrollment or a final determination (FFE determination) and enrollment (FFE assessment).
  6. When determining eligibility for a child, the CHIP agency may rely on elements of a determination made by an express lane agency (as defined in Section 4 of the CHIP state plan template) as to whether a child satisfies one or more requirements of CHIP eligibility. The CHIP agency may use an income determination from an express lane agency without regard to differences in budget unit, income disregards, deeming, or other differences in methodology between the express lane agency and CHIP.
2. Eligibility Verification
    1. States must request information from reliable electronic data sources, including other agencies in the state and other state and federal programs to the extent that such information is determined useful in verifying the financial eligibility of an individual. If information provided by or on behalf of an individual is reasonably compatible with information obtained from the electronic data sources, as described in the state's verification plan, then the agency must determine or renew eligibility based on such information and may not require the individual to provide any further documentation. If the information is not reasonably compatible, then the agency must provide the individual with a reasonable period of time to explain the discrepancy or furnish additional information (42 CFR 457.380; 42 CFR 435.952).
    2. States may choose to accept self-attestation of information needed to determine or renew eligibility except with respect to income and citizenship or immigration status. When self-attestation is accepted, further information, including documentation, cannot be required from the individual.
  3. Periodic Renewal

As required at 42 CFR 457.343, states must renew enrollees' CHIP eligibility once every 12 months and no more frequently than once every 12 months. When renewing eligibility, states must first attempt to renew based on reliable information available to the agency without requiring information from the individual. If sufficient information is not available to complete a renewal, or if the state has information that suggests that the beneficiary is ineligible, the state must provide the beneficiary with a prepopulated renewal form and inform the individual of any additional information or documentation needed to determine eligibility.
  4. Presumptive Eligibility

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1. Presumptive eligibility (PE) is a state option to facilitate enrollment and immediate access to services for children who are likely eligible for CHIP without having to wait for a full application to be processed. To be determined presumptively eligible, an individual must meet the basic requirements of eligibility as a targeted low-income child, including household income at or below the standard established by the state.
2. The PE period begins the day on which the qualified entity makes the PE determination. The end date varies depending on whether or not the individual submits a CHIP application. If the individual submits a CHIP application by the last day of the month following the month in which PE was determined, the PE period will continue until full CHIP eligibility is either approved or denied. If the individual does not submit a CHIP application, the PE period ends on the last day of the month following the month in which PE was determined. States must adopt reasonable standards regarding the number of PE periods that will be authorized for an individual.

***Note: During the Public Health Emergency (PHE), the Authority had waivers in place that affected some of the eligibility requirements listed above. See blow for waivers put in place during SFY22.***

### D.6 Chip Eligibility Id of 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 November 4, 2022 we met with the Authority's Office of Medicaid Eligibility and Policy (OMEP) staff to gain an understanding of how CHIP eligibility functions:

- Kari Summerour, External Audit and Compliance Manager, Lead Liaison
- William Sogge, Management Analyst 5, Audit Liaison
- Giovanni Delgado, Medical Program Specialist 3
- Emily Good, Medical Program Specialist 3
- Ariel Pyrtek, Medicaid Eligibility Manager

The process to determine eligibility is identical for all children's state medical programs, but each has specific criteria for determining which program the recipient should be placed. These programs utilize a modified adjusted gross income (MAGI) based methodology to assess the applicant's appropriate assistance level. The State CHIP plan provides a description of State eligibility standards for targeted low-income recipients. Per the State CHIP plan section 4 (see: FY22 CHIP State Plan (WA-22-1000)) we noted:

- Ages of each eligibility group, including unborn children and pregnant women (if applicable) and the income standard for that group: Birth through eighteen.
- Age: conception through birth (SHO #02-004, issued November 12, 2002).



## State of Washington

- Income of each separate eligibility group (if applicable): Birth through Eighteen – 312%FPL
- Residency (so long as residency requirement is not based on length of time in state)
- Access to or coverage under other health coverage: CHIP coverage is not available to children who are otherwise eligible for Medicaid or who have creditable coverage.
- Duration of eligibility, not to exceed 12 months.
- Other Standards- Identify and describe other standards for or affecting eligibility, including those standards in 457.310 and 457.320 that are not addressed above. For instance: Citizenship and immigration status.

To determine initial eligibility for CHIP, an individual must complete an application in the Washington Health Benefit Exchange, known as HealthPlan Finder (HPF), or through a streamlined paper application submitted to the Exchange. Once the application is completed, electronic verification sources confirm income, immigration status and Social Security Number (SSN) (**Automated Key Control #1 - Control Activities**). Data entered into HPF is transferred to the Automated Client Eligibility System (ACES). ACES transfers eligibility information to the state's Medical Management Information System (MMIS) "ProviderOne (P1)". MMIS information is used to enroll clients into managed care. Applicant data entered into the HealthPlan Finder is transferred to the ACES and ProviderOne to automatically create a supporting case file (Information and Communication).

The application requires the citizenship status and Social Security Number (SSN) of only those applicants for whom the family is seeking benefits. Other adults and children listed on the application for whom the family is not applying, are not required to declare their citizenship status or provide an SSN. The Agency uses state and federal data exchanges (such as Homeland Security, IRS, SSA, TALX, etc.) to verify income, citizenship or qualified non-citizenship, and social security number in conjunction with other self-attested household data to determine eligibility (Control Activities / Information and Communication). The information from these exchanges may then be used as electronic proof of eligibility requirements. Eligibility is automatically reviewed first for Medicaid, and then reviewed for CHIP eligibility if the recipient is not Medicaid eligible. Children found not to be eligible for Medicaid are enrolled in CHIP under the state CHIP plan. A visual aid displaying the income ranges to determine eligibility for various children's healthcare coverage can be seen at [FPL Requirements CHIP & Medicaid FY22D.6 Chip Eligibility Id of I/C](#).

Children are placed in CHIP when they have no other third party liability (TPL) coverage and their household income is more than 210%, but not above 312% of the federal poverty limit (FPL) for a household of the same size. TPL and income are the main differentiators between the Medicaid and CHIP programs when determining eligibility. As of January 2020, the CHIP State Plan (SPA WA 20-0002) was amended to clarify that children covered under Washington PEBB or SEBB plans may qualify for CHIP. The Authority performs various routine checks to attempt to identify and document TPL within the eligibility system, see PEBB/SEBB procedure , [CHIP with PEBB SEBB ProceduresD.6 CHIP Eligibility Id of I/C](#) . Note: During the PHE, the Authority stated they are not working on reports.

The Agency uses an automated rules engine that checks the exchange and self-attestation data to determine initial eligibility in an automatic fashion. The rules engine acts in real time subsequent to the submission of the application to provide an immediate response to eligibility. Eligibility is based on self-attested income in the application, therefore if citizenship and SSN are verified and reported income was between 210% and 312% of the FPL, the applicant would be determined eligible. The rules engine then determines if the self-attested information provided is reasonably compatible. If the rules engine determines that the applicant is ineligible or is not reasonably compatible based on the results of the inquiry, the account is flagged under a "pending" status for post-manual review by HCA staff. If the applicant was previously disqualified from an active CHIP account, the rules engine will automatically set to the pending status. To ensure eligibility determination within 45 days, the Agency uses an automated rules engine for initial review, and staff for post-eligibility review (PER) (**Key Control #2 - Control Activities / Monitoring**). The purpose of the PER is to verify income only if the cross-match returned a flagged result. During the PER process, applicants are conditionally eligible and may receive services, but once the PER is complete, would be removed if it was determined that their household income

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exceeds the applicable FPL. A PER is only triggered if the income result from the exchange inquiry is greater than the FPL threshold and not if it is considerably less than what was attested to. D.6 CHIP Eligibility Id of I/C

CHIP eligible clients are able to receive the same services as Medicaid eligible children, but are required to pay the following monthly premiums:

- Tier 1 premium payment for children under 19 with income greater than 210 percent, but less than or equal to 260 percent of the Federal Poverty Line (FPL) pay \$20 per child with a \$40 household maximum contribution each month
- Tier 2 premium payment for children under 19 with income greater than 260 percent, but less than or equal to 312 percent of the FPL pay \$30 per child with a \$60 household maximum contribution each month

*Note: During the PHE, the Authority waived the requirements for premiums, see below for PHE requirements.*

### D.6 CHIP Eligibility Id of I/C

Once the Authority determines the child's initial eligibility, their start date is recorded as the first of the month in which their application was submitted, thus allowing for payments prior to approval to be processed after the fact. Children found eligible for medical assistance remain continuously eligible for a full twelve months, regardless of changes in the household income or TPL. Financial and nonfinancial changes are to be reported by the household, but will not render them ineligible during the continuous eligibility period. However, if income decreases, the Authority can move the child in a more favorable program, such as Medicaid, to eliminate the premium payment requirements. Termination during the continuous eligibility period is acceptable only for the following reasons:

- changes in residency (permanent move out of state)
- death
- fraud (unless it is going to prosecution)
- failure to pay the premium in excess of three months
- the child turns 19 years (remains eligible through the end of their birth month)
- when requested to be removed from the program.

Applicants who are denied eligibility are sent a letter with information on their rights for an Administrative Hearing and may call the Office of Administrative Hearings (OAH) to set up a hearing. *Note: When data sources used by the state are not available to the auditor, or information is not required to be available for the period under audit, auditors would not be expected to test verification other than the requirement to maintain information in the case file. As Washington allows self-attestation in the determination of eligibility, the auditors are not expected to test beyond the requirements of the state.*

### **Periodic Renewal**

The Agency uses an automatic electronic annual renewal system to facilitate continued enrollment for eligible CHIP recipients and otherwise notifies the recipients in the event the automatic renewal process fails (Control Activities / Monitoring). For continuing enrollment, the Agency employs an electronic ex parte renewal process that notifies families of their ongoing eligibility every twelve months when the family's circumstances are electronically verified. Ex Parte renewals are completed using electronic data-matching with the federal hub. If the electronic data match confirms eligibility, then CHIP coverage is continued without the need for any further information or forms. If the renewal fails, a letter advising the applicant to renew through HPF is sent, as well as a paper renewal form. The renewal letter is generated and mailed to the head of household approximately six weeks prior to the end of the client's 12 month certification period. The Agency also provides the renewal dates to managed care organizations (MCO) who have volunteered to assist their enrollees with the renewal process. All of these post eligibility review assignments are in the Barcode system. Once a week, supervisors pull a pending inventory report showing the workload inventory, which includes the oldest assignments that need to be worked. Based on the information provided in this report, supervisors will shift workload

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priorities accordingly. **(Monitoring)**

We confirmed with Margaret Clay, OMEP Deputy Section Manager, that the Agency is still following up and verifying applicants and the supervisor is pulling a weekly inventory of post eligibility reviews per Families First Coronavirus Response Act (FFCRA).

## D.6 CHIP Eligibility Id of I/C

### **COVID-19 Modifications**

In the Families First Corona virus Response Act Section 6008(b)(3) (see: <https://www.congress.gov/bill/116th-congress/house-bill/6201/text> ), it specifies that if states want to take advantage of enhanced FMAP, they shall not terminate any individual receiving benefits as of March 18, 2020 through the end of the public health emergency (including reasons of income). CHIP had State Plan Amendment (SPA) 20-0001 issued for disaster relief. Changes are specified under section 4.3 Methodology (pages 89-90) and 4.4 Eligibility Screening and Coordination (pages 93-95) at WAIVER CMS Approval 20-0001 SPA . CHIP flexibilities under the 1135 waivers are summarized at and approved at COVID-19 Emergency Declaration - Health Care Providers D.6 CHIP Eligibility Id of I/C D.6 CHIP Eligibility Id of I/C . The Medicaid and CHIP Disaster Relief MAGI-Based Verification Plan Addendum also specifies these changes at Washington Disaster Addendum D.6 CHIP Eligibility Id of I/C . When the blanket 1135 waivers are in effect, they have a retroactive effective date of March 1, 2020, through the end of the emergency declaration. Beneficiary changes include:

- Waiving requirements related to the timely processing of applications
- Delaying processing of renewals and extend deadlines for families to respond to renewal requests
- Delaying acting on changes in circumstances for CHIP beneficiaries other the required changes in circumstances described in 42 CFR 457.342(a) cross referencing 42 CFR 435.926(d) which states:
  - A child's eligibility may not be terminated during a continuous eligibility period, regardless of any changes in circumstances, unless:
    - (1) The child attains the maximum age specified in accordance with paragraph (b)(1) of this section;
    - (2) The child or child's representative requests a voluntary termination of eligibility;
    - (3) The child ceases to be a resident of the State;
    - (4) The agency determines that eligibility was erroneously granted at the most recent determination, redetermination or renewal of eligibility because of agency error or fraud, abuse, or perjury attributed to the child or the child's representative; or
    - (5) The child dies.
- Waiving collection of all cost sharing and suspend the premium lock-out policy, beginning May 1, 2020

If a client's 12 month continuous eligibility period ends during this period, the Authority will not terminate the client due to income. At renewal, Health Plan Finder interfaces with federal hub sources in real time and automatically determines eligibility. If income is not reasonably compatible with these sources, a Post Eligibility Review (PER) is triggered. HCA has put a temporary hold on post eligibility requirements for current clients. We do not expect to see post-eligibility reviews after March 1, 2020. This automatic PER triggering function for income incompatibility was thus removed for the time being. Additionally, clients who have failed to pay their premium for three months, would be automatically suspended by ProviderOne. Due to temporary forgiveness/waiver for CHIP beneficiaries, non-payment identification rules have also been temporarily disabled.

During FY22, we asked if the Authority was informing clients to go back to the exchange once they turned 19, and they answered "No, during the PHE we are keeping everyone on CHIP".

### **Summary of Key Controls**

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**Key Control 1 (Automated) - Control Activities:** Clients complete initial application for Chip utilizing HealthPlan Finder which electronically verifies income, immigration status and Social Security Numbers.

**Key Control 2 - Control Activities:** HCA staff will follow-up and verify each unverified requirement through the use of state systems or reaching out to the applicant to provide additional information.

**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.

**D.6.PR.G - 93.767-Children's Health Insurance Program (CHIP) - HCA**

***Procedure Step:*** G. Matching - Controls

***Prepared By:*** AWW, 12/27/2022

***Reviewed By:*** SAG, 1/6/2023

|                      |
|----------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with matching requirements.

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

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### **Source:**

Kari Summerour, External Audit Liaison  
William Sogge, External Audit Liaison  
Jill Arlow, Federal Financial Reporting Manager  
Laura Roberts, Federal Claims Supervisor  
Mary Anderson, CHIP Federal Accounting Analyst  
Roxanne Smith, Financial Analyst

### **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.

#### **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

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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 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, and noted the following:

1. Matching
1. The state matching rate for its CHIP expenditures is determined in accordance with the federal matching rate for such expenditures, referred to as the enhanced federal medical assistance percentage (Enhanced FMAP) for a state. That is, the CHIP state matching rate is calculated by subtracting the 1905(b) of the Social Security Act Medicaid FMAP rate from 100, taking 30 percent of the difference,

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and then adding it to the 1905(b) Medicaid FMAP rate. The Enhanced FMAP for CHIP is generally about 15 percentage points higher than the Medicaid rate. For example, if a state has a 50% match rate for Medicaid, they may have a 65% match rate for CHIP. The Enhanced FMAP is calculated in accordance with section 2105(b) of the 42 USC 1397ee(b), which provides that the Enhanced FMAP for a state shall not exceed 85 percent except during the periods of October 1, 2015 through September 30, 2019, where the enhanced FMAP was increased by 23 percentage points (not to exceed 100 percent) and October 1, 2019 through September 30, 2020, where the enhanced FMAP is reduced to an increase of 11.5 percentage points (not to exceed 100 percent). The increase to the enhanced FMAP does not apply to certain categories of expenditures as described in the last sentence of 42 USC 1397ee(b). Calculated FMAPs and enhanced FMAPs may be found at <http://www.aspe.hhs.gov/health/fmap/htm> (42 USC 1397ee(a) and (b)). Because the EFMAP under section 2105(b) of the Act is calculated using the 1905(b) FMAP as a “base,” in general, any fluctuations to the 1905(b) FMAP amount for a period will affect the EFMAP determination under 2105(b) of the Act for such period unless otherwise precluded in statute.

2. A qualifying state as described under section 2105(g) of the Act, 42 USC 1397ee(g) may elect to be paid from the state's allotment for any of FYs 2009 through 2027, an amount equal to the additional amount that would have been paid to the state under Title XIX with respect to expenditures if the enhanced FMAP had been substituted for the FMAP (section 2105(g)(4) of the Act, (42 USC 1397ee(g)(4)). The qualifying states are Connecticut, Hawaii, Maryland, Minnesota, New Hampshire, New Mexico, Rhode Island, Tennessee, Vermont, **Washington**, and Wisconsin (as determined by CMS on the basis of the criteria in Pub. L. No. 108-74, Section 1(g)(2) and Publ L. No. 108-127, Section 1).

### **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.

On June 29, 2022 we requested an understanding of the Authority's controls over the Matching area of CHIP. On August 17, 2021 we received a response from the Federal Financial Reporting (FFR) team at the Authority (see Internal Control request letter - Matching, Level of Effort, Earmarking).

On October 14, 2022 we met with the following Authority Federal Financial Reporting (FFR) staff to gain an understanding of the Matching requirement:

- Kari Summerour, External Audit Liaison
- William Sogge, External Audit Liaison
- Jill Arlow, Federal Financial Reporting Manager
- Laura Roberts, Federal Claims Supervisor
- Mary Anderson, CHIP Federal Accounting Analyst
- Roxanne Smith, Financial Analyst

Jill explained that the Authority is responsible for preparing and maintaining the chart of account and cost allocation plan for matching requirements. While FFR staff may have a specific focus, such as CHIP reporting, the Analyst are cross trained and perform duties as needed. The Authority applies the applicable matching rates (FMAP) to Medicaid expenditures via a cost allocation process in AFRS. Cost objectives (COBJ) and the correlating FMAP rates are entered into AFRS on an annual and periodic basis. AFRS will split the expenditures based on cost objectives and automatically determine federal and state portions with the correlating FMAP rates. Matching rates are provided by the Authority's federal Center for Medicaid and Medicare Services contact or by HCA staff conducting the necessary research to ensure accurate rates are used. Matching rates are also available within award documents for specific waivers or other federal documents. Program Index (PI) and allocation codes

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are used to determine the COBJs. As an expenditure is processed through ProviderOne, it goes through the cost allocation process. The cost allocation process sends the expenditure to AFRS. AFRS splits the expenditure into COBJs and automatically determines the federal/state percentages based on the PI and allocation code used. AFRS splits the expenditure into cost objectives and automatically determines the federal/state percentages based on the program index and allocation code used. **Key Control #1: AFRS splits the expenditure into cost objectives and automatically determines the federal/state percentages based on the program index and allocation code used. (Information and Communication)** The HCA cost allocation system automatically applies the FMAP rate to Medicaid and CHIP expenditures.

The cost objectives have a specific naming convention. COBJs have five characters encompassing both letters and numbers. The starting letter on the COBJ indicates the focus of the expenditures. The first letter coding used by the FFR team in creation of the CMS-64 and CMS-21 are as follows:

|  |                  |
|--|------------------|
| CMS-64 Medical Assistance Program      | T; D; N          |
| CMS-64 Admin                           | U                |
| CMS-64 Electronic Health Records Admin | C; T             |
| CMS-21 CHIP                            | X; W; N; V; S; Z |

The next character is a numeric which indicates the current fiscal year and the last and fifth character will also be a number which relates to the grant year. For example, C0AA9 would be a CHIP expenditure with a grant originating in federal fiscal year (FFY) 2020 and applied to grant award year FFY19. Federal match is based on the Authority's account code structure. Expenditures are both direct and indirect. For those expenditures that are cost allocated, the cost allocation process utilizes edit files, cost objectives, cost allocation schedules and cost allocation bases to allocate costs. These are prepared by staff of the Federal Financial Reporting (FFR) unit, reviewed by the unit's supervisor, entered by unit staff, and the input is checked for accuracy by another unit staff member if the entry is significant in size. Jill explained that FFR had to set up new coding for Covid-19 related funding of programs as part of a standardized process based at the beginning of every federal fiscal year.

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The Authority starts getting ready for the COBJ and FMAP cost allocation process in September of each year. A Financial Analyst prepares the cost allocation plan and the Accounting division updates the chart of accounts. The Analyst also prepares the edit request form for additions or changes and Laura Roberts, Federal Claims Supervisor, verifies and approves the edit request form. Once the form is approved, the Analyst keys the approved COBJ coding on the form into AFRS for chart of account updates. Once the coding is keyed into AFRS, a different Fiscal Analyst from Laura's team reviews the form to verify that submitted edit forms have been keyed accurately into AFRS and ensures the edit workbook is complete. The original copy of the edit request form is filed and is also on the shared network K drive. **Key Control #2: There is segregation of duties between staff members who prepare the cost objective edit request form and who reviews and approves the edit request form. Also, there is a segregation of duties between staff members who enter the updated codes into the system and review the codes in the system. (Control Activities)**

The Federal/State match is reported as part of the CMS-21 report (for a detailed summary of the reporting process, see [L. Reporting - Controls](#)). All expenditures reported on the federal claim are received from the Agency Financial Reporting System (AFRS)(Information/Communication). Most data is allocated as state and federal directly from AFRS; staff do not perform manual allocations. AFRS automatically allocates funds as state and federal. These are entered into the Medicare and Medicaid Budget and Expenditure System (MBES). Prior to entry into MBES, FFR staff complete the CMS-21 review workbook. As part of this process, the FFR staff check for accuracy of allocations for all expenditures. This includes the FFR staff reviewing the actual distribution of Federal and State amounts as compared to the established FMAP rate. **Key Control #3: Prior to entry into MBES, FFR staff check for allocation accuracy (including the actual distribution of Federal and State amounts as compared to the established FMAP rate to ensure the correct match) for all expenditures using the CMS-21 mapping database. (Control Activities/ Monitoring)** Discrepancies that cannot be resolved are moved to Line 0 in the data worksheet and not included in the MBES input. For items that did not allocate to the correct percentage share, research is conducted and corrections are made by accounting unit staff.

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FFR uses a mapping tool that lays out how the coding logic relates to federal reporting. The tool was developed as a hierarchy and all mapping is done in accordance with the hierarchy. With this process FFR can accommodate the fact that there are more federal reporting items than coding fields available. The tool is the combined effort of staff in the program area, budget office, and accounting sections. Changes to this tool are the result of discussions by all affected parties. Changes are not made very often, if any change is made, it is done by Laura or a Medicaid Transformation Project (MTP) Analyst with Jill's approval. The CMS-21 preparation process first begins with the Fiscal Analyst pulling statewide accounting information from various agencies (specifically applicable for CHIP which includes the Department of Social and Health Services), as well as the Authority. The Analyst runs an AFRS Expenditure Summary Flexible reports for both agencies. AFRS uses the entry's account coding such as allocation code, program index, and cost objective to determine where the entry needs to be input into the report. A Web Application with SQL Database is updated for T-21 and T-64 by the Authority's Information Technology (IT) staff, which is uploaded for report usage two days after closing (due to cost allocation). In order to prepare the CMS-21 report, the Analyst will then pull the mapped accounting entries from the Mapping Access Database, provided each quarter by IT. They also pull an unmapped summary report and will determine program codes so they can be correctly mapped manually. The Fiscal Analyst then performs a reconciliation of the mapped data against the AFRS data. Then they take this information and ensures the Mapping Access Database data reconciles back to AFRS. Note: Allocations 3MX\* and 3MC\* and cost objective C\*\*X\* are line zero because they are claimed on CMS-64 report (section 107 CHIP). **Key Control #4: As there are more federal reporting items on the CMS-21 report than coding fields available in AFRS, the Authority uses a mapping tool for additional tracking for the CMS-21 report. The Fiscal Analyst reconciles the CMS-21 database report (consisting of unmapped data) report back to the AFRS CHIP expenditure report to ensure completeness of the data to be mapped. (Control Activity)** Any appropriate differences are noted as part of the reconciliation. All other discrepancies are researched and corrected.

### Summary of Key Controls

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Key Control #1 – AFRS splits the expenditure into cost objectives and automatically determines the federal/state percentages based on the program index and allocation code used. (Information and Communication)

Key Control #2 – There is segregation of duties between staff members who prepare the cost objective edit request form and who reviews and approves the edit request form. Also, there is a segregation of duties between staff members who enter the updated codes into the system and review the codes in the system. (Control Activities)

Key Control #3: Prior to entry into MBES, FFR staff check for allocation accuracy (including the actual distribution of Federal and State amounts as compared to the established FMAP rate to ensure the correct match) for all expenditures using the CMS-21 mapping database. (Control Activities/ Monitoring)

Key Control #4 – As there are more federal reporting items on the CMS-21 report than coding fields available in AFRS, the Authority uses a mapping tool for additional tracking for the CMS-21 report. The Fiscal Analyst reconciles the CMS-21 database report (consisting of unmapped data) report back to the AFRS CHIP expenditure report to ensure completeness of the data to be mapped. (Control Activity)

**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.

**D.6.PR.G - 93.767-Children's Health Insurance Program (CHIP) - HCA**

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**Procedure Step:** G. Level of Effort - Controls

**Prepared By:** DT, 3/15/2023

**Reviewed By:** RJC, 6/1/2023

## 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 key internal controls the agency has established to prevent or detect noncompliance with level of effort requirements.

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

### **Source:**

- Kari Summerour, External Audit And Compliance Manager
- William Sogge, External Audit Liaison
- Ariel Pyrttek, Medicaid Eligibility Manager
- Emily Good, Medical Program Specialist 3
- Giovanni Delgado, Medical Program Specialist 3

### **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

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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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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>**.

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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).

### 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



# State of Washington

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**

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 Level of Effort, and noted the following:

#### *2.1 Level of Effort - Maintenance of Effort*

- In order to receive federal matching funds for CHIP expenditures at the enhanced matching rate, each state must continue to maintain its Medicaid eligibility standards and the methodologies that were applied in its Medicaid state plans as of June 1, 1997 (42 USC 1397ee(d)(1) and 1397jj(b)).
- The maintenance of effort (MOE) provisions at section 2105(d)(3) and section 1902(a)(74) and 1902(gg)(2) of the Act (42 USC 1397ee(d)(3) and 1396a(a)(74) and (gg)(2) specify that as a condition of receiving federal funding for CHIP or Medicaid (with certain exceptions), states must maintain Medicaid and CHIP "eligibility standards, methodologies, and procedures: for children that are no more restrictive than those in effect on March 23, 2010. The MOE requirement was first implemented under the American Recovery and Reinvestment Act (ARRA) and extended by the Patient Protection and Affordable Care Act (ACA) . Section 3002 of the Helping Ensure Access for Little Ones, Toddlers, and Hopeful Youth by Keeping Insurance Delivery Stable Act (referred to as HEALTHY KIDS Act and included in Pub. L. No. 115-120) extends the MOE requirement for children in CHIP and Medicaid through FY2023, and Section 50101 of the Advancing Chronic Care, Extenders and Social Services Act (referred to as the ACCESS Act and included in Pub. L. No. 115-123), extends the MOE requirements for children in CHIP and Medicaid through FY 2027. Section 3002 of the HEALTHY KIDS Act amends the MOE provisions such that starting in FY 2020 and through FY 2027, the MOE provision is applicable to children in families with incomes that do not exceed 300 percent of the FPL. States with eligibility levels above 300 percent of the Federal Poverty Level (FPL) will have the option of maintaining or reducing existing coverage levels to 300 percent FPL at that time.

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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.

On July 12, 2022 we requested an understanding of the Authority's controls over the Level of Effort area of CHIP (see, Internal Control request letter - Matching, Level of Effort, Earmarking).

On March 8, 2023 we met with the Authority's Office of Medicaid Eligibility and Policy (OMEP) staff to gain an understanding of how CHIP Level of Effort functions:

- Kari Summerour, External Audit And Compliance Manager
- William Sogge, External Audit Liaison
- Ariel Pyrttek, Medicaid Eligibility Manager
- Emily Good, Medical Program Specialist 3
- Giovanni Delgado, Medical Program Specialist 3

We requested all of the Department's written policies and procedures related to the Level of Effort requirement. Ariel stated all of the federal regulations for Level of Effort including the eligibility standards and methodologies are detailed in their CHIP state plan. We requested and received the current state plan for CHIP, effective March 2021 (see, FY22 CHIP State Plan (WA-22-1000)).

HCA explained that the Level of Effort (MOE) requirement was used to prevent states from reducing their Medicaid programs when the CHIP program was created in 1997. The CHIP program offers flexibilities that Medicaid does not and also provides a higher matching rate. In 1997, the Federal Poverty Level (FPL) was set at 200% in order to meet the level of effort requirement. These eligibility requirements were built into the Automated Client Eligibility System (ACES) so that children that were at or below the 200% FPL, were put into the Medicaid program and children that were above the 200% FPL but below the CHIP maximum FPL (250% in 1997) were put into the CHIP program. The FPL maximum was increased to the 300% FPL in 2009.

With the implementation of the Affordable Care Act (ACA) in 2014, the Authority submitted an implementation plan that included a "gross up" conversion of

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the FPL limit for both Medicaid and CHIP programs to match the MAGI income rules. Centers for Medicare & Medicaid Services (CMS) approved Washington's plan on 10/28/13 which converted the Medicaid income limit to 210% FPL and the CHIP income limit to 312% FPL. When these changes were made, ACES eligibility requirements were updated to accurately reflect the new FPL limits.

Section 3002 of the HEALTHY KIDS Act amends the MOE provisions such that starting in FY 2020 and through FY 2027, the MOE provision is applicable to children in families with incomes that do not exceed 300 percent of the FPL. States with eligibility levels above 300 percent of the Federal Poverty Level (FPL) will have the option of maintaining or reducing existing coverage levels to 300 percent FPL at that time.

We asked how often the state plan for CHIP gets reviewed and HCA stated the plan only gets updated when changes need to be made to comply with federal regulations or to make program expansions at the request of the Legislature. Since the plan does not mention actual dollar amounts for standards and instead it references FPL percentages (located online), the plan does not need to be updated annually.

**Key Control #1 - Authority staff work with CMS to create CHIP state plans and state plan amendments. Once the plan meets federal requirements for eligibility criteria and level of effort per CFR and CMS guidance, the final plan or amendment and a letter of approval from CMS is published on CMS's website (Control Activities).** If during this process, it is determined that a change needs to be made, HCA contacts CMS to discuss the proposed changes and draft the public and tribal notices prior to submitting the plan to CMS. Unlike with the Medicaid State Plan, CHIP state plans only need to be submitted prior to the end of the fiscal year to be effective in that fiscal year. HCA works with CMS on the changes in draft form before officially filing the plan. Once the plan has been filed with CMS, they have 90 days to approve or deny the plan.

### Summary of Identified Key Controls

**Key Control #1 - Authority staff work with CMS to create CHIP state plans and state plan amendments. Once the plan meets federal requirements for eligibility criteria and level of effort per CFR and CMS guidance, the final plan or amendment and a letter of approval from CMS is published on CMS's website (Control Activities).**

**Evaluation of Results:** No internal 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.

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### D.6.PRg - 93.767-Children's Health Insurance Program (CHIP) - HCA

*Procedure Step:* G. Earmarking - Controls

*Prepared By:* AWW, 12/27/2022

*Reviewed By:* SAG, 1/6/2023

|                     |
|---------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with earmarking requirements.

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

#### **Source:**

Kari Summerour, External Audit Liaison

William Sogge, External Audit Liaison

Jill Arlow, Federal Financial Reporting Manager

Laura Roberts, Federal Claims Supervisor

Mary Anderson, CHIP Federal Accounting Analyst

Roxanne Smith, Financial Analyst

#### **Conclusion:**

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

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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

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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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**

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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).

### 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**

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 Earmarking, and noted the following:

Expenditures not directly related to providing child health insurance assistance under the plan are limited to 10 percent of the state's total expenditures through CHIP. The following expenditures are subject to the 10 percent limit: (a) payment for other child health assistance for targeted low-income children; (b) expenditures for health services initiatives under the state child health assistance plan for improving the health of children; (c) expenditures for outreach activities; (d) expenditures for translation and interpretation services in connection with the enrollment, retention, and use of services under Title XXI by individuals for whom English is not their primary language (as found necessary by the secretary for the proper and efficient administration of the CHIP state plan); and (e) other reasonable costs incurred by the state to administer the state child health assistance plan (42 USC 1397ee(c)). States may apply for a waiver, or variance of this 10 percent cap under 42 USC 1397ee(c)(2). If applicable, information regarding such a waiver is in the CHIP state plan.

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

### **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

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communication, and monitoring) as documented in our Overall COSO Evaluation step.

On June 29, 2022 we requested an understanding of the Authority's controls over the Earmarking area of CHIP. On August 17, 2021 we received a response from the Federal Financial Reporting (FFR) team at the Authority (see Internal Control request letter - Matching, Level of Effort, Earmarking).

On October 14, 2022 we met with the following Authority Federal Financial Reporting (FFR) staff to gain an understanding of the Earmarking requirement:

- Kari Summerour, External Audit Liaison
- William Sogge, External Audit Liaison
- Jill Arlow, Federal Financial Reporting Manager
- Laura Roberts, Federal Claims Supervisor
- Mary Anderson, CHIP Federal Accounting Analyst
- Roxanne Smith, Financial Analyst

We inquired with staff whether any policies or procedures document the processes and steps required for the monitoring of earmarks and we were informed that there are none. The Authority prepares the Quarterly CHIP Statement of Expenditures for Title XXI (Form CMS-21) on a quarterly basis (for a detailed summary of the reporting process, see L. Reporting - Controls). This report is used to monitor all expenditures that are related to CHIP, with the CMS-21L form "CHIP Expenditures For the Title XXI Program Calculation of 10% Limit" being the one specifically for tracking the earmarking requirement. The report is prepared quarterly by using the automatically mapped accounting entries pulled by the system, which are downloaded from AFRS by the Authority's information technology staff and includes data from the CHIP partner agency, Department of Social and Health Services data, to the correct line items on the CMS-21 report. AFRS uses the entry's accounting coding such as allocation code, program index, and cost objective to determine where the entry needs to be input onto the report.



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FFR staff follow a series of line by line instructions within the CMS-21L form to confirm the 10 percent expenditure limit is applied correctly. A summary of the CMS-21L line instructions are as follow:

- First total expenditures are calculated up through the current fiscal quarter (lines 1A, 1B, 2A, 2B, & 3)
- 10% limit is calculated via dividing the totaled expenditures by 9 (line 4)
- Total computable is calculated (line 5) and then the 10% limit of allotment is calculated (line 6)
- 10% limit is determined via the lesser value of line 4 or 6 (line 7)
- Total Health Services Initiative (HSI) expenditures are totaled up through the fiscal quarter (lines 8A, 8A1, 8B, 8B1, & 9)
- Total Outreach to Children expenditures are totaled up through the fiscal quarter (lines 9A, 9B, 9C)
- Outreach and enrollment for children value is calculated as 1.25% of the 10% limit of allotment (line 9D)
- Expenditures for children outreach is subtracted from Outreach allotment (line 9D)
- Lines 8A, 8A1, 8B, 8B1, & 9E are totaled (line 9F)
- The amount under or over limit is calculated (line 10)

Note: Allocations 3MX\* and 3MC\* and cost objective C\*\*X\* are line zero because they are claimed on CMS-64 report (section 107 CHIP).

The mapping database automatically takes the AFRS data and puts it into similar or “like” lines for input. Mary will then go into the WEB-based Medicaid and CHIP Budget and Expenditure System (MBES) to input the information from the automatic system generated report. MBES is the Centers for Medicare & Medicaid Services (CMS)'s online claiming system. When the quarterly report is created, Mary will also review the expenditure data for the quarter to perform a reconciliation against the mapped reports to ensure that the amounts were accurately input onto the CMS-21 report. After creating the quarterly report, she will reconcile the Summary Reconciliation against the report and AFRS data to ensure it is accurate and complete. This reconciliation is done to compare the breakdown on lines on the report to the available data. During this time, Mary reviews specific line items in the

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report to verify administrative expenses are under the allowable ten percent threshold and to determine if earmarking requirements are met. **Key Control #1: The Authority uses the CMS-21L form, “CHIP Expenditures For the Title XXI Program Calculation of 10% Limit” to calculate, track, and monitor the earmarking requirement. The CMS-21L gives line by line instructions on how to calculate the 10 percent expenditure limit. (Control Activities)**

**Key Control #2: When the quarterly report is created, the Fiscal Analyst also reviews the expenditure data for the quarter and performs a reconciliation against the mapped reports to ensure that the amounts were accurately input onto the CMS-21 report. (Control Activities)**

Once the claim is entered, all information has been input into MBES, and everything reconciles, Mary informs Laura Roberts, Federal Claims Supervisor, that the report is complete. Mary explained the CMS-21 usually takes 7-8 days to complete after MBES reconciles to AFRS. Mary provides Laura with the supporting documentation so that she can review the report to ensure that it is accurately completed. Laura performs the final reconciliation of the MBES data to the mapped data reports. Any variances are researched by FFR staff and resolved or noted on the reconciliation as needed. Close attention is given to the CMS-21L form to ensure that the Authority has not exceeded the CHIP Administrative limit. We asked what the process is if the Authority exceeds the 10% limit and Mary explained that any amount that has exceeded the 10% limit will get moved to state funds via a journal voucher, but that she has never seen it come even remotely close to the limit, so she has very little concern that this would ever happen. Once Laura has completed her reconciliation and determines that there are no errors, she will submit and certify the CMS-21 report. **Key Control #3: Once all forms have been entered into MBES for the CMS-21, the Federal Claims Supervisor performs a summary reconciliation between the MBES summary information and the mapped data reports to ensure accuracy and completeness of the MBES report. Any variances are researched by FFR staff and resolved or noted on the reconciliation as needed. (Control Activities)**

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Mary also informed us that for state fiscal year 2021 they were told during the fiscal year that the Authority had to retroactively change the FMAP rate to enhanced FMAP. This change was effective back to January 2020 and was due to Covid-19. FFR confirmed on December 21, 2022 that the enhanced rates for Covid were still in effect for all of SFY22, and remain in effect until March 21, 2023 unless extended by the federal government.

### **Summary of Key Controls**

Key Control #1: The Authority uses the CMS-21L form, “CHIP Expenditures For the Title XXI Program Calculation of 10% Limit” to calculate, track, and monitor the earmarking requirement. The CMS-21L gives line by line instructions on how to calculate the 10 percent expenditure limit. (Control Activities)

Key Control #2: When the quarterly report is created, the Fiscal Analyst also reviews the expenditure data for the quarter and performs a reconciliation against the mapped reports to ensure that the amounts were accurately input onto the CMS-21 report. (Control Activities)

Key Control #3: Once all forms have been entered into MBES for the CMS-21, the Federal Claims Supervisor performs a summary reconciliation between the MBES summary information and the mapped data reports to ensure accuracy and completeness of the MBES report. Any variances are researched by FFR staff and resolved or noted on the reconciliation as needed. (Control Activities)

**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.

## State of Washington

### D.6.PR.G - 93.767-Children's Health Insurance Program (CHIP) - HCA

*Procedure Step:* H. Period of Performance - Controls  
*Prepared By:* AWW, 12/27/2022  
*Reviewed By:* SAG, 1/6/2023

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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 key internal controls the agency has established to prevent or detect noncompliance with period of performance requirements.

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

#### **Source:**

Kari Summerour, External Audit Liaison

William Sogge, External Audit Liaison

Jill Arlow, Federal Financial Reporting Manager

Laura Roberts, Federal Claims Supervisor

Mary Anderson, CHIP Federal Accounting Analyst

Roxanne Smith, Financial Analyst

#### **Conclusion:**

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

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## 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.

"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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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.

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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).

### [§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

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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.   |

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**

In general, the availability of allotment amounts determined under section 2104(m) of the Social Security Act (the Act) for FY 2009 and each fiscal year thereafter, shall remain available for expenditure by the state through the end of the succeeding fiscal year as provided under section 2104(e) of the Act. (i.e., the year of award and one subsequent fiscal year) (42 USC 1397dd(e)).

### **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 June 29, 2022 we requested an understanding of the Authority's controls over the Period of Performance area of CHIP. On July 12, 2022 we received a response from the Federal Financial Reporting (FFR) team at the Authority (see [Internal Control request letter - Period of Performance](#)).

On October 14, 2022 we met with the following Authority FFR staff to gain an understanding of the Period of

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Performance requirement:

- Kari Summerour, External Audit Liaison
- William Sogge, External Audit Liaison
- Jill Arlow, Federal Financial Reporting Manager
- Laura Roberts, Federal Claims Supervisor
- Mary Anderson, CHIP Federal Accounting Analyst
- Roxanne Smith, Financial Analyst

We inquired with staff whether any policies or procedures document the processes over the requirement and we were informed that there are none. We noted the following grant awards are applicable to our audit period:

1. FFY20 Grant - 10/01/2019-09/30/2021: closed 9/30/2021 during SFY22
2. FFY21 Grant - 10/01/2019-09/30/2021: active during SFY22
3. FFY22 Grant - 10/01/2020-09/30/2022: opened 10/1/2021 during SFY22

Federal claims are reported by date of payment. Data provided from the account coding designates the date of payment. Jill explained that the Authority relies on the setup of cost objective (COBJ) coding which is done in September of each year (for a detailed overview of the edit setup process, see [L. Reporting - Controls](#)). A FFR Financial Analyst prepares the cost allocation plan and the Accounting division updates the chart of accounts. The Analyst also prepares the edit request form for additions or changes and Laura Roberts, Federal Claims Supervisor, verifies and approves the edit request form. Once the form is approved, the Analyst keys the approved COBJ coding on the form into AFRS for chart of account updates. Once the coding is keyed into AFRS, a different Fiscal Analyst from Laura's team reviews the form to verify that submitted edit forms have been keyed accurately into AFRS and ensures the edit workbook is complete. The original copy of the edit request form is filed and is also on the shared network K drive. **Key Control #1: The Authority establishes new cost objective codes each federal fiscal year to ensure expenditures are charged to the proper grants. The Federal Claims Supervisor reviews the cost objectives to ensure that they are coded to the correct period of performance and charged to the correct grant during edit**

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**form setup. (Control Activities)** Once that step is complete, the original copy gets scanned and then filed. Laura stated that there is a two week period in October to implement the FMAP data.

Jill then proceeded to explain that during the reporting process for the CHIP grant (CMS-21 and SF-425), expenditures are reviewed to ensure that they are coded to the correct cost objective and charged to the correct grant (for a detailed overview of the reporting process, see [L. Reporting - Controls](#)). Mary prepares a CHIP expenditure CMS-21 report quarterly. She reviews the reports when she performs a reconciliation to make sure that the CHIP expenditures were charged only to the CHIP grant allotments which are available for the expenditure period. Also, as part of the SF-425 report reconciliation process, Mary will match up the awards against what has been drawn to date in the Payment Management System (PMS). She reviews the PMS draw data, award summary, and AFRS data to make sure that the CHIP expenditures were charged only to the CHIP grant allotments which are available for the expenditure period. **Key Control #2: CHIP expenditures are reviewed quarterly as part of the reconciliation process when preparing the quarterly reports to ensure the correct cost objectives were utilized, expenditures were accurately charged during the grant's period of performance, and that they were charged only to the CHIP grant allotments which are available for the expenditure period. (Control Activities)** Items that are requesting federal reimbursement outside of the timeframe are not included in the report (moved to line 0) and if research determines it to be ineligible, it is moved to state only coding. Should an item be determined eligible, and appropriate documentation is available to support the reason, the amount will be added back to the claim via a manual adjustment. The explanation will be added to the narrative and supporting documentation is provided to the federal grantor.

### **Summary of Key Controls**

Key Control #1: The Authority establishes new cost objective codes each federal fiscal year to ensure expenditures are charged to the proper grants. The Federal Claims Supervisor reviews the cost objectives to ensure that they are coded to the correct period of performance and charged to the correct grant during edit form setup. (Control Activities)

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Key Control #2: CHIP expenditures are reviewed quarterly as part of the reconciliation process when preparing the quarterly reports to ensure the correct cost objectives were utilized, expenditures were accurately charged during the grant's period of performance, and that they were charged only to the CHIP grant allotments which are available for the expenditure period. (Control Activities)

**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.

#### **D.6.PR.G - 93.767-Children's Health Insurance Program (CHIP) - HCA**

*Procedure Step:* L. Reporting - Controls

*Prepared By:* AWW, 12/27/2022

*Reviewed By:* SAG, 1/6/2023

|                     |
|---------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

### **Source:**

Kari Summerour, External Audit Liaison

William Sogge, External Audit Liaison

Jill Arlow, Federal Financial Reporting Manager

Laura Roberts, Federal Claims Supervisor

Mary Anderson, CHIP Federal Accounting Analyst

Roxanne Smith, Financial 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.

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## 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.*

**AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

**Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

*(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*

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award or reduce future awards (as stipulated in the agreement).

## 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

**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.

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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).

### 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)<br/>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:



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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, and any available program guidelines to determine specific requirements for Reporting, and identified the following:

1. Financial Reporting
1. *SF-270, Request for Advance or Reimbursement* - Not Applicable
  2. *SF-271, Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
  3. *SF-425, Federal Financial Report* - Applicable for cash status; Not Applicable for expenditure reporting
  4. *CMS-21, Quarterly Children's Health Insurance Program Statement of Expenditures for Title XXI (OMB No. 0938-0731)*

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

1. CMS-21 Base - The CMS-21 consists of three parts: CMS-21 Base, CMS-21B, and CMS-21C. Only CMS-21 Base is expected to be tested for compliance.
2. Performance Reporting - Not Applicable
3. Special Reporting - Not Applicable
4. Special Reporting for Federal Funding Accountability and Transparency Act (FFATA) - Not Applicable for CHIP, as the the Authority did not make any subawards under CFDA 93.767 per the

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SFY22 Schedule of Federal Awards. This was also confirmed by Jill Arlow, Federal Financial Reporting Manager.

### **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 July 2, 2021 we requested an understanding of the Authority's controls over the Reporting area of CHIP. On July 12, 2022 we received a response from the Federal Financial Reporting (FFR) team at the Authority (see Internal Control request letter - Reporting).

On October 14, 2022 we met with the following Authority Federal Financial Reporting (FFR) staff to gain an understanding of the Matching requirement:

- Kari Summerour, External Audit Liaison
- William Sogge, External Audit Liaison
- Jill Arlow, Federal Financial Reporting Manager
- Laura Roberts, Federal Claims Supervisor
- Mary Anderson, CHIP Federal Accounting Analyst
- Roxanne Smith, Financial Analyst

### **CMS-21 - Quarterly Children's Health Insurance Program Statement of Expenditures for Title XXI**

The CMS-21 is required for each federal fiscal quarter and is due 30 days after the end of the quarter. Each quarter, a separate CMS-21 report is created for each CHIP award that is open and active. A final or closeout report is not required to supplement the quarterly report. The CMS-21 is very similar to the CMS-64 and is prepared in a similar

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fashion. The CMS-21 consists of forms 21B (budget) and 21C (component of CMS-64). CMS-21C feeds into the quarterly CMS-64 since this is the portion of CHIP funds that are applied to Medicaid (section 107 CHIP). FFR has one staff member (Mary Anderson, CHIP Federal Accounting Analyst) specifically assigned to the preparation of the CMS-21 base.

FFR uses a chart of accounts (COA) to properly categorize and account for the Agency's activities. This information is ultimately used to allocate costs. The agency's COA is developed to reflect specific information that correlates to federal reporting. Cost objectives are designed to identify source of funding, current federal fiscal year, as well as the federal fiscal year the entry relates to. Other coding elements such as program index, project, allocation code, and sub-sub-object, for example, are designed to assist with federal reporting claim items. This information is then incorporated into a mapping tool used by the Federal Financial Reporting unit. Laura will update these codes after Jill's approval.

FFR uses a mapping tool that lays out how the coding logic relates to federal reporting. The tool was developed as a hierarchy and all mapping is done in accordance with the hierarchy. With this process FFR can accommodate the fact that there are more federal reporting items than coding fields available. The tool is the combined effort of staff in the program area, budget office, and accounting sections. Changes to this tool are the result of discussions by all affected parties. Changes are not made very often, if any change is made, it is done by Laura or a Medicaid Transformation Project (MTP) Fiscal Analyst with Jill's approval.

The CMS-21 preparation process first begins with Mary pulling statewide accounting information from various agencies (specifically applicable for CHIP which includes the Department of Social and Health Services), as well as the Authority. She runs AFRS Expenditure Summary Flexible reports for both agencies. AFRS uses the entry's account coding such as allocation code, program index, and cost objective to determine where the entry needs to be input into the report. A Web Application with SQL Database is updated for T-21 and T-64 by the Authority's Information Technology (IT) staff, which is uploaded for report usage two days after closing (due to cost

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allocation). In order to prepare the CMS-21 report, Mary will then pull the mapped accounting entries from the Mapping Access Database, provided each quarter by IT. She also pulls an unmapped summary report and will determine program codes so they can be correctly mapped manually. She will exclude allocation codes beginning with MX and CX as well as cost objective C\*\*X\*, since these will be moved to line zero to be reported on the CMS-64 (section 107 CHIP expenditures charged to Medicaid). Mary performs a reconciliation of the mapped data against the AFRS data. Mary takes this information and ensures the Mapping Access Database data reconciles back to the statewide accounting data (AFRS). **Key Control #1: The Authority uses statewide accounting data from AFRS to create the CMS-21 and SF-425 reports. As there are more federal reporting items on the CMS-21 report than coding fields available in AFRS, the Authority uses a mapping tool for additional tracking for the CMS-21 report. The Fiscal Analyst reconciles the CMS-21 database report (consisting of unmapped data) and the SF-425 Payment Management System report back to the AFRS Medicaid expenditure report to ensure completeness of the data to be mapped. (Control Activity)** Any missing, duplicative, or erroneous lines are identified and work is done to correct the database until the two systems are in balance.

Prior to input on the report, Mary also reviews for allocation accuracy by verifying that the breakdown of state and federal CHIP expenditures are split at the correct enhanced federal medical assistance percentage (FMAP) rate for that reporting time frame to determine if matching requirements are being met (\*NOTE: This key control is also identified for matching as it relates to the CMS-21, as summarized at [G. Matching - Controls](#) and tested at [G. Matching - Tests of Controls](#)). Jill also stated that as part of the cash draw process, the reconciler will match up the awards against what has been drawn to date in the Payment Management System (PMS). Mary reviews the PMS draw data, award summary, and AFRS data to make sure that the CHIP expenditures were charged only to the CHIP grant allotments which are available for the expenditure period (\*NOTE: This key control is identified for period of performance, as summarized at [H. Period of Performance - Controls](#) and tested at [H. Period of Performance - Tests of Controls](#)). Items that are requesting federal reimbursement outside of the time frame are not included in the report (moved to line 0) and if research determines it to be ineligible, it is moved to state only coding.

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Once this initial reconciliation is complete and all expenditure transactions for a given reporting quarter have been balanced, mapped, and reviewed, input sheets are prepared for entry and the mapping database will automatically take the AFRS data and put it into similar or “like” lines for input. Mary will then go into the WEB-based Medicaid and CHIP Budget and Expenditure System (MBES) to input the information from the system generated report input sheets. MBES is the Centers for Medicare & Medicaid Services (CMS)'s online claiming system. After entering all of the quarterly reporting data into MBES, Laura Roberts, Federal Claims Supervisor, prepares a final summary reconciliation between the Authority's mapped data and the summary information within MBES called the Summary Reconciliation. The Summary Reconciliation is done by CMS-21 line with variances noted and explained. **Key Control #2: Once all forms have been entered into MBES for the CMS-21, the Federal Claims Supervisor performs a summary reconciliation between the MBES summary information and the mapped data reports to ensure accuracy and completeness of the MBES report. (Control Activities)** During this time, Mary also reviews specific line items in the report to verify administrative expenses are under the allowable ten percent threshold and to determine if earmarking requirements are met (\*NOTE: This key control is identified for earmarking, as summarized at [G. Earmarking - Controls](#) and tested at [G. Earmarking - Tests of Controls](#)). Once the claim is entered, all information has been input into MBES, and everything reconciles, Mary will inform Jill Arlow, Federal Accounting and Reporting Manager, that the report is complete.

Mary provides Jill with the supporting documentation so that she can review the report to ensure that it is accurately completed. Jill will do spot checks on selected entries and ensures all forms are complete. She verifies each line item to ensure that the totals input on the report match the ones from the AFRS report as well as the mapped data report. Once Jill has completed her review and determines that there are no errors, she will certify the CMS-21 report in MBES since she is the one that has that authority. **Key Control #3: There is a segregation of duties between the CMS-21 and SF-425 report preparer and the CMS-21 and SF-425 reviewer/certifier. The HCA Federal Financial Reporting Manager reviews the CMS-21 and SF-425 reports and its supporting documents to ensure that the CMS-21 and SF-425 is properly prepared before certifying the reports. (Control Activities/Monitoring)**

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The CMS-21 report is certified prior to it feeding into the CMS-64 and is typically completed much earlier than the CMS-64. Jill and Mary both stated that they do not have the same late filing issue with the CMS-21 as with the CMS-64 report. The CMS-64 report pulls the information reported on the CMS-21 and can be found on line 64.21C of the CMS-64 quarterly report. When asked, Jill mentioned that if necessary corrections are subsequently identified after certification, these would be made on the following quarter report, after being moved to line 0 for extra processing.

### SF-425 - Federal Financial Report

Per our discussion with the Authority, effective April 1, 2022 HHS no longer requires the submission of the quarterly Federal Cash Transaction Report, a variant of the SF-425 for cash reporting, within 30 days after the end of the federal fiscal quarter. HHS communicated this to the Authority via a banner display within PMS (see [HHS SF-425 Notification](#)). FFR staff prepared quarterly reports for the quarters ending September 30, 2021 and December 31, 2021. HHS removed the ability to file or see the old process for the SF-425 via PMS.

The SF-425, Federal Financial Report (FFR) is completed for awards to date each federal fiscal quarter. The report summarizes all grant programs that the Authority receives federal funds for, but does exclude some of the Behavioral Health and other block grants. The Federal Financial Reporting Unit works collaboratively to prepare a workbook of cumulative expenditures for each open program (not by grant or award) and Mary is the one who is specifically responsible for preparing the CHIP workbook. Mary is also the staff member who receives all the workbook data and compiles the grant information into the final FFR. Jill explained this reporting process has the same scheduled due dates as the CMS-21 and CMS-64, due 30 days after the close of the federal fiscal quarter. Jill stated that the Authority is not granted the ability to draw down funds within the Payment Management System (PMS) until the report has been certified and submitted. If the report is submitted late, the Authority would have to wait until the next draw period to request the funds.

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The SF-425 reports federal cash (cash receipts, cash disbursements, and cash on hand), federal expenditures and unobligated balance, recipient share, and program income. The report is prepared within the PMS system. To begin the process, AFRS expenditure and revenue reports are ran from the enterprise reporting system for each program. Mary prepares the report for CHIP. She ensures the report captures both HCA and DSHS expenditures and revenues. This data will be compiled with all other program workbooks to create a summary of the cash status for all federal programs.

This summary data worksheet is prepared to show expenditures and revenues for all agencies up to the end of the reporting period by inputting each program's total amount expended/disbursed and received. She compares the disbursed amount to be reported against the prior cumulative disbursements in PMS and takes the difference between these to determine the total cash disbursements for the period. She then calculates the cash on hand by taking the difference between the receipts and disbursements. The report within PMS then auto-populates the totals for cash receipts and cash disbursements based on what was input. She verifies that the amount matches what she had calculated on the summary workbook. She also compares the authorized amount against the cumulative disbursement to track the remaining award balance to ensure it is not exceeded.

Once this summary information is compiled, Mary then runs reports within the PMS system. A reconciliation of each draw is then performed to ensure that the balance in PMS matches the balance in the summary data worksheet. **Key Control #1: The Authority uses statewide accounting data from AFRS to create the CMS-21 and SF-425 reports. As there are more federal reporting items on the CMS-21 report than coding fields available in AFRS, the Authority uses a mapping tool for additional tracking for the CMS-21 report. The Fiscal Analyst reconciles the CMS-21 database report (consisting of unmapped data) and the SF-425 Payment Management System report back to the AFRS Medicaid expenditure report to ensure completeness of the data to be mapped. (Control Activity)**

If there are no discrepancies, Mary notifies Jill that the SF-425 is ready for her review. Jill reviews the cash receipt,

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cash disbursement, and cash on hand amounts reported on the SF-425 and compares this to the summary workbook to verify that the total amounts are accurate and will then certify and submit the report to CMS. **Key Control #3: There is a segregation of duties between the CMS-21 and SF-425 report preparer and the CMS-21 and SF-425 reviewer/certifier. The HCA Federal Financial Reporting Manager reviews the CMS-21 and SF-425 reports and its supporting documents to ensure that the CMS-21 and SF-425 is properly prepared before certifying the reports. (Control Activities/Monitoring)**

### **Summary of Key Controls**

Key Control #1: The Authority uses statewide accounting data from AFRS to create the CMS-21 and SF-425 reports. As there are more federal reporting items on the CMS-21 report than coding fields available in AFRS, the Authority uses a mapping tool for additional tracking for the CMS-21 report. The Fiscal Analyst reconciles the CMS-21 database report (consisting of unmapped data) and the SF-425 Payment Management System report back to the AFRS Medicaid expenditure report to ensure completeness of the data to be mapped. (Control Activity)

Key Control #2: Once all forms have been entered into MBES for the CMS-21, the Federal Claims Supervisor performs a reconciliation between the MBES summary information and the mapped data reports to ensure accuracy and completeness of the MBES report. (Control Activities)

Key Control #3: There is a segregation of duties between the CMS-21 and SF-425 report preparer and the CMS-21 and SF-425 reviewer/certifier. The HCA Federal Financial Reporting Manager reviews the CMS-21 and SF-425 reports and its supporting documents to ensure that the CMS-21 and SF-425 is properly prepared before certifying the reports. (Control Activities/Monitoring)

**Evaluation of Results:** Did you identify any control deficiencies? 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.

#### D.6.PRG - 93.767-Children's Health Insurance Program (CHIP) - HCA

*Procedure Step:* N. Special Tests and Provisions: Provider Eligibility - Controls

*Prepared By:* BAB, 5/26/2023

*Reviewed By:* SAG, 6/6/2023

|                      |
|----------------------|
| Purpose/Conclusion.* |
|----------------------|

#### **Purpose:**

To gain an understanding of the internal controls the agency has established that provide reasonable assurance of compliance with the Special Test 1 - Provider Eligibility (Screening and Enrollment).

To identify the key internal controls and provide a preliminary control risk assessment based upon our understanding of the internal controls for Special Test 1 - Provider Eligibility (Screening and Enrollment).

#### **Source:**

George Wagner – Section Manager, Provider Enrollment

Cindy Raves – Internal Audit Liaison

Kari Summerour – External Audit and Compliance Manager

#### **Conclusion:**

Based on our understanding of internal controls over Special Test 1 - Provider Eligibility, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess preliminary control risk as high and will report a finding for a material weakness at 2022-055 The Health Care Authority did not have adequate internal controls over and did not comply with federal provider eligibility requirements for the Medicaid and Children's Health Insurance Program. No internal control testing is necessary in this instance.

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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.

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*

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*automated controls affect the manner in which grant related transactions are initiated, authorized, recorded, processed and reported.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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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Record of Work Done:

**Note: This understanding was gained simultaneously with our Medicaid Special Test in audit "K.1.PRG : S1Medicaid-SA22 : 6/1/2022 – ST4 Provider Eligibility (Screening and Enrollment)". The control understanding write-up at procedure "Special Test 4 - HCA Provider Eligibility – Identification of Key Internal Controls" was pulled forward for the CHIP program.**

## **Special Test 1 - HCA Provider Eligibility - Identification of Key Internal Controls**

### **Inherent Risk of Noncompliance**

#### **Step 1**

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

- The Compliance requirement is new to the agency and the requirement has changed recently
- The Authority utilizes a system that has been recently implemented to meet the requirements over this area

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.

Additionally, we noted that in prior audits, the Health Care Authority did not have adequate internal controls over and did not comply with requirements to ensure federal provider eligibility requirements for the CHIP and Medicaid programs were met, including the revalidation of certain providers every five years and the screening and fingerprint-based criminal background checks.

We reviewed the perm file and noted the following findings for HCA Provider Eligibility (including revalidation and application fees) from previous audit periods:

- 2021-047: The Health Care Authority did not have adequate internal controls over and did not comply with federal provider eligibility requirements for the Medicaid and Children's Health Insurance Program.
- 2020-046: The Health Care Authority did not have adequate internal controls over and did not comply with federal requirements to ensure providers of the Medicaid and Children's Health Insurance Programs were properly screened, licensed, and enrolled.

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- 2019-048: The Health Care Authority did not have adequate internal controls over and did not comply with requirements to ensure certain Medicaid providers were revalidated every five years or that screening and fingerprint-based criminal background check requirements were met.
- 2018-042: The Health Care Authority did not have adequate internal controls over and did not comply with requirements to ensure certain Medicaid providers were revalidated every five years or that screening and fingerprint-based criminal background check requirements were met.
- 2017-033: The Health Care Authority did not have adequate internal controls over and did not comply with requirements to ensure Medicaid medical providers were revalidated every five years and screening requirements were met.

### **Gather Information**

#### **Step 2**

##### Review scope of work

We reviewed the scope of work per the Medicaid and CHIP State Plans, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine Provider Eligibility requirements. Per review of both the compliance supplements for the CHIP and Medicaid programs, we identified the following:

In order to receive Medicaid or CHIP payments, providers must: (1) be licensed in accordance with federal, state, and local laws and regulations to participate in the CHIP program (42 CFR 457.900); (2) screened and enrolled in accordance with 42 CFR part 455, Subpart E (sections 455.400 through 455.470); and make certain disclosures to the state (42 CFR 457.990(a), cross referencing 455.107). Medicaid and CHIP managed care network providers are subject to the same disclosure, screening, enrollment, and termination requirements that apply to Medicaid and CHIP fee-for-service providers in accordance with 42 CFR Part 438, Subpart H.

Providers who have been barred from participation by the OIG exclusion list are not eligible to be enrolled in the Medicaid and CHIP programs (42 CFR 457.990, 42 CFR 455 Subpart E). Lists may be found at [List of Excluded Individuals/Entities \(LEIE\)](#).

### **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 September 7, 2022, Stephanie Garza, Kelvin Fitzgerald, Elijah Stidham, and Benjamin Bostrom met with the following HCA staff to discuss provider eligibility and provider revalidation:

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- George Wagner – Section Manager, Provider Enrollment
- Cindy Raves – Internal Audit Liaison
- Kari Summerour – External Audit and Compliance Manager

George mentioned that although HCA's corrective actions for the prior year findings are in progress, they are not yet complete. He also mentioned that in November 2021, they received the results of their Payment Error Rate Measurement (PERM) audit, which he stated found very similarly reported issues as the SAO had, such as ineligibly enrolled providers and revalidations being done untimely. He added it also included control deficiencies regarding staff errors made when conducting provider eligibility functions, which directly contribute to eligibility decisions made **(Risk)**.

The Provider Enrollment (PE) Unit is responsible for ensuring compliance with provider eligibility, including initial enrollments, reenrollments, and revalidations. The PE Unit has 32 staff (an increase of 11 staff from the previous audit period) **(Risk)**, consisting of line staff, leads, program heads, supervisor, and George. George confirmed that both CHIP and Medicaid providers utilize the same processes with no differentiation. The process is conducted just once and if a provider is determined eligible, they are approved to provide services for both Medicaid and CHIP clients alike. He also explained that revalidations are very similar to enrollments. The same requirements listed in the enrollment manuals will apply to revalidations with the only exception being that the Authority chooses to not collect application fees for revalidations.

George then began by providing us background information into the different types of providers that apply for eligibility. There are three different types of providers that get evaluated for provider eligibility: billing providers, service providers, and non-billing providers.

- Billing Providers - These are also known as furnishing providers and they are for licensed health care professionals enrolling with HCA as either a solo practice or licensed health care-groups and facilities. There are approximately 15,000 billing providers in ProviderOne.
- Service provider - These are for licensed health care professionals who are performing provider practicing under a group or facility. These providers are typically employees of a billing provider that already has an established core provider agreement (CPA). These providers are small and have just enough information to identify an individual (SSN, name, licensure). There are approximately 120,000 service providers in ProviderOne.
- Non-billing providers - This type of provider was set up upon request by those who wanted to participate as a managed care entity or Behavioral Health Organization (BHO) and be included in ProviderOne (P1), but not part of fee-for-service (FFS). Non-billing providers have a similar agreement to the CPA that allows them to enroll under the non-billing agreement. There are approximately 3,000 to 4,000 non-billing providers in ProviderOne.

At initial enrollment, providers sign up through HCA's website and ProviderOne (P1) portal. George stated they currently receive, on average, about

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1,500 applications a month for providers of the CHIP and Medicaid programs, while their previous year average was between 800 and 1,000 new applications a month (**Risk**). HCA provides different sets of instructions via their website and offers different manuals depending on the provider type. The required documents that the provider must submit vary based on their provider type. Billing providers require documentation in the form of a W9, a debarment form, and a Core Provider Agreement (CPA). Service providers do not need these same forms but use Automated Provider Screening (APS) in a similar manner, having different application fields screened. These checked fields include licensure, sanctions, and an identity check for a high degree of confidence in accuracy. Staff then screen additional fields, disclosure information, and verifies that all listed names of the service providers are also in good standing. All providers must have screening processes conducted as a part of initial enrollment or revalidation. Screening is used to determine whether a provider is eligible to participate under the Medicaid and CHIP state plans. Servicing providers are screened as individuals and both billing and nonbilling providers are screened as an organization. Additionally, Managed Care Organizations (MCOs) are required by contract and 42 CFR 438.608(b) to screen their providers according to federal and state rules.

When a new provider determines that they want to enroll in ProviderOne, they begin by completing an application form. An application wizard will walk providers through the application process and inform them of what fields are mandatory and which fields are optional. Once the application is filled out, it gets automatically sent to George's team for review. His team reviews the application for completeness and begins screening the provider for good standing and risk. Occasionally, a provider's application will be submitted as a hard-copy and not electronically. George informed us that these applications are still accepted. Once hard-copy applications are received, one person from George's team will enter the information provided into ProviderOne. Once entered, a second staff member will do the review of the application, and there will always be two different individuals doing application review for provider eligibility.

The Health Care Authority charges an application fee for new providers. This fee is set yearly by the Center for Medicare and Medicaid Services (CMS) and is around the ballpark of \$500-\$600. The application fee does not apply to servicing only providers, sole proprietorships, or groups comprised of sole proprietors. Also, if the provider is enrolled in Medicare, then they don't collect an application fee, as this has already been paid during that process. For those providers who are required to pay an application fee, the application will not be processed or advanced until the fee is collected by the finance section. It is the current practice that application fees are not collected at revalidation, however George brought to our attention that this directly contradicts the guidance within the MPEC (see page 66-78 at [MPEC](#)) (**Control Weakness**). Per review of the 1135 waiver (see highlighted sections at [COVID-19 Emergency Declaration Blanket Waivers for Health Care Providers](#) and approval letter at [WA 1135 Flexibilities Approval Letter final signed](#)), we noted that due to COVID-19, the collection of application fees was not required for those received after March 25, 2020. However, beginning October 1, 2020, the collection of application fees was reinstated. The decision to override the waiver on these areas was communicated via Directive from the Authority's executive management team.

The first step in enrolling or revalidating a provider is to determine the provider's screening risk level. A provider can be designated as one of three risk levels: limited, moderate, or high. All providers are screened, at minimum, at the lowest risk level and if a provider is designated as moderate or

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high risk, additional screening measures are required. Each risk level requires progressively greater scrutiny of the provider before it can be enrolled or revalidated. These risk-screening activities are uniformly held across all of the different provider types that providers can enroll under for eligibility. The following are the required screening procedures for each of the risk levels:

### Limited risk:

- Verify that the provider meets applicable federal regulations or state requirements for provider type before making an enrollment or revalidation determination.
- Conduct license verifications, including for licenses in states other than where the provider is enrolling
- Conduct database checks to ensure providers continue to meet the enrollment criteria for their provider type

### Moderate risk:

- Perform the limited risk screening requirements
- Conduct pre-enrollment and post-enrollment site visits

### High risk:

- Perform the moderate risk screening requirements
- Conduct a fingerprint-based criminal background check

HCA does not yet have an established process in place to conduct fingerprint checks of applicable high-risk providers (**Control Weakness**). HCA has designated a Program/Project Manager to lead this work and is currently working on implementation and anticipates completion by December 31, 2022. There is currently a waiver in place (effective March 1, 2020 through the end of the emergency declaration) for the fingerprinting requirement (see: [COVID-19 Emergency Declaration Blanket Waivers for Health Care Providers](#) and [WA 1135 Flexibilities Approval Letter final signed](#)), although he has reason to believe that the waiver will end in January 2023. Since no fingerprinting is currently being done, there is no difference between moderate and high risk. They are currently looking for a vendor to conduct fingerprinting background checks for enrollments and re-enrollments. George mentioned that there are a small volume of newly enrolling providers who are required to be fingerprinted since the vast majority of these are enrolled with Medicare and CMS allows States to rely on their provider screening results.

George confirmed they perform site visits for only moderate and high-risk providers. However, he explained that most providers were enrolled with Medicare, and as Medicare enrollment of providers require an on-site visit, the Provider Enrollment team utilizes the results of the Medicare visits through review of the Medicare system, Provider Enrollment, Chain, and Ownership System (PECOS). Due to this, George's team only visits the moderate and high-risk providers that are not also Medicare enrollees. George further explained that the majority of the moderate and high-risk category was related to durable medical good providers, and they are required to be enrolled in Medicare. All other risk monitoring requirements have been reinstated as of October 1, 2020, including on-site visits. The decision to override the waiver on these areas was communicated via Directive from the Authority's executive management team. Notices to reinstate the applicable efforts during enrollments or revalidations made



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after October 1, 2020 were sent out during this same time.

According to federal regulation, a provider's categorical risk level must be adjusted from limited or moderate to high when any of the following situations occur:

- A payment suspension is imposed on a provider based on credible allegation of fraud, waste, or abuse. The provider's risk level remains high for ten years after the date of the payment suspension was issued.
- A provider is found to have an existing state Medicaid plan overpayment at enrollment or revalidation, if it:
  - is more than 30 days old
  - has not been repaid at the time the application was filed
  - is not currently being appealed
  - is not part of an approved extended repayment schedule for the entire outstanding overpayment
- The provider has been excluded by the Office of Inspector General (OIG) or another state's Medicaid program in the previous ten years.
- A Medicaid agency or CMS had lifted a temporary moratorium for the particular provider type in the previous six months.
- The provider is included on the Do Not Enroll List (DEX Edits)

To identify potentially high risk providers, program enrollment staff utilize specialists throughout the Authority to identify providers fitting any of the criteria listed above. For payment suspension, Sally Riley, Medical Assistance Program Specialist, from the Fraud Investigation Unit will send a list of providers with a payment suspension based on credible allegation of fraud, waste or abuse. For overpayments, Daniel Hughes, Operations Research Specialist, from Program Integrity will send a list of providers with overpayments of \$1,500 or greater that was identified by an algorithm. For Moratoriums, Medical Program Specialist, Pooji Tran and Kristina Hawley, from the Quality Management Team (QMT) will send a list of providers when temporary prohibitions are made and lifted by the state Medicaid agency or CMS. For payment suspension, overpayment and moratoriums, the list includes the provider information and the start-date in which the payment suspension, overpayment, or moratorium went into effect. The Provider Enrollment staff do the final review of the lists above to ensure that providers selected for the High Risk Category meet the right criteria before they change the provider's risk in the ProviderOne domain (**KC #1 - Monitoring**). Provider Enrollment staff will log the risk entry into the QMT log for the LEIE/OIG Exclusion and DEX (aka Do Not Enroll) providers. The PE staff will then also log the provider into the High Risk Providers' Queue on the SharePoint site for the next steps within the screening process for high-risk providers. Providers that are not included in the three mentioned lists above are processed as limited risk by HCA.

Once the risk level is properly assessed, the appropriate screening steps can then be performed. Prior to November 2018, the screening process mainly consisted of manual searches of state and national databases to verify the existence, qualifications, and licensing of a provider. George informed us that HCA partially implemented an Automated Provider Screening (APS) process to conduct all the necessary data matches in ProviderOne in November 2018. After the full implementation of the Automated Provider Screening, manual work consists only of reviewing those providers that do not pass the automated screening, which is more efficient than one-at-a-time manual review. This new solution integrates between

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the LexisNexis, the Provider Credentialing Service (PCS), and ProviderOne into HCA's APS solution. The Provider Screening Solution provides the ability for the provider enrollment unit to screen enrollment information and store screening results for the user to review. The screening results are stored in PCS and will be available for state staff to review and make appropriate decisions regarding whether to approve, deny or investigate further on the enrollment/modification applications. The APS system is used for both initial eligibility and revalidations, as well as ongoing screenings. These automated checks cover required checks for licensing, criminal background checks, and federal databases. If the APS has issues with a verification item, the provider information is logged and Provider Enrollment staff manually check the verifications. George provided a letter from their vendor, Client Network Service, Inc. (CNSI), which outlines the origination of various federal database information obtained directly by LexisNexis during the automated screening processes of APS (see: [4.15.2018 LN PIS Data Sources CNSI WA](#)). We noted the following federal databases are checked at regular intervals, as well as at enrollment and revalidation:

- Death Master file is obtained weekly from the Social Security Administration
- List of Excluded Individuals and Entities is acquired monthly from the U.S. Department of Health and Human Services, Office of the Inspector General
- Excluded Parties List System is obtained from the System for Awards Management website monthly
- National Plan and Provider Enumeration System (NPPES) data is updated weekly from NPPES

Previously, there was no direct integration between the ProviderOne APS system and the various MCO credentialing systems. MCO's were required under contract to ensure their provider networks are credentialed and ensure they are enrolled with HCA. George mentioned that there was a big push to get these MCO network providers enrolled within the P1 system by June 30th, 2022, which was the reason they experienced a drastic increase in new applications received in SFY22 (**Risk**). Those MCO network providers enrolled with HCA are now screened under the APS.

For the screening for licensure, there is an interface in place between Department of Health (DOH) and HCA which automatically updates ProviderOne provider licensure information in ProviderOne on a daily basis. Typically, when the federal database check determines a provider has an expired license, the ProviderOne system automatically terminates providers by deactivating the taxonomy, which will cause claims to deny for as long as the license is not active. However, because of the blanket 1135 waivers the Authority received (see: [COVID-19 Emergency Declaration Blanket Waivers for Health Care Providers](#) and [WA 1135 Flexibilities Approval Letter final signed](#)), this function was shutoff to avoid excessive burden on healthcare professionals assisting with patients and to avoid roadblocks to providing necessary services. This has not yet been turned back on, but George did clarify that while this licensure verification automation has been turned off, HCA staff have continued to manually check licensure at enrollment, revalidation, and related updates in accordance with the licensure requirements under 42 CFR 455.412. Also, the interface between DOH and HCA which automatically updates P1 with licensure information from DOH has continued to be active.

However, due to the automatic function being turned off, HCA may not know for some time if a provider's license expired, so it is possible to find some active providers with an expired license (**Control Weakness**). George informed us that if there was an issue that caused a provider to lose

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their license, DOH quality management would know very quickly and action would be taken to deactivate the provider. We did not contact DOH to confirm this information since we already consider this issue a control weakness. Upon review of the waiver documents, we further inquired on the allowability of forgoing the continuous licensure checks. George stated that he agrees with the SAO, the blanket 1135 waiver specifically refers to out of state providers, and the State DOH waiver was for a limited time span in 2020. The WA 1135 licensure requirement waiver under #4 was applicable in April 2020, and is not specific to out of state, but after more than a year he agreed that the provisional requirement for any providers enrolled under this waiver would no longer apply (**Control Weakness**). He stated that they don't want to turn the licensure validation automation back on only to find that the interface isn't working with providers receiving denied claims, but it is something HCA is working on. Over the past year, 14 additional staff have been hired and they are currently trying to get everyone trained before implementing changes (**Risk**).

1.

Once applications are reviewed and considered in good standing, they will be approved. Only after this approval does the provider go live within ProviderOne. This happens automatically and a welcome letter is given to the provider. A second letter is also sent to the provider with information needed to access the ProviderOne portal. The effective date is marked as the approval date and claims submitted after that date can begin being submitted into ProviderOne immediately. This overall enrollment process takes approximately 45 to 60 days with a posted goal of 30 day approval on the HCA website. George explained that it is common for HCA to back date enrollments when requested by providers to allow for the processing of claims, limit gaps of service, and meet business needs, as described in WAC 182-502-0005(6). CMS allows backdating, and discusses the practice on pages 66-67 of the MPEC (see: [MPEC](#)). Additionally, the Chief Medical Office has issued authorization to extend past the 365 day limit in order to meet critical agency needs as referenced in the process request provided by George at [FW Draft of new effective date process for the MCO network enrollment project](#). CMS focus is ensuring payments are not made to providers prior to the date of screening. Provider Enrollment has been asked by agency management to waive the requirement for "Effective Date Change Request" forms when the provider identifies a desired effective date on their application, therefore this desired start date is identified under the "enrollment effective date" field under the "Provider General" page. The main purpose of waiving this requirement was to enroll MCO network providers timely without payment disruption.

Once the provider is enrolled, the APS also runs monthly automated checks of all active providers and flags providers that may not be in compliance. The APS system creates "edits" during the automation indicating possible exclusions and sanctions; these edits need to be worked manually by staff. The monthly APS edits process consists of two parts:

1. Monthly automated process involving ProviderOne systems review of LexisNexis (LN) responses for ALL enrolled HCA providers and their disclosures utilizing the federal databases, any non-positive LN responses are posted to an "edit" queue in ProviderOne.
2. HCA staff are assigned to work this edit queue, validate with the source database to see if edit posted is a false positive, and document the check directly in the ProviderOne edit queue. If the source database also indicates a sanction concern, the provider is referred to the HCA Quality Management Team for 2nd level review.

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It takes about 60 hours per month to manually work these edits lists and there was more than a 90% rate of false positives in SFY22. The assignment of these monthly edits for staff to work is a somewhat manual process and is performed by the supervisor or lead worker. Both spot check work done by staff, which includes the edits. When we met with George, he confirmed the timeline/progression of the APS process as summarized at [APS Progression Timeline](#). George stated that HCA started using the APS edits intermittently starting October 2018, but did not have all the kinks worked until October, 2020. Since October 2020, HCA has worked the APS edits monthly to ensure compliance with 455.436. Prior to October 2020, HCA conducted monthly LEIE exclusion checks for several years using a separate method including LEIE downloadable databases in order to comply with 42 CFR 455.436. The Program Integrity unit ran the LEIE downloadable database, which was provided from Ming Wu, Deputy Administrator Program Integrity. After October 2020, this process was supplemented by the new APS process and the downloadable database continued for a couple more months as a backup precaution to allow time to ensure APS's credibility. The APS system works by taking existing ProviderOne data and sending it to LexisNexis before running it against an exclusion database to generate possible hits, which flags potentially excluded providers.

Once APS was fully implemented, HCA ran into systems issues with this edit process which creates a large number of false positive sanction matches and made working these by HCA staff time prohibitive. George explained to us that his team worked on these edits, but at some point during the summer of 2020, LexisNexis made changes to how their data was stored. This was the primary cause of the large number of false positives being generated within the system. When staff work an edit, they add comments in ProviderOne (such as indicating a false positive or no match). If the edit isn't worked by staff, and the management team didn't notice this, no comments will be in P1, and the edit will show up again the next month for staff to work. Because of this, HCA has stopped working the monthly edits until the systems issues are resolved (**Control Weakness**). George confirmed with us that the edit was only ran once during the audit period and that no other checks were done. He told us that the results were returning 90%+ false positives and that the time investment to manually filter all the false positive was too high. Program Integrity stopped running the LEIE downloadable database once APS was fully implemented and didn't reimplement their process when George's team ran into systems issues with this edit process. The last month edits were worked by HCA staff was July 2021. The P1 systems folks are working with the P1 vendor, CNSI, to fix the issues, and HCA is also looking at other options for compliance with this requirement.

In addition to the new provider applications, HCA is required to revalidate all providers every five years, regardless of provider type. George mentioned that the Authority processes approximately 300-400 revalidations each month. The revalidation process consists of HCA rescreening already enrolled providers to verify continued existence and up to date qualifications and licenses. Per the 1135 Waiver (see: [COVID-19 Emergency Declaration Blanket Waivers for Health Care Providers](#)), the Authority has received approval for the postponement of all revalidation actions through the end of October 2020, when a management decision was made to reinstate most all (excludes background checks) eligibility processes covered under the waiver. Normally, service providers already effectively get screened and revalidated every month through the APS automated process. All providers receive the screening conducted through APS during revalidation as well as monthly, however, during the audit period, the monthly screening process was turned off and edits were not being worked by HCA staff. The biggest focus for revalidation is on those providers with a Core Provider Agreement (CPA). Billing providers must sign a Core Provider Agreement and provide certain disclosures, whereas, servicing providers

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practicing under a group or facility must have a CPA and disclosures on file with HCA under their billing provider. During revalidation of servicing providers, staff check to verify the servicing provider's biller has a CPA on file and is current with HCA. For Providers with a CPA, a new agreement must be submitted every five years. Providers are asked to enter ProviderOne, look at and update any information, and then send in new documentation. Staff will then screen the provider using the exact tools used during the enrollment process. There is a process that providers can take to extend the deadline by communicating with HCA. New applications to ProviderOne can be submitted and payments can be backdated through 2023, but providers are asked to re-apply if removed from the system.

For revalidations, providers are automatically sent the revalidation notification every 5 years. This notification is controlled by a provider validations screening indicator in ProviderOne and is intended to be sent 90 days prior to the revalidation due date however this is not occurring. The notification is sent one day after the revalidation due date. At this time, ProviderOne begins to assemble a revalidation packet by producing a new CPA and prompting a revalidation letter to be sent to the billing provider requesting action. If no response is received within 30 days of the first revalidation notice, ProviderOne automatically sends out a second letter to the provider indicating they will be deactivated if no response is received. The provider then has up to 60 days to provide the requested information necessary to complete the revalidation process. George confirmed that the Authority was made aware by the results of both PERM and SAO audits of control and compliance issues over the revalidation process by stating that HCA's revalidation process is insufficient to meet compliance requirements (**Control Weakness**). It was found that Authority's automated system is actually designed to notify providers of their revalidations one day after the revalidation due date. Due to this design, it's highly unlikely that providers' revalidations would be completed timely. Provider Enrollment is working with P1 systems to create a ProviderOne systems Change Request to change the following:

1. Change the notification schedule from the current 60 months since enrollment or last revalidation completion date to 55 months. This will allow HCA and the provider time to complete the revalidation within the 60-month requirement, and if the provider does not respond, the provider will be deactivated by the system prior to the 60-month requirement.
2. Currently there is a compliance issue when providers receive a revalidation notice, respond but the revalidation is not properly processed by HCA staff (**Control Weakness**). HCA is working with the P1 systems team to change the P1 system to fix this problem.

When the provider responds and completes the revalidation requirements, and HCA Program Eligibility (PE) staff have worked the revalidation including required screening activities and the checklist, HCA PE staff will send a revalidation completion notice to the provider, update the provider's eligibility in ProviderOne to allow payments (if ended), and update the provider validations screening indicator to ensure the next revalidation notice is sent in 5 years.

A provider who enters into or renews a CPA-based agreement agrees via manager signature to present at the time of entrance, renewal, or at the discretion of HCA to provide disclosures that include the following per the core provider agreement. These required disclosures are as follows:

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- Ownership and control information as required by 42 CFR § 455.104;
- Information related to business transactions as required by 42 CFR § 455.105;
- Information on persons convicted of crimes as required by 42 CFR § 455.106; and
- Any denial, termination, or lack of professional liability coverage, or any change in professional liability coverage, including restrictions, modifications, or discontinuing coverage.

CPA providers must also notify HCA of any material and/or substantial changes in information contained on the Medicaid Provider Disclosure Statement given to the HCA by the Provider via writing within 30 days of the triggering event. This includes but is not limited to ownership, licensure, federal tax identification number, additions, deletions, or replacements in group membership and any change in address or telephone number. The Authority utilizes standardized Core Provider Agreements and Medicaid Provider Disclosure Statements, which are signed by each billing provider, to ensure the agreement with the provider complies with the disclosure requirements (**KC#2 - Control Activities**). George provided the CPA template disclosure form, which can be seen at [09-015-core-provider-agreement](#).

For the servicing non-billing providers, they work under a billing provider and are covered by their provider agreement. As part of this coverage, the billing provider is responsible for making this disclosure on behalf of the non-billing provider. Servicing providers must be tied to an active billing provider with a valid CPA to remain active. In order to identify any invalid providers, the PE unit will work the weekly auto-generated "Servicing Providers with No Billing Provider Report" which identifies servicing providers which are not tied to a billing provider and then the PE staff will manually deactivate them if no additional information is provided to link them to an active billing provider with an up-to-date CPA (**KC#3 - Control Activities**). The report is exported as a spreadsheet by the PE management team and loaded into a SharePoint queue. Staff are assigned to work this queue on a weekly basis. George mentioned that this report has been producing mostly false positives that PE staff must manually check to determine the appropriate eligibility action. When working the report, the business status of servicing providers on this list are manually end-dated by staff for 60 days later. Claims will deny if the NPI's of these end-dated servicing providers are used on claims. George mentioned that because the prior year audit found exceptions where servicing providers were not properly linked to a billing provider with an active CPA, the Authority is in review of the cause for these issues to determine if they were purely a manual staff error or if there could be a larger potential system issue (**Risk**).

In order to ensure all applicable screening and enrollment/revalidation steps have been completed prior to enrollment/revalidation, Provider Enrollment (PE) staff use checklists for each processed enrollment and each processed revalidation. The PE staff member signs and dates the checklist to indicate the provider is eligible to render services and receive payments (**KC#4 - Control Activities/Monitoring**). The checklist has several sections applicable to the provider in order for the PE staff member to verify copies of licenses were gathered, any applicable additional screening steps were completed (site visit), provider verifications were made, and that all agreements and disclosures were obtained and signed by the provider. If APS returns a negative response, staff are instructed to check the source database (if available) to ensure there isn't a false positive

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in APS. The staff checklist has a specific area to document these kinds of source validations. If the check also fails at the source, staff are instructed to route the application/revalidation to the HCA Quality Management Team, who conducts a second level review of the provider, which could include additional review by the Medical Dental Advisory Committee, and the agencies Chief Medical Officer.

Automated edits are in place to ensure payments are not authorized if the eligibility review process is not completed (**KC#5 - Information and Communication**). There are actually three different claim edits depending on what field the provider NPI is submitted on the claim.

- 01240 – Referring provider is missing or not active for the dates of service
- 01425 – Billing provider is not in active status
- 01445 – Attending or servicing provider is not active for date of service.

George stated that it is a federal rule that providers must be known in order to be on claims and encounters. Therefore, for new enrollments, providers cannot be paid, nor can their NPI be used on any claim, until HCA PE staff validate that screening activities are completed, and approve the application in ProviderOne. Only after the application is approved by HCA PE staff does the provider record become active in ProviderOne. Claims submitted in ProviderOne which includes a NPI not active (enrolled) with HCA are denied by ProviderOne. Providers tend to add multiple locations to one NPI, but there is a single base location where each provider will be paid. For revalidations, when a deactivation letter is sent, ProviderOne also sets the provider's eligibility with HCA to end and be deactivated 90 days from the date of the first revalidation notice sent to the provider. P1 changes the business status to "Terminate/Revalidation Incomplete". Any fee-for-service claim submitted by this provider with dates of service after their deactivation date will be denied, as the provider is not active in the same manner as any other claim for a provider not active (**KC#5 – Information and Communication**).

### **Summary of Key Controls:**

We identified the following key controls over provider eligibility at the Health Care Authority:

- **Key Control #1 - Monitoring:** The Provider Enrollment staff do the final review of the high-risk provider lists to ensure that providers selected for the High Risk Category meet the right criteria before they change the provider's risk in the ProviderOne domain.
- **Key Control #2 - Control Activities:** The Authority utilizes standardized Core Provider Agreements and Medicaid Provider Disclosure Statements, which are signed by each billing provider, to ensure the agreement with the provider complies with the disclosure requirements.
- **Key Control #3 - Control Activities:** In order to identify any invalid providers, the PE unit works the weekly auto-generated "Servicing Providers with No Billing Provider Report" which identifies servicing providers which are not tied to a billing provider and then the PE staff will manually deactivate them if no additional information is provided to link them to an active billing provider with an up to date CPA.

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- **Key Control #4 - Control Activities/Monitoring:** Provider enrollment staff ensure all applicable screening and enrollment/revalidation steps have been completed prior to enrollment/revalidation by completing a provider checklist and signing it to indicate the provider is eligible to render services and receive payments.
- **Key Control #5 - Information and Communication (Automated):** If an enrollment/revalidation packet is not completed and submitted timely by the provider, ProviderOne edits are set to automatically deactivate the provider so that payments cannot be processed.

### **Evaluation of Results:**

We identified the following control deficiencies over provider eligibility at the Health Care Authority:

- The P1 function that automatically terminates providers between enrollments when their license is not active was shutoff and has not yet been turned back on.
- HCA has stopped working the monthly edits until the issues with the systems are resolved. These were last worked in July 2021 and alternative methods to review these edits, such as the LEIE downloadable database, have also ceased throughout the duration of the audit period. Without working these edits, HCA does not know if a provider is potentially ineligible.
- The Authority is not collecting application fees for applicable providers at revalidation, as required
- The Authority has not yet established a process to ensure that fingerprinting requirements are met (federal waiver is currently in place, expected to end in January 2023, therefore no exception to be taken)
- The Authority's revalidation process is insufficient to meet compliance requirements. Revalidation notices are sent to providers the day after the revalidation due date instead of 90 days before the revalidation due date. Currently there is a compliance issue when providers receive a revalidation notice, respond but the revalidation is not properly processed by HCA staff. Due to inadequate system design, deactivation of unvalidated providers will not be processed until 30 days after their eligibility end date.

Additionally, we identified the following risks that may have an impact towards meeting compliance requirements:

- PERM audit results found control deficiencies regarding staff errors made when conducting provider eligibility functions which directly contribute to eligibility decisions made. During the audit period, 14 new staff were hired. The Authority has also increased the average number of applications per month by 500-700 more than the prior year, due to the MCO requirements being implemented. Based on these factors, the risk is increased for staffing errors.
- A potential control deficiency, per HCA, may exist in ensuring servicing only providers are properly linked to at least one billing provider with an active CPA on file

We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment and determined the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance is material. Based on our understanding of internal controls over Special Test 1 - Provider Eligibility, we found the agency does not have adequate internal controls to prevent material



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noncompliance. Therefore we assess preliminary control risk as high and will report a finding for a material weakness at 2022-055 The Health Care Authority did not have adequate internal controls over and did not comply with federal provider eligibility requirements for the Medicaid and Children's Health Insurance Program. No internal control testing is necessary in this instance.

### **Preliminary Control Risk Assessment**

#### **Step 4**

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).

### **D.6.PR.G - 93.767-Children's Health Insurance Program (CHIP) - HCA**

*Procedure Step:* N. Special Tests and Provisions: Refunding of Federal Share of CHIP Overpayments to Providers - Controls

*Prepared By:* AWW, 5/17/2023

*Reviewed By:* SAG, 6/5/2023

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| Purpose/Conclusion.* |
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#### **Purpose:**

To gain an understanding of the internal controls the agency has established that provide reasonable assurance of compliance with the Special Test 2 - Refunding of Federal Share of CHIP Overpayments to Providers.

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to Special Test 2 - Refunding of Federal Share of CHIP Overpayments to Providers.

To provide a preliminary control risk assessment based upon our understanding of the internal controls for Special Test 2 - Refunding of Federal Share of CHIP Overpayments to Providers.

#### **Source:**

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Jill Arlow, Federal Reporting Manager (HCA)  
Cheri Wright, General Ledger and Reporting Manager (HCA)  
Laura Roberts, Federal Claims Manager (HCA)  
Terenna Eggebroten, Fiscal Analyst 5 (HCA)  
Larry Reinier, Fiscal Analyst 3 (DSHS)  
Mark Allen, Policy and Financial Recovery Manager (DSHS)  
Linda McAuley, Fiscal Analyst 5 (DSHS)  
Colleen Snider, Office Chief (DSHS)  
Rick Meyer, External Audit Compliance Manager (DSHS)

### **Conclusion:**

Based on our understanding of internal controls over Special Test 2 - Refunding of Federal Share of CHIP Overpayments to Providers, we assessed preliminary control risk as low.

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| Testing Strategy: |
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### **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.

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

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- (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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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:

**Note: This understanding was gained simultaneously with our Medicaid Special Test in audit “N.1.PRG : S1Medicaid-SA22 : 6/1/2022 – ST7 Refunding of Federal Share of Medicaid Overpayments to Providers”. The control understanding write-up at procedure “Special Test 7 - Refunding of Federal Share of Medicaid Overpayments to Providers - Identification of Key Internal Controls” was pulled forward for the CHIP program and slightly modified for the referenced applicability of CHIP (particularly in regards to reporting).**

### **Special Test 2 - Refunding of Federal Share of CHIP Overpayments to Providers: Identification of Key Internal Controls**

### **INHERENT RISK OF NONCOMPLIANCE**

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### Step 1

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 risks when designing our tests of compliance.

- Multiple locations and/or departments are responsible for administering the requirement.

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 scope of work

We reviewed the scope of work per the CHIP State Plan, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine Refunding of Federal Share of Medicaid Overpayments to Providers requirements. We identified the following:

- Within one year from the date of discovery of the overpayment, recovery or attempt to recover the overpayment the federal share must be refunded to CMS via Form CMS-21 Summary, Line 4 - Adjustments Decreasing Claims - Collections, regardless of whether recovery is made from the provider.
- States must credit the federal share to CMS as outlined under 42 CFR 433.320(a)(2) either in the quarter in which the recovery is made or in the quarter in which the one-year period ends following discovery, whichever is earlier, with limited exceptions.
- For overpayments resulting from fraud, if not collected within one year of discovery, the Authority has until 30 days after the final judgment of a judicial or administrative appeals process to return the federal share.

### **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.

On November 8, 2022, we met with staff at the Health Care Authority (HCA) and on December 20, 2022, we met with staff at the Department of Social and Health Services (DSHS), to gain an understanding of the process for identifying and refunding the federal share of CHIP and Medicaid provider overpayments.

- Jill Arlow, Federal Reporting Manager (HCA)
- Cheri Wright, General Ledger and Reporting Manager (HCA)
- Laura Roberts, Federal Claims Manager (HCA)
- Terenna Eggebrotten, Fiscal Analyst 5 (HCA)
- Will Sogge, External Audit Liaison (HCA)
- Kari Summerour, External Audit and Compliance Manager (HCA)
- Larry Reinier, Fiscal Analyst 3 (DSHS)
- Jessica Boyd, Fiscal Analyst 2 (DSHS)
- Mark Allen, Policy and Financial Recovery Manager (DSHS)
- Linda McAuley, Fiscal Analyst 5 (DSHS)
- Colleen Snider, Office Chief (DSHS)
- Rick Meyer, External Audit Compliance Manager (DSHS)

In preparation for our meeting, we requested to receive copies of all applicable guidance related to the refunding of the federal share of Medicaid overpayments made to providers including applicable laws, regulation policies, procedures, desk manuals, or instructional guides. Terenna and Cheri provided copies of the T19 MOMS JV procedure as well as the instructions for the related interest (see: MOMS Interest JV Instructions (N 1 8) and T19 MOMS JV Procedures (N 1 7)). In addition, we inquired about any agreements that the Authority may have entered into with the Department of Social and Health Services (DSHS) for collaboration through the use of their Office of Financial Recovery (OFR). Rick Meyer, DSHS External Audit Liaison, provided a copy of Contract # 1161-35171 (HCA

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Contract #K492), effective November 1, 2012 through June 30th, 2013, as well as Service Level Agreement 3, Amendment 5 which extends the period between 07/01/2021 and 06/30/2023. (Note: the contract has been amended for extension continually since 2013.) We have included key takeaways from the Receivables and Recoveries section. Per the agreement, OFR will provide services including recovery, collections, and general account maintenance activities that includes vendor overpayments. OFR is delegated the authority to change or negotiate accounts receivable in accordance with state law, policy, and procedure. OFR provides monthly summaries and account activity data/information. The Authority is required to reimburse OFR for first class postage and the filings related to real property liens.

When providers bill the Authority for services provided, the Authority pays the provider and then requests a reimbursement draw for the allotted federal medical assistance percentage (FMAP). Jill explained that about 96% of overpayments within ProviderOne (P1) are corrected using a claim adjustment where the overpayment is netted against the provider in current or future payments. These claim adjustments are processed on a weekly cycle and are applied as a decreasing item on the claim to offset the overpayment. When an overpayment is discovered at the program level and they cannot net against future payments, an overpayment bill is issued to the provider. The provider has 180 days to make payment on the bill, otherwise the bill is referred to OFR at DSHS. Providers may self report overpayments via a non-offset method or offset method. If they choose the non-offset method, it is automatically sent to OFR for collections. If offset is chosen, the ProviderOne system will deduct the overpayment from all paid claims submitted until the debt is satisfied within a six month period, after which it will be referred to OFR.

The remaining 4% of recoveries that cannot be adjusted are recouped via the Medicaid Overpayment Management System (MOMS) within the Authority's Program Integrity Unit, after being referred to OFR. OFR uses the Collections and Account Receivables System (CARS) to manage debt collections. When an overpayment referral is made to CARS, an interface automatically logs the line coding identified by the program. CARS will indicate non-offset overpayments as a non-offset to collections (NOC) if the claim was reprocessed or adjusted as a non-

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offset. Providers may request an administrative hearing through the Authority via sending a letter within 28 days of the remittance advice correspondence. The system sends letters to providers and revenue agents work to collect on the debts.

When MOMS refers overpayments over to OFR and the debt is booked in the system, a flag is created in the system to start the clock on attempting to collect on these amounts. For both Medicaid and CHIP overpayments, the Department has one year from the date of discovery of the overpayment to recover or attempt to recover the overpayment before the federal share must be refunded to CMS. In order to ensure that federal funds are not charged after this timeframe, CARS views the flags set by MOMs and on the 366th day, will automatically roll over all costs to state funds by switching the funding source coding (**Key Control 1 - Control Activities**). Colleen explained that even after this point, OFR will continue to attempt to collect on these funds up to the statute of limitations of six years. When providers make a payment, the cash unit system applies it automatically against its original coding from the overpayment referral.

For SFY22, Audrey Miklavicic, Fiscal Analyst 3, (Now Larry Reinier, FA3) at OFR sends 1070 reports to Terenna each month regarding the status of overpayment accounts, showing what has been collected or is still open for the month prior. The report has three sections: increasing, decreasing, and write off. Increasing indicates the new overpayment balance, while decreasing is an adjustment reducing a previously returned overpayment. Decreasing includes when the Authority overbilled the provider and the collection needs to be reduced. Write off is an adjustment when a balance is deemed uncollectible due to factors like business closure. The federal government forgives some of the balance, under specific criteria, which allows the State to collect a portion of the federal share.

Terenna prepares batch type journal vouchers (JV) for the overpayments to be returned to the federal government using the 1070 report. They use a standard Excel workbook template and import the OFR report into the worksheet tabs. Each JV type, increasing, decreasing, and write off, is prepared through the use of a preparation worksheet and a JV worksheet. The aging of receivables displays the program index, allocation, organization index, and other



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specific coding. Based on when the expenditure was originally made, the federal portion of items returned will be applied at the FMAP applicable to that particular timeframe, which is identified by the coding. For the preparation worksheet, Terenna enters the cost allocation code, the cost objective, and FMAP rate to have the spreadsheet manually calculate the appropriate increase or decrease. FMAP rates are determined through comparing the cost objective, allocation code, and federal fiscal year against a federal FMAP matrix. The Authority also publishes an internal cost allocation code to FMAP rate cheat sheet that is updated monthly. After the FMAP related data is calculated, it is imported into the JV worksheet. The template uses pre-programmed calculations to prepare the JV, after which Terenna checks the work for correctness in areas such as positive/negative values and rounding errors, or after it is loaded into AFRS for error messages.

Next, the General Ledger and Reporting Manager, Cheri Wright, reviews the adjustments by comparing the report from OFR to the prepared journal voucher to ensure the coding is correct, the returned rate applied is accurate, and the returned amount was correctly calculated and supported by the report. She will then approve the JV for processing and will release to AFRS (**Key Control 2 – Monitoring**). After the JV is processed, the JV draw spreadsheet is emailed to OFR, including the date of the next Medicaid Assistance draw. Terenna will also fill in the date that the next federal draw is done after the release of the JV and will email a copy of the JV to Laura within the FFR unit.

The State is also required to calculate the accrued interest of the overpayment amounts that were non-recovered or non-refunded by the earlier of the CMS-21 quarterly report when recovery occurred or the CMS-21 for the quarter one year from the discovery as part of the JV process per 42 CFR 433.320(a)(4). Using the monthly JV sent from Terenna, the FA3 at OFR will input the data into CARS table maintenance which automatically calculates the interest amount due for the quarter. Interest calculation uses OFR data on the same JV spreadsheet as the FMAP calculations. If the overpayment is due to provider error, the overpayment is auto-flagged by the system to charge interest. A one percent simple interest is calculated daily, but applied monthly. The FA3 at OFR will then send the quarterly report back to Terenna who processes it along with her monthly JV. The interest collected is retained by

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the respective programs.

Once all JV adjustments are made for the quarter, the Authority is responsible for reporting the overpayments on the CMS-21 report. Jill explained that during the CMS-21 report preparation process, overpayments are identified in the AFRS data based on specific coding (combination of allocation code and program index), and if the amount is a negative, it is returned to the feds and reported on the CMS-21 each quarter. This coding automatically identifies the federal/state split from the total computable amount reported. The items processed through MOMS are reported on line 4.

Federal Financial Report (FFR) Staff will go into the WEB-based Medicaid and CHIP Budget and Expenditure System (MBES) to input the information from the system generated report input sheets. After creating the quarterly report, staff will reconcile the summary reconciliation against the report and AFRS data to ensure it is accurate and complete. Once the claim is entered, all information has been input into MBES, and everything reconciles, FFR staff will inform Jill that the report is complete. The FFR Staff will provide Jill with the supporting documentation so that she can review the report to ensure that it is accurately completed. Jill will do spot checks on selected entries and ensures all forms are complete. She verifies each line item to ensure that the totals input on the report match the ones from the AFRS report as well as the mapped data report. Once Jill has completed her review and determines that there are no errors, she will certify the CMS-64/CMS-21 report in MBES since she is the one that has that authority (**Key Control 3 - Control Activities/Monitoring**).

**Key Control 1** - The Collections and Account Receivables System views the flags set by MOMs and on the 366th day, will automatically roll over all costs to state funds by updating the funding source coding to ensure federal funds are not improperly charged.

**Key Control 2** - The General Ledger and Reporting manager reviews the adjustments by comparing the report from OFR to the prepared journal voucher to ensure the coding is correct, the returned rate applied is accurate, and the returned amount was correctly calculated and supported by the report. She will then approve the JV for

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processing and will release to AFRS.

**Key Control 3** - The HCA Federal Financial Reporting Manager reviews the quarterly CMS-21/CMS-64 report and its supporting documents to ensure that the CMS-21/CMS-64 is properly prepared before certifying the reports.

**Evaluation of Results:** We did not identify any internal control deficiencies over the requirements for Special Test 2 - Refunding of Federal Share of CHIP Overpayments to Providers.

### **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.

#### **D.6.PR.G - 93.767-Children's Health Insurance Program (CHIP) - HCA**

*Procedure Step:* N. Special Tests and Provisions: Medical Loss Ratio - Controls

*Prepared By:* ES, 12/16/2022

*Reviewed By:* SAG, 6/2/2023

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| Purpose/Conclusion. |
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#### **Purpose:**

To gain an understanding of the internal controls the agency has established that provide reasonable assurance of compliance with the Special Test 3 - Medical Loss Ratio (MLR).

#### **Source:**

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Kari Summerour, External Audit Liaison

Will Sogge, External Audit Liaison

Christy Vaughn, SECTION MANAGER HEALTHCARE RATES & FIN

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Sarah Cook, FORECAST, FINANCE & MANAGED CARE UNIT MGR

HCA website

### **Conclusion:**

Based on our understanding of internal controls over Special Test 3 - Medical Loss Ratio (MLR), 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.

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)

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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).

Record of Work Done:

**Note: This understanding was gained simultaneously with our Medicaid Special Test in audit "P.1.PRG : S1Medicaid-SA22 : 6/1/2022 – ST9 Medical Loss Ratio (MLR)". The control understanding write-up at procedure "Special Test 9 - Medical Loss Ratio (MLR) - Identification of Key Internal Controls" was pulled forward for the CHIP program.**

### **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**

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### Review scope of work

We reviewed the scope of work per the State Plan, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine Medical Loss Ratio (MLR) requirements. We identified the following:

For all contracts, the state must ensure that each managed care organization (MCO), prepaid inpatient health plan (PIHP), and prepaid ambulatory health plan (PAHP) submits a report with the data elements specified in 42 CFR sections 457.1203(e), cross-referencing 42 CFR 438.8(k) and 438.8. The report should contain the required 13 data elements in the regulation, reflect the correct reporting years, and contain an attestation of accuracy regarding the calculation of the MLR. The state should have a method to indicate when the report(s) are due from plans and should not accept multiple submissions from plans unless the capitation payments are revised retroactively.

For reference below: Managed Care Organizations (MCO), Prepaid Inpatient Health Plans (PIHP), Prepaid Ambulatory Health Plan (PAHP)

### **§ 438.8 Medical loss ratio (MLR) standards.**

*(a) Basic rule. The State must ensure, through its contracts starting on or after July 1, 2017, that each MCO, PIHP, and PAHP calculate and report a MLR in accordance with this section. For multi-year contracts that do not start in 2017, the State must require the MCO, PIHP, or PAHP to calculate and report a MLR for the rating period that begins in 2017.*

*(c) MLR requirement. If a State elects to mandate a minimum MLR for its MCOs, PIHPs, or PAHPs, that minimum MLR must be equal to or higher than 85 percent (the standard used for projecting actuarial soundness under § 438.4(b)) and the MLR must be calculated and reported for each MLR reporting year by the MCO, PIHP, or PAHP, consistent with this section.*

*(k) Reporting requirements.*

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*(1) The State, through its contracts, must require each MCO, PIHP, or PAHP to submit a report to the State that includes at least the following information for each MLR reporting year:*

- (i) Total incurred claims.*
- (ii) Expenditures on quality improving activities.*
- (iii) Fraud prevention activities as defined in paragraph (e)(4) of this section.*
- (iv) Non-claims costs.*
- (v) Premium revenue.*
- (vi) Taxes, licensing and regulatory fees.*
- (vii) Methodology(ies) for allocation of expenditures.*
- (viii) Any credibility adjustment applied.*
- (ix) The calculated MLR.*
- (x) Any remittance owed to the State, if applicable.*
- (xi) A comparison of the information reported in this paragraph with the audited financial report required under § 438.3(m).*
- (xii) A description of the aggregation method used under paragraph (i) of this section.*
- (xiii) The number of member months.*

*(2) A MCO, PIHP, or PAHP must submit the report required in paragraph (k)(1) of this section in a timeframe and manner determined by the State, which must be within 12 months of the end of the MLR reporting year.*

*(3) MCOs, PIHPs, or PAHPs must require any third party vendor providing claims adjudication activities to provide all underlying data associated with MLR reporting to that MCO, PIHP, or PAHP within 180 days of the end of the MLR reporting year or within 30 days of*



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*being requested by the MCO, PIHP, or PAHP, whichever comes sooner, regardless of current contractual limitations, to calculate and validate the accuracy of MLR reporting.*

*(n) Attestation. MCOs, PIHPs, and PAHPs must attest to the accuracy of the calculation of the MLR in accordance with requirements of this section when submitting the report required under paragraph (k) of this section.*

### **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 the following staff at HCA on 10/17/2022 to gain an understanding of the Authority's internal controls over Medical Loss Ratio reporting:

- Christy Vaughn, Section Manager Healthcare Rates and Fin
- Madina Cavendish, Section Manager Healthcare Rates and Fin
- Sarah Cook, Fiscal Information & Data Analyst

During our meeting, Christy (Section Manager Healthcare Rates and Fin) explained that although this report is a CMS requirement, HCA does not validate or find the information provided by the MCO's of particular use. Instead, HCA utilizes a Gain Sharing calculation to determine the profitability of the Managed Care Program, accomplished through an actuarial analysis of HCA premium payments and service-based enhancement payments compared to audited financial statements of Managed Care Organizations and reports to the State Insurance Commissioner. There are five MCOs who are required to submit an MLR report as part of their Integrated Managed Care (IMC)

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contracts. Additionally, Coordinated Care of Washington is required to submit an MLR applicable to their Integrated Foster Care contract, however this is a state only funded contract and therefore not applicable to this federal requirement. Although this requirement is applicable to both Medicaid and CHIP, they are only required to submit one report to CMS. There is no differentiation between the MLR reporting processes for the two programs.

The contracts with each MCO, PIHP, and PAHP require the entities to submit a report by May 31st each year, reflect the correct reporting years, and contain the required 13 data elements. The reports submitted for FY22 contain the data received from the MCOs from calendar year 2021. **Key Control #1 (Information and Communication)** The contract contains an exhibit with the reporting template and instructions, which includes the requirement to contain an attestation of accuracy from the entity regarding the calculation of the MLR. The contract template was created by Division of Behavioral Health and Recovery (DBHR) which HCA continues to use as their Exhibit. We obtained the 2021 Apple Health Managed Care contract (*See. [MLR Contract Excerpts](#)*) provisions for Medical Loss Ratio Reporting, which are captured in Section 5.5 as well as Exhibit F. Per the Managed Care Contract, MLR is defined as: *"the measurement of the share of Enrollee premiums that the Contractor spends on medical claims, as opposed to other non-claims expenses such as administration or profits."* Federal law requires States to set a minimum acceptable MLR of 85 percent, meaning that MCO's and other contractors must incur and pay Enrollee claims equating to at least 85 percent of total revenues.

For MLR reporting, the MCTrack system is primarily used to transmit and receive information from MCO's including the reports required under the Apple Health Contract. The Managed Care Oversight Division of Program Integrity staff receive notifications from the MCTrack System when MCOs submit required reports if they are inside the MCTrack application. HCA requires MCO's submit the report by May 31st of each year. This leaves a two-month gap between when MCO's are required to submit their MLR reports and when the MLR summary must be submitted to CMS to ensure that the report is submitted timely.

Once Sarah (Fiscal Information & Data Analyst) logs into the MCTrack system, she can view the notifications for

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all of the MCO submissions that were made. Generally, Sarah waits until the day after the reports are due, June 1. She then reviews each report submitted by MCOs for accuracy and completeness, and documents her review through the MC Track system by updating the report status to "verified". If she finds any incomplete or incorrectly formatted items on the report template, she will reject the submission in MCTrack so the MCO can fix it and resubmit. There is no penalty if an MCO has to resubmit a report after the deadline on May 31. Once she reviews the final version of each submission, the reports are retained in the MCTrack system. **Key Control #2 (Control Activities/Monitoring)**: Once the reports have been downloaded from MC Track, reviewed by the fiscal information and data analyst for accuracy, and corrected (if necessary), a summary file compiling the data in the 5 MCO reports is created in the CMS required format and the analyst sends the reports to CMS. Sarah sends it to Rick Dawson from CMS. CMS requires the MLR summary report be submitted by July 31 each year. Rick will correspond with HCA if there are any issues about the report submission.

### Summary of Key Controls

**Key Control #1 (Information and Communication)**: The contracts with each MCO, PIHP, and PAHP require the entities to submit a report to MCTrack by the end of May each year, reflect the correct reporting years, and contain the required 13 data elements. The contract contains an exhibit with the reporting template and instructions, which includes the requirement to contain an attestation of accuracy from the entity regarding the calculation of the MLR.

**Key Control #2 (Control Activities/Monitoring)**: The reports are downloaded from MC Track, reviewed by the Fiscal Information and Data Analyst for completeness, and corrected (if necessary), and a summary file is created in the CMS required format and sent to CMS.

### **Evaluation of Results:**

No internal control weaknesses noted.

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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 to determine if we can place reliance on the controls.

### **D.6.PR.G - 93.767-Children's Health Insurance Program (CHIP) - HCA**

*Procedure Step:* N. Special Tests and Provisions: Managed Care Financial Audit - Controls

*Prepared By:* KWF, 10/14/2022

*Reviewed By:* SAG, 6/5/2023

|                     |
|---------------------|
| Purpose/Conclusion. |
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#### **Purpose:**

To gain an understanding of the internal controls the agency has established that provide reasonable assurance of compliance with Special Test 4 - Managed Care Financial Audit.  
To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to Special Test 4 - Managed Care Financial Audit.  
To provide a preliminary control risk assessment based upon our understanding of the internal controls for Special Test 4 - Managed Care Financial Audit.

#### **Source:**

Mike Brown, Medicaid Program Integrity Assistant Director  
Ming Wu, Program Integrity Deputy Division Director  
Kathy Cleeves, Program Integrity Managed Care Oversight Unit Supervisor  
Kari Summerour, External Audit and Compliance Manager

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## **Conclusion:**

Based on our understanding of internal controls over Special Test 4 - Managed Care Financial Audit, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess preliminary control risk as high and will report a finding for a material weakness at 2022-054 The Health Care Authority did not have adequate internal controls over and did not comply with managed care financial audit requirements. No internal control testing is necessary in this instance.

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.

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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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).

Record of Work Done:

**Note: This understanding was gained simultaneously with our Medicaid Special Test in audit "P.1.PRG : S1Medicaid-SA22 : 6/1/2022 – ST10 Managed Care Financial Audit". The control understanding write-up at procedure "Special Test 10 - Managed Care Financial Audit - Identification of Key Internal Controls" was pulled forward for the CHIP program.**

## **Special Test 4 - Managed Care Financial Audit - Identification of Key Internal Controls**

### **Inherent Risk of Noncompliance**

#### **Step 1**

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 risks when designing our tests of compliance.

- The compliance requirements are relatively new to the agency. Actions over the audited financial reports and periodic audit requirements have had limited audit exposure.
- The compliance requirement involves a relatively large degree of subjectivity by the agency in interpreting and carrying out the objectives of the program.

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 scope of work

We reviewed the scope of work per the Medicaid and CHIP State Plan, Part 4 of the Compliance Supplement (if applicable), and any available program guidelines to determine Managed Care Financial Audit requirements. We identified the following:

1. Audited Financial Reports - The contract with each MCO, PIHP, and PAHP must require them to submit to the state an audited financial report specific to the Medicaid contract on an annual basis. These audits must be conducted in accordance with generally accepted accounting principles

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and generally accepted auditing standards (42 CFR section 438.3(m)).

2. Periodic Audits - Effective no later than for rating periods for contracts starting on or after July 1, 2017, the state must periodically, but no less frequently than once every three years, conduct, or contract for an independent audit of the accuracy, truthfulness, and completeness of the encounter and financial data submitted by, or on behalf of each MCO, PIHP, and PAHP and post the results of these audits on its website (42 CFR Part 438, Subpart H (as adopted in CHIP at 42 CFR 457.1285); May 6, 2016, *Federal Register* (81 FR 27497); OMB No. 0938-0920).

### **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 September 2, 2022, we met with the following HCA personnel to discuss the internal controls in place to ensure the compliance requirements for this area are met:

- Ming Wu, Program Integrity Deputy Division Director
- Mike Brown, Division of Program Integrity Assistant Director
- Kathy Cleeves, Program Integrity Managed Care Oversight Unit Supervisor
- Kari Summerour, External Audit and Compliance Manager

### **Audited Financial Reports**

The contract with each Managed Care Organization (MCO), Prepaid Inpatient Health Plan (PIHP), and Prepaid Ambulatory Health Plan (PAHP) must require them to submit to the state an audited financial report specific to the Medicaid contract on an annual basis. These audits must be conducted in accordance with generally accepted accounting principles and generally accepted auditing standards (42 CFR section 438.3(m)).

Because in the prior audit we found noncompliance over the audited financial report requirements, we first asked what progress has been made towards compliance with these requirements. Mike and Ming shared that they had drafted up language to modify the MCOs' contracts to include the following statement:

"In accordance with 42 C.F.R. Section 438.3(m), the Contractor shall submit an Audited Annual Financial Report to HCA that is specific to this Contract. The Contractor shall submit the report to HCA via MC-Track no later than June 5 of each year. The first report is due June 5, 2023, for



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the previous calendar year. The report shall utilize filing instructions from the National Association of Insurance Commissioners or the Washington State Office of the Insurance Commissioner and shall adhere to generally accepted accounting principles or, statutory accounting principles and generally accepted auditing standards."

Per review of the contract, we found all applicable language to be present, but noted the timing of the report collection. Because the amendment requires contractors to submit audited annual financial reports via MC-Track by June 5 each year starting June 2023, we asked Mike and Ming to confirm that there had not been any reports collected during SFY22 and they said that this statement was accurate (**Control Weakness**). They mentioned that they were able to make contract amendments in time with their updated financial reporting policy, which became effective for contract amendment #13 in July 2022 (see: [FIMC Contract Template](#)). They explained that the contract requirement is based on similar requirements by the Office of the Insurance Commissioner (OIC), as adjusted by the specific language of the CFR, and that once HCA receives the audited financial reports, they will be sent to CMS for their review. Although they were unable to implement the control changes for the SFY22 audit period (**Control Weakness**), and therefore did not obtain any audited financial reports for SFY22, the amendment requires contractors to submit audited annual financial reports via MC-Track by June 5 each year starting June 5, 2023, so HCA expects that they should be in compliance in the next audit period. We asked if there were concerns with the MCOs meeting this timely since it was only just recently added to the contract and Mike clarified that because the MCOs are essentially doing this work already in order to meet requirements of the OIC, HCA is confident that they'll be received timely and if not, corrective actions would be taken.

After the conclusion of our discussion, we indicated that there will be an exception for noncompliance as well as a lack of internal controls in this area, and HCA agreed.

### Periodic Audits

Effective no later than for rating periods for contracts starting on or after July 1, 2017, the state must periodically, but no less frequently than once every three years, conduct, or contract for an independent audit of the accuracy, truthfulness, and completeness of the encounter and financial data submitted by, or on behalf of each MCO, PIHP, and PAHP and post the results of these audits on its website (42 CFR section 438.602(e) and (g); May 6, 2016, *Federal Register* (81 FR 27497); OMB No. 0938-0920).

Per 42 CFR § 438.600(c) and section 438.602, periodic audits of financial and encounter data are required for all MCOs for rating periods on contracts starting on or after July 1, 2017, at least every three years.

### *Encounter Data Audits*

First, we inquired on the status of the encounter data audits. HCA informed us that they had substantially completed their first required encounter data audits over each of the MCOs during SFY21. Per review of their [website](#), these reviews were completed in July 2021 and per further inquiry

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with Mike and Ming, we confirmed the results were posted publicly in February 2022. During the prior audit, the Authority provided us with the following timeline of these audits:

- June 2019 - Random Sample of 120 encounters selected from universe of claims from 01/1/2018-12/31/2018. Notice of Intent to Audit sent to each plan with instructions, the random sample and date for onsite visit.
- July 2019 - Onsite visits began.
- August 2019 - Documentation analysis began.
- August 2020 - Result of HCA analysis documented and provided to plans in a Preliminary Audit Report.
- September 2020 - Plans responded to audit report and submitted additional documentation.
- October 2020 - Meetings with MCOs that requested one to go over the Preliminary Audit Report.
- April 2021 - Final Notices and Imposition of Sanctions sent to MCOs.
- May 2021 - MCOs requested Dispute Resolution of the EDV Final Notices and Sanctions.
- June 2021 - EDV Dispute Resolution meetings with the MCOs began.
- October 2021 - Dispute Resolution concluded and Revised Final Report and Imposition of Sanctions sent to MCOs.

We were told that the Authority had experienced several delays in trying to complete these encounter data audits. Firstly, during the process of starting the encounter data audits, organizational changes within the leadership of the Division occurred, which pushed back the audit schedule and, during this transition, very little progress was made. Ming mentioned that the audits were nearing completion when Mike came onboard, but Mike made changes to the format to make the structure different, which even further delayed the work to get these completed. At around this point, the audits were mostly complete, but they were needing to conclude and issue sanctions, as they did have some findings on their assessment of the encounter data.

We asked them to elaborate on their audit methodology for the encounter data audits and they said that each state is left to determine how to conduct the audit and review the data, so they chose to take a broad approach. Ming explained that the first years' audit process involved taking the encounter data from calendar year 2018, that is used for rate setting, and taking a small sample size of around five to ten claims per claim type. This resulted in a review of about 120 out of universe of millions of claims. They took careful consideration to ensure they hit all types of claims, such as nursing, outpatient, therapies, etc., to get good coverage. Mike mentioned that in future periods, they could choose to take a more narrow focus, such as a specific emphasis on hospice, pharmacy, or inpatient, services and then check to see about the accuracy and completeness of the data by means of revalidation.

HCA intends to perform audits at least every three years, but has not established a specific schedule, but plans for them to occur in a "semi-regular routine fashion" (**Control Weakness**). They then explained that the next round of audits are scheduled to begin January 2023 and conclude review

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by June 30, 2023, with an audit scope of specific dates of service in calendar year 2020. The notices of intent to audit will be provided to the MCOs in January 2023, which will kick-off their ability to begin field work. Their planned scope will also be larger with around 20 samples per claim type selected for review, which should result in approximately 240 claims in total. Some changes that they're implementing in this next upcoming round of encounter data audits, which were lessons learned from the first set, was to specifically ask for the MCOs to submit raw data, otherwise known as the 837 files. This will better allow the Authority to more efficiently verify the completeness and accuracy of the data.

Another lesson learned from their first encounter data audit, that Mike and Ming shared with us, was regarding the audit results, finding, conclusions, and sanctions processes. They mentioned that unfortunately, MCOs were less than adequate on their responsiveness to the initial results over their first audit and they had also disputed the audit findings, and so the Authority re-reviewed and modified the findings. Once these were resolved and finalized, the MCO sanctions were needing to be finalized before sending to the Centers for Medicare & Medicaid Services (CMS) and posting the reports on their website. The Office of the Attorney General (AGO) worked on the sanctions to ensure they were legally defensible, which took some additional time. This resulted in adjusted final audit findings being released in SFY22. In April 2021 final notices and imposition of sanctions were sent to MCOs. Mike said that this first set of audits helped to let MCOs understand that these reviews are taken seriously and that consequences can result from the audit conclusions. Therefore, the Authority is making an increased effort towards lessening the back and forth and finalizing results earlier on, which should drastically decrease the timeline of the next audit cycle, which they now expect to take approximately six months to complete. They are hopeful that the audits will not be as rough, as they have fine-tuned and strengthened this portion of the process to be more efficient for the next go-around. Both parties are more familiarized with the structure and framework for how sanctions and breaches of contract are processed.

### *Financial Data Audits*

Next, we inquired on the status of the financial data audits, since at the conclusion of the last audit, HCA did not yet have a solidified plan of direction for conducting these reviews. Similarly to the encounter data audits, HCA intends to perform the financial data audits at least every three years, but has not established a specific schedule. They also plan for these to occur in a "semi-regular routine fashion", yet they also anticipate they will likely occur less frequently than the encounter data audits (**Control Weakness**). They confirmed that during SFY22, they had not completed the MCO financial data audits and that they do not currently have the full expertise needed for performing all functions and duties of the financial data audit process (**Control Weakness**).

Kathy is the lead auditor in charge of the financial data audit project and she mentioned that the group of lead auditors assigned to these audits are different from those who conduct the encounter data audits, as these have a very different focus. The Authority is currently in discussions on how or whether to on-board a forensic accountant and/or hire a contractor. They did select a forensic accounting firm to contract with some time ago, but have not yet received a contract proposal from them. It was explained that the contractor would be utilized to help during the dispute phase as well as additional financial services in regards to the financial data. HCA is currently still waiting on this official contract proposal.

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Alternatively, Kathy has been proactively seeking input from other states who've conducted these audits, in order to learn of some best practices that they could hopefully integrate into the process, primarily if they were to do the work in lieu of the forensic accountant. She stated that the guidance received thus far has been beneficial and is easing some concerns on the possibility of filling the knowledge gap that they felt would be required of a contractor. Additionally, in the meantime while determining the contractor's involvement, the Authority is able to make forward progress in the review over the areas of HCA's expertise.

They began their first financial data audit of MCOs, which has been underway since early July 2022. Kathy mentioned that her scope includes dates of service from within the 2021 calendar year universe and has so far received all the supporting documentation from the MCOs. Because the Authority has never done these audits before, there is still a lot of uncertainty over the timing, scope, extent of involvement, ability, and manner that they will perform this review (**Control Weakness**). However, they did explain that they do expect that findings are likely, and that sanctions could be written in this scenario, but since it's still at the early stages of the audit, Kathy couldn't pinpoint any particular areas of known concerns. We were provided a copy of their Audit Plan for the SFY23 detailing their scope and timelines for upcoming audits (see: [PIMCO Audit Plan FINAL SFY23](#)), but they do not apply to the period under audit (**Control Weakness**). Kathy mentioned that, with the assumption of bringing in a forensic accountant, the audit is due to conclude by the end of March 2023, or even as early as December 2022 if there are no major hold-ups. Unfortunately, Kathy stated they have ran into some roadblocks, due to them still finalizing the audit process and the uncertainty as to whether a contractor will be utilized, so these issues could cause delays in their completion.

### Summary of Key Controls

No controls were identified or present over managed care financial audit requirements. A control deficiency is present. The following summarizes the control weaknesses identified:

- The Authority did not include the annual MCO audited financial report requirement in its MCO contracts until July 2022, after SFY22.
- The Authority did not implement a system for obtaining any audited financial reports during SFY22 and did not obtain any of the MCO's annual audited financial reports. They have an audit plan for SFY23 which includes a plan to obtain audited financial reports from MCOs by June 2023.
- The Authority has not yet implemented a system to ensure MCO audits of both the encounter and financial data is completed at least once every three years and they did not timely perform all periodic audit functions.
- The Authority has not implemented sufficient policies or procedures over how the Managed Care Financial Audit requirements are to be met.

### **Evaluation of Results:**

We identified the following control deficiencies over Managed Care Financial Care requirements:

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- Audited Financial Reports: The contract with each MCO's must require them to submit to the state an audited financial report specific to the CHIP contract on an annual basis. The Authority did not include this requirement in their contract and has not obtained any audited financial reports from any of the MCOs. The Authority did not establish a process to ensure reports are collected annually until SFY23.
- Periodic Audits: The Authority has not yet performed any audits over the MCO's financial data. They are currently in the process of conducting these reviews for SFY23. The Authority has completed an audit of the encounter data in July 2021, but has not established a process to conduct audits of encounter and financial data no less frequently than once every three years.

We consulted the Decision Matrix for Single Audit Internal Control Deficiencies and determined the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance is material, therefore we assess preliminary control risk at high. The Authority has not implemented any controls to prevent or detect noncompliance with grant requirements, therefore, we will report a finding for a material weakness at 2022-054 The Health Care Authority did not have adequate internal controls over and did not comply with managed care financial audit requirements. No internal control testing is necessary in this instance.

### **Preliminary Control Risk Assessment**

#### **Step 4**

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).

### **D.8.PRG - 93.959-Block Grants for Prevention & Treatment of Substance Abuse - HCA**

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

***Prepared By:*** DLR, 3/8/2023

***Reviewed By:*** CCM, 3/8/2023

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

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activities and that expenditures charged to the Federal award are allowable and in accordance with the applicable cost principles.

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

### Source:

- Jill Arlow, Federal Accounting & Reporting Manager
- Angela Visser, Federal Financial Reporting Section Manager
- Sarah Morris, Behavioral Health Grants Supervisor
- Will Sogge, External Audit Liaison
- Megan Church, BH Grants Lead
- Kari Summerour, External Audit and Compliance Manager
- Daniel Highley, Behavioral Health Program Manager BHASO
- Lucilla Mendoza, Tribal Affairs

### Conclusion:

#### ***Contractor Payments***

Based on our understanding of internal controls over Activities Allowed and Cost Principles related to contractor payments, we assessed preliminary control risk as low.

#### ***Year-End Accruals***

Based on our understanding of internal controls over Activities Allowed and Cost Principles related to year-end estimated accruals, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess **preliminary control risk as high and will report a finding for a material weakness. See 2022-067 The Health Care Authority did not have adequate internal controls over and did not comply with requirements to ensure payments to providers for the Block Grants for Prevention and Treatment of Substance Abuse program were allowable and met period**No internal control testing is necessary in this instance.

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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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:**



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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).

#### ----- **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

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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:

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

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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).

### 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

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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 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;

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- (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 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).

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### **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                            |
| <i>Formula (rounded up)<br/>where N = population size</i> | $N * 1 / \text{SQRT}(N) * 0.68$             | $N * 1 / \text{SQRT}(N)$ | $N * 1 / \text{SQRT}(N) / 0.68$ |

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|                     |    |    |               |
|---------------------|----|----|---------------|
| 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 <b>types</b> 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 <b>only</b> 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 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:

2CFR 200.215 – Never contract with the enemy (effective November 12, 2020)

2CFR 200.216 - Prohibition on certain telecommunications and video surveillance services or equipment (Effective August 13, 2020)

### **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:

#### **Activities Allowed or Unallowed**

##### *1. Activities Allowed*

1. SABG funds may be expended to provide for a wide range of activities to prevent and treat substance abuse and may be expended to deal with the abuse of alcohol, the use or abuse of illicit drugs, the abuse of licit drugs, and the use or abuse of tobacco products as identified in the Overview section above (sections 1921 to 1954 of the PHS Act, 42 USC 300x-21– 300x-35; 58 FR 17062 No. 60, March 1993).
  2. The state may use grant funds for loans from a revolving loan fund for provision of housing in which individuals recovering from alcohol and drug abuse may reside in groups. Individual loans may not exceed \$4,000 (45 CFR section 96.129).

##### *2. Activities Unallowed*

1. The state shall not use grant funds to provide inpatient hospital services except when it is determined by a physician that (a) the primary diagnosis of the individual is SA and the physician certifies this fact; (b) the individual cannot be safely treated in a community-based non-hospital, residential treatment program; (c) the service can reasonably be expected to improve an individual's condition or level of functioning; and (d) the hospital based SA program follows national standards of SA professional practice. Additionally, the daily rate of payment provided

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to the hospital for providing the services to the individual cannot exceed the comparable daily rate provided for community based non-hospital residential programs of treatment for SA and the grant may be expended for such services only to the extent that it is medically necessary (i.e., only for those days that the patient cannot be safely treated in a residential community based program) (42 USC 300x-31(a) and (b); 45 CFR sections 96.135(a)(1) and (c)).

2. Grant funds shall not be used to make cash payments to intended recipients of health services (42 USC 300x-31(a); 45 CFR section 96.135(a)(2)).

3. Grant funds shall not be used to purchase or improve land, purchase, construct, or permanently improve (other than minor remodeling) any building or any other facility or purchase major medical equipment. The secretary may provide a waiver of the restriction for the construction of a new facility or rehabilitation of an existing facility, but not for land acquisition (42 USC 300x-31(a); 45 CFR sections 96.135(a)(3) and (d)).

4. The state shall not use grant funds to satisfy any requirement for the expenditure of nonfederal funds as a condition for the receipt of federal funding (42 USC 300x-31(a); 45 CFR section 96.135(a)(4)).

5. Grant funds may not be used to provide financial assistance (i.e., a subgrant) to any entity other than a public or nonprofit entity. A state is not precluded from entering into a procurement contract for services since payments under such a contract are not financial assistance to the contractor (42 USC 300x-31(a); 45 CFR section 96.135 (a)(5)).

6. The state shall not expend grant funds to purchase sterile needles or syringes for the hypodermic injection of any illegal drug, provided that such limitation does not apply to the use of funds for elements of a program other than making such purchases if the relevant state or local health department, in consultation with the Centers for Disease Control and Prevention, determines that the state or local jurisdiction, as applicable, is experiencing, or is at risk for, a significant increase in hepatitis infections or an HIV outbreak due to injection drug use, and such program is operating in accordance with state and local law (42 USC 300ee-5; 45 CFR section 96.135 (a)(6); and Pub. L. No. 114-113, Division H, Title V, Section 520).

7. Grant funds may not be used to enforce state laws regarding sale of tobacco products to individuals under the age of 18, except that grant funds may be expended from the primary prevention set-aside of SABG under 45 CFR section 96.124(b)(1) for carrying out the administrative aspects of the requirements such as the development of the sample design and the conducting of the inspections (45 CFR section 96.130 (j)).

8. No funds provided directly from SAMHSA or the relevant state or local government to organizations participating in applicable programs may be expended for inherently religious activities, such as worship, religious instruction, or proselytization (42 USC 300x-65 and 42 USC 290kk; 42 CFR section 54.4).

### **Allowable Costs/Cost Principles**

As specified in Appendix I to this Supplement, "Federal Programs Excluded from the A102 Common Rule and Portions of 2 CFR Part 200," SABG is exempt from the provisions of the OMB cost principles. State cost principles requirements apply to SABG.

### Indirect Costs

There are Department-wide indirect costs and program specific indirect costs. Per the Federal Accounting Reporting Manager, Jill Arlow, HCA tracks all Substance Abuse Block Grant expenditures under cost objectives "959A\*". Allocation codes separate grant expenditures into categories to track direct treatment,

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prevention, and administrative costs. Indirect costs are designated with allocation codes 9199, 9555, 9562, 9571, 9659, 9741, and 9999.

We ran a Web Intelligence Expenditure report by cost objective and allocation code to determine total administrative and agency indirect expenditures charged to the grant. Using the criteria above we determined that indirect costs totaled \$1,786,621.76, or 2.66% of all expenditures in SFY22, see [SABG FY22 Exp 10.21.22 Add Link](#). This is less than the materiality threshold of 5% and these indirect costs will be treated as an immaterial item.

## Material Expenditures

We ran a Web Intelligence report for expenditures and sorted by Object and Subobject. We identified the following expenditure activities that are directly charged to the program and are quantitatively material (more than 5%):

- SubObject ER: Other Contractual Services \$7,666,691.89 (11.41%) [SABG FY22 Exp 10.21.22](#)
- SubObject NB: Payments to Providers for Direct Client Services \$52,030,790.03 (77.47%) [SABG FY22 Exp 10.21.22](#)

Note; Other agency expenditures have been removed from the total expenditures for both the above listed subobjects.

During the SFY21 single audit, the Authority received a questioned costs finding for activities allowed. The finding can be found here [2021 Single Audit Findings. CAP and Conclusion](#) We reviewed the Corrective action plan for finding 2021-055 and will take it into consideration when evaluating internal controls for activities allowed. [SFY21 SABG CAPs](#)

## 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.

Will Sogge, External Audit Liaison, provided the Internal Control Response on November 2, 2022. See [SABG Internal Control request letter - Activities Allowed-Cost Principles](#).

On November 3, 2022 we had a meeting via Microsoft Teams with the following HCA staff to discuss activities allowed requirements:

- Jill Arlow, Federal Accounting & Reporting Manager
- Angela Visser, Federal Financial Reporting Section Manager
- Sarah Morris, Behavioral Health Grants Supervisor
- Will Sogge, External Audit Liaison
- Kari Summerour, External Audit and Compliance Manager

From SAO:

- Desiree Rennau, Auditor-in-Charge

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- Cassandra Metzler, Audit Supervisor
- Mitch Steelman, Assistant Auditor

## ***Contractor Payment Process - Program Units Approval***

Contractors must complete an A-19 invoice and provide any applicable backup documentation when requesting payment from HCA for substance abuse activities. For most services, payment requests are made monthly. The request and support is sent directly to the program via email. For Prevention payments, backup documentation includes a Services by Performing Entity and Program Report. For Treatment, BH-ASOs Entities must provide an annual plan of proposed spending to ensure activities are allowed. Until plans are approved by Daniel Highley, BH Program Manager, BHASO, invoices cannot be submitted for reimbursement. BH-ASOs submit a monthly subcontractor report broken out by type of client (adult, youth, parent and parenting women, etc). For Recovery Support Services, subrecipients submit the invoice, expenditure reports, and any receipts. For all of these contracts, program managers for each type of contract ensure that spending is on track and that funding is not exceeded for payments. Program Managers will review the request and support to ensure charges are allowable and will approve payments (**Key Control 1 - Control Activities** - *NOTE: This is also identified as a Key Control for Period of Performance and Level of Effort*). All A-19s are signed in a PDF to verify that the requests are accurate and truthful. The program manager will then email accounts payable the approval along with the A-19 file to process payment.

The Prevention unit also has a secondary review by the A19 Lead Supervisor who reviews CPWI program invoices forwarded from program managers to check prior to sending to fiscal. Once approved, the payment workbook is updated to document approval on the approval tab and embed any applicable backup documents on the backup tab. They will then notify fiscal that the program has received, reviewed, and approved the activities and it is now ready for payment processing. If there were any invoices requiring correction or additional information, they will also include the updated A-19 and document the necessary changes and final approved amount. The Prevention Unit uses PowerBI, a Microsoft system, to track contract expenditures, which includes an approval date to document when payments are approved.

## ***Contractor Payment Process - Accounts Payable Unit***

We met with Brad Killman, Accounting Manager, on November 3, 2022, to gain an understanding of the Activities Allowed accounts payable process.

After receiving the A-19, support documents, and project manager approval, the fiscal analyst will confirm the amounts are correctly calculated, there is no discrepancy, and that the contractor has signed the document. The fiscal analyst will then run an Enterprise report to confirm the invoice has not been paid and will also review and confirm the contract numbers and SWV numbers are related. The analyst will confirm the coding on the A-19 matches AFRS, 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 (**Control Activities/Information and Communication**). Upon confirming the accuracy of the fiscal documentation, the analyst will then assign the invoices a batch and document number. Payments are processed using OFM's "Toolbox Vendor Payment" where the analyst will input the necessary information with all the correct coding, contract number, SWV number, and amounts. The Accounting Manager, or Fiscal Lead reviews each workbook before approving reimbursement to ensure coding, signatures and amounts are correct and charges are related to the appropriate time period (**Key Control 2 - Control Activities/Monitoring** - *Note: This is also a control for testing of Period of Performance and Earmarking*).

The system automatically assigns a current doc number beginning with "BH". Payments with this indicator are captured electronically in the Accounting Database. This means that the fiscal reviewers electronically provide approval which is captured through a SQL database rather than on the approval tab of the

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workbook. The program approval is still maintained in the payment workbook. Whenever discrepancies are identified, the Analyst will have the Manager or Lead review and approve the payments and then will create a Journal Voucher to make any necessary changes. The Analysts then upload the batch into AFRS and a staff member authorized to do so, will release the batch. Afterwards, the Analyst will check AFRS for any errors and will run an Enterprise report and reconcile the expenditure amounts to the batches and add copies of the ER, Toolbox, and Upload Reports into the payment workbook (**Information and Communication**).

In addition, fiscal and program managers meet on a monthly basis to discuss SABG monitoring, funding levels and sources, any changes, concerns, or other pertinent information related to the grant and its activities.

### *Year-End Accruals - Financial Units*

We met with Brad Killman, Jill Arlow, Sarah Morris, Megan Church, Kimberly Wright, Janet Cornell, Michael Langer (BHR Deputy Division Director), and Garnet Sphere over multiple meetings to gain an understanding of the accrual and liquidation process and the estimated accrual process at year-end. During our expenditure analysis of ER and NB, we noticed there were JVs with different naming conventions, see SFY22 SABG (Activities Allowed) Accrual Analysis.

We identified four types of JVs for the program:

- AAJV – completed by Administrative Accounting
- JVHA – completed by Federal Grants Accounting Unit
- MAJV – completed by Medical Assistance Unit
- BHJV – completed by Behavioral Health Unit

Brad explained there are different types of accruals that occur throughout the fiscal year and at year-end. Year-end closing accrual JVs completed in July are based on A19s received from contractors for bills that have not been paid and have program approval. These are typically the JVs that start with “BHJV” and are processed by the Behavioral Health Accounting unit.

Due to lag in billing, the Authority accrues expenditures at year-end using estimates based on historical billing which do not include A19s with program approval. Program approval for estimates comes when the A19 is received and the payment is liquidated.

In August, the Federal Financial Reporting Unit (FFR) makes year-end accruals (start with “JVHA”) based on estimated services through June, for any outstanding liabilities throughout the year. The year-end accrual estimates are for year-end bills that have not been received yet. The FFR unit provided the BH Grant Unit Accrual Procedures at (Accrual Instructions). The FFR fiscal analyst uses a JV workbook template and pulls in direct expenditure data to date including liquidations (GL 0159), cash expenditures (6510), and accruals (6505) using grant Webi criteria. Accruals are pulled in to ensure the Authority doesn’t double book an accrual already booked by the Accounts Payable Unit. The FA filters out any interagency transactions, including state universities, as those are processed outside their unit.

The FA runs six pivot tables to identify the total expenditure and accruals being processed for the SFY. The expenditure amount is used to figure out the split between ER and NB expenditures because these are the most common subobjects utilized for the block grants. These two subobjects are filtered to find by

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program index to find the most common PI used for each, and then by org index, to find the most common OI. The final pivot identifies the ER and NB expenditures by allocation, so they can be accrued by percentage of the total expenditures. The percentages are calculated to spread the accrual across ER and/or NB allocation per grant.

The FA then uses the **total SFY contract obligation amount** from the grant obligation tracking spreadsheet, and reduces the obligation amount by 2% to ensure they don't over accrue. The grant obligation spreadsheet is used to track projects programs have for the block grant each year. Once the accrual amount is determined, the FA completes the rest of the JV workbook, adding the explanation and backup data for the upload and release tab and TC is 736 and GL 5111 is added to the JV tab. The FA uploads and email the JV to Megan (BH Grants Lead) or Sarah (BH Grants Supervisor), who review to ensure coding and calculations are correct and approve the JV.

We met with Janet Cornell to gain an understanding of the obligation tracking spreadsheet. In January each year, Janet reaches out to program staff to discuss projects on the spreadsheet, how expenditures are going, confirm if the projects are on track, and determine the projects for the next fiscal year. Program staff provide a list of contracts with the preapproved budget amount and the remaining budget amount. Janet meets with program staff on a monthly basis and updates the remaining budget amount recorded on the spreadsheet throughout the year.

Michael Langer clarified that Janet uses the obligation-tracking workbook to identify and track block grant projects and makes sure they're spending down federal funding by the end of the period. The workbook does not reflect any expenditure data and is not used for financial purposes. Accounting staff tracks billings and financial information separately. The contract obligations are based on budget amounts planned at the beginning of the SFY and are updated with the remaining contract budget available, which may include goods and services during the SFY, but also includes obligation that can be incurred by contract end, which are executed for the federal fiscal year. (*Weakness 1: The Authority may base estimates on obligations incurred in the next state fiscal year.*)

As the actual A19s are received, program staff review and approve as normal, since they aren't aware if it was a prior year accrual. The only difference is fiscal staff are trained to use the appropriate transaction code (688) to charge the expenditure to the prior year and liquidate the accrual.

When processing the payment, accounting staff look at the month of service or appropriation to determine if the payment was part of the estimated accrual from the prior year. If the A19 comes in for payment in the next state fiscal year, the expenditure is charged to GL 5111 and then 0159, to reduce the liability, but is not recorded as an expenditure in the current year. Brad noted there is no reference to the accrual JV because the accrual was based on estimates and is not tied to the JV itself. The inability to tie the liquidation to the accrual JV limits the Authority's ability to verify the estimated accrual calculation is reasonable.

(*Weakness 2: There is no way to tie the accrual JV to liquidation report*).

The entire biennium is open for the liquidation. Brad reviews the whole biennium accruals and liquidations at the end of the biennium to ensure the Authority isn't over liquidating. To identify liquidations that have been processed, they run a report using 0159, then look at the appropriation to see when it occurred.

### **Summary of Weaknesses (related to Estimated Accruals) Weakness 1 & 3**

Weakness 1: The Authority may base estimates on obligations incurred in the next state fiscal year.

Weakness 2: There is no way to tie the accrual JV to liquidation report, limiting the Authority's ability to verify the estimated accrual calculation is reasonable.

### **Summary of Key Controls:**



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**Key Control 1** – Control Activities/Monitoring: Program Managers review support documents with respect to invoiced charges on A-19 and approve payment to ensure charges are allowable.

**Key Control 2** – Control Activities/Monitoring: The Fiscal Unit Manager of Fiscal Lead reviews each workbook before approving reimbursement to ensure coding, approvals, and amounts are correct and charges are related to the appropriate time period.

## **Evaluation of Results:**Deficiency

### ***Contractor Payments***

We did not identify any control deficiencies over activities allowed/cost principles related to the contractor payment process.

### ***Year-End Accruals***

We identified control deficiencies related to the estimated accrual JV processed at year-end.

1. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.
2. Based on the weaknesses identified, the Authority does not have adequate controls in place to ensure the estimated accrual JV amounts are reasonable and accurately reflect expenditures that occurred within the audit period.

## **Preliminary Control Risk Assessment**

### **Step 4**

### ***Contractor Payments***

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.

### ***Year-End Accruals***

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). See 2022-067 The Health Care Authority did not have adequate internal controls over and did not comply with requirements to ensure payments to providers for the Block Grants for Prevention and Treatment of Substance Abuse program were allowable and met period.

## **D.8.PR.G - 93.959-Block Grants for Prevention & Treatment of Substance Abuse - HCA**

***Procedure Step:*** C. Cash Management - Controls

***Prepared By:*** MWS, 11/21/2022

***Reviewed By:*** CCM, 11/21/2022

Purpose/Conclusion.\*

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## **Purpose:**

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

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to cash management.

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

## **Source:**

Jill Arlow, Federal Accounting & Reporting Manager

Angela Visser, Federal Financial Reporting Section Manager

Sarah Morris, Behavioral Health Grants Supervisor

Will Sogge, External Audit Liaison

Kari Summerour, External Audit and Compliance 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.

### **Step 2: Gather Information**

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## 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.

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

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

(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,

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- (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.

(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)<br/>where N = population<br/>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

Not subject to the CMIA Agreement

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We reviewed the CMIA Agreement and determined the SABG program is not subject to the CMIA and confirmed this with Jill Arlow. We reviewed Part 4 of 2022 Compliance Supplement for program-specific requirements and noted the following:

SAMHSA will make payments at such times and in such amounts to each state from its awards in advance or by way of reimbursement in accordance with section 203 of the Intergovernmental Cooperation Act (42 USC 4213) and Treasury Circular No. 1075 (31 CFR Part 205) (45 CFR section 96.12).

## Awards to Subrecipients

The Authority subawarded grant funds to multiple subrecipients for prevention and treatment services of substance abuse during SFY22

## 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.

Will Sogge, External Audit Liaison, provided the Internal Controls Request Response and the following written policies and procedures related Cash Management on October 27, 2022:

- IC Response: SABG Internal Control Response Letter - Cash Management.
- HCA Cash draw prep procedure: Semi-Monthly Cash Draw Prep Procedure
- BH Semi-monthly Draw prep: Behavioral Health Semi-monthly Draw Preps (Breakout)

We met with the following HCA staff on November 2, 2022, to gain an understanding of the Cash Management process and discuss key internal controls:

- Jill Arlow, Federal Accounting & Reporting Manager
- Angela Visser, Federal Financial Reporting Section Manager
- Sarah Morris, Behavioral Health Grants Supervisor
- Will Sogge, External Audit Liaison
- Kari Summerour, External Audit and Compliance Manager

SAO attendees:

- Desiree Rennau, Auditor-in-Charge
- Cassandra Metzler, Audit Supervisor
- Mitch Steelman, Auditor

Sarah Morris, BH Grants Supervisor, confirmed that draws are processed on a reimbursement only basis and that cash advances are not utilized. The HCA draw process is completed twice a month, two days prior to paydays for administrative costs, for the Block Grant for Prevention and Treatment of Substance Abuse. A

## State of Washington

new Excel workbook is created for each draw process to document all steps.

### ***Calculating Draw Amount***

The first step in this draw process is for the ***preparer***, usually a Fiscal Analyst to run expenditure and revenue reports from Enterprise Reporting System to perform a reconciliation between the two reports to determine the draw amount (**Control Activities/Information and Communication**). These two reports are added to the workbook and the difference between the amounts of expenditures and revenue are calculated to determine the amount to draw.

The reports are reviewed for any trend and cost objective abnormalities and a reconciliation is performed by the preparer to identify that no new cost objectives have been added (if there were, they get added to the reconciliation) and then the difference between the total expenses and total revenues is calculated. For any amounts that need to be researched, additional expenditure and revenue reports are run to determine if transactions were miscoded. In addition, the preparer will open up another workbook that tracks the running total of expenditures and revenue for the current grant period for all draws for HCA. The year-to-date expenditure and revenue totals will be checked against the award balance to ensure they do not go over the award amount.

The preparer enters the Grant Management System, finds the appropriate grant and clicks on “Draw Prep” then the “Add Draw Prep” button, to upload the Enterprise Reports into the Grant Management System. If crossing two biennium, the FA uploads the previous biennium expenditure and revenue reports as well. The preparer then reviews to ensure the totals from the draw workbook matches the GMS breakout and will email the draw amount along with the summary sheet and workbook to the ***approver*** to review and approve. The approver is the Federal Reporting Supervisor (Laura Roberts) or, on rare instances, a Fiscal Analyst 5 (Sarah Morris) who reviews the spreadsheets to ensure that the calculations are correct and that there are no discrepancies. Any adjustments will be reviewed to ensure they have been accounted for and accurately calculated. Once it has been reviewed and approved, it is then forwarded to the submitter who will prepare the draw request and JV.

### ***Preparing Draw and AFRS Adjustment***

Transactions are automatically recorded in the GMS (Grants Management System) once the information has been entered into AFRS. Then, the JV and pending draw request will be sent to the ***approver*** (Federal Reporting Manager) to review and approve to ensure accuracy (**Key Control 1 - Monitoring**).

### ***Requesting Draw and AFRS Adjustment***

In continuing the process, the ***submitter*** proceeds to open the Payment Management System (PMS) and logs in. The submitter searches for the draw in GMS and reviews it to verify that no changes need to be made. If changes need to be made, the submitter will update what needs to be changed and then proceed to input the "Payment Due Date" which is always the next business day. The expected disbursement amount is entered as well as the payment requested amount which should be the same amount. After completing this, a screen shot is taken and copied over to the JV template.

Once the payment information has been entered, the submitter will input the amounts for the correct grant Sub-Accounts. After completing this, the submitter submits the request for payment and adds a screen shot of the confirmation into the JV (A8) template. Using the FA#### document number, the draw is pulled up to compare the details of the actual draw amount with the drawn amount in PMS.

The submitter then saves the template using the same document number and goes to the Original FA#### tab to calculate draw amounts for HCA. Once complete, the submitter sends an email to Treasury Management System (TM\$) to request the draw amount to be entered into TM\$. TM\$ will notify HCA when



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the funds have been added and a screen shot of the verification is added to the workbook. Then, the JV (A8) entry process is completed. The current document number being used for the draw is input along with the amounts of the draws for HCA. Items are keyed into AFRS through the financial toolbox. The *approver* (Federal Reporting Supervisor) will review and release the documents in AFRS. The fiscal staff will review the workbook to ensure it is updated with individual tabs for draw approval, A8, important e-mails to HCA, and verify that the upload/release is accurate by attaching and reconciling the batch header summary reports from AFRS (**Key Control 2 - Monitoring**).

### Summary of Key Controls:Key Controls

**Key Control 1** – Monitoring: The Federal Reporting (FR) Supervisor reviews and approves the workbook and draws prepared by the FR Fiscal Analyst to ensure the draw amounts are accurately calculated and prepared before the draw and AFRS adjustment are processed.

**Key Control 2** – Monitoring: After the FR Supervisor releases the documents in AFRS, FR staff will update the workbook and verify that the upload/release is accurate by attaching and reconciling the batch header summary reports from AFRS to the amount requested.

### **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 to determine if we can place reliance on the controls.

### D.8.PRG - 93.959-Block Grants for Prevention & Treatment of Substance Abuse - HCA

*Procedure Step:* G. Level of Effort - Controls

*Prepared By:* MWS, 12/7/2022

*Reviewed By:* CCM, 12/9/2022

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 key internal controls the agency has established to prevent or detect noncompliance with level of effort requirements.

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

## **Source:**

- Jill Arlow, Federal Accounting & Reporting Manager
- Angela Visser, Federal Financial Reporting Section Manager
- Sarah Morris, Behavioral Health Grants Supervisor
- Will Sogge, External Audit Liaison
- Kari Summerour, External Audit and Compliance Manager
- Garnet Sprehe, Fiscal Analyst

## **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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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***

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*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:

### **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.

We reviewed Part 4 of the 2022 Compliance Supplement and noted the following:

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

- a. The state shall for each fiscal year maintain aggregate state expenditures for authorized activities by the principal agency at a level that is not less than the average level of such expenditures maintained by the state for the two state fiscal years preceding the fiscal year for which the state is applying for the grant. The “principal agency” is defined as the single state agency responsible for planning, carrying out, and evaluating activities to prevent and treat SA and related activities. The secretary may exclude from the aggregate state expenditures funds appropriated to the principal agency for authorized activities which are of a non-recurring nature and for a specific purpose (42 USC 300x-30; 45 CFR sections 96.121 and 96.134; and *Federal Register*, July 6, 2001 (66 FR 35658), and November 23, 2001 (66 FR 58746-58747), as specified in II, “Program Procedures – Availability of Other Program Information”).
- b. The state must maintain expenditures at not less than the calculated fiscal year 1994 base amount for SA treatment services for pregnant women and women with dependent children. The fiscal year 1994 base amount was reported in the state’s fiscal year 1995 application (42 USC 300x-27; 45 CFR section 96.124(c)).
- c. Section 8002(c)(3) of the 21st Century Cures Act (Pub. L. No. 114-255 repealed section 1924(d) of Title XIX, Part B, Subpart II of the Public Health Service Act (42 USC 300x-24(d)). State and jurisdictions are no longer required to demonstrate compliance with the maintenance of effort requirement regarding tuberculosis and human immunodeficiency virus. **Not Applicable**

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

- a. The Block Grant will not be used to supplant state funding of alcohol and other drug prevention and treatment programs (45 CFR section 96.123(a)(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.

Will Sogge, External Audit Liaison, provided the Internal Controls Request Response over Level of Effort on November 2, 2022. Will also provided written procedures for MOE. See MOE Procedure and SABG Internal Control request letter - Level of Effort

We met with Brad Killman, Accounting Manager, on November 3, and Megan Church, BH Grants Lead (Fiscal), Sarah Morris, BH Grants Supervisor, and Garnet Spehe, Fiscal Analyst, on November 9, 2022, to gain an understanding of the Level of Effort process and discuss key internal controls.

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## **LOE Requirement 2.1(a)**

To meet this requirement, HCA must maintain state spending at the average level that is not less than the average level of expenditures for the previous two years. To ensure that expenditure requirements are maintained at sufficient levels for compliance, Fiscal Analyst Garnet Spehe runs Enterprise expenditure reports on a quarterly basis to monitor the level of state funding for the current year and determine if the Authority is on track to meet their level of effort requirement (**Control Activities/Monitoring**). These reports are filtered to include only relevant state expenses from program 157 to ensure annual average estimates do not include unrelated expenditures. The expenditures are tracked cumulatively, reflecting running totals for the reporting period. See Level of Effort (MOE) Criteria 11.8.22 for details. All open grants are included in the quarterly expenditure estimates and the results are emailed to the Accounting Manager (Brad) and BH Grants Supervisor (Sarah) for review (**Key Control 1 – Control Activities/Monitoring**). The management team has quarterly meetings with the financial analyst team to discuss the findings of the report and ensure that the grants are on track to meet their expenditure goals.

To determine the amount of state spending at year-end, an expenditure report is run from the Enterprise Reporting System. The report details all state expenditures for Program 157 for July-June (adj) including liquidations (no accruals). This is the amount used to determine the aggregate state expenditures and what will need to be reported to SAMHSA by December 31st of each year for the grant which closed. Total state expenditures are tracked for Program 157 and are electronically reported to SAMHSA on the grant report.

## **LOE Requirement 2.1(b)**

To meet this requirement, Washington must maintain expenditures at not less than the amount spent in 1994 for substance abuse treatment services for pregnant women and women with dependent children (PPW). The Expenditure base established for 1994 is \$5,186,165. To determine the amount for this requirement, a Fiscal Analyst (Garnet Sprehe in FY21) runs expenditure reports from the Enterprise Reporting System to monitor current spending levels for PPW. On a quarterly basis, HCA calculates the pregnant women and women with dependent children state funding for the Substance Abuse Block Grant. A variety of pivots are run and will be graphically analyzed. This analysis is maintained in the same workbook to track MOE requirement 2.1(a) (**Control Activities/Monitoring**). The report details expenditure data for Project “7WOM” including liquidations (no accruals). The calculations combine disbursements and liquidations using three different reports: one by program index, one by subsubobject, and one by project. As with the other level of effort (LOE) requirement, the cumulative projection and progress towards meeting current period expenditure requirements are tracked. Reports are run on a quarterly basis at least, often more during the end of the reporting period. The reports are emailed to the BH Grants Supervisor (Sarah) and Accounting Manager (Brad), who review to ensure appropriate progress is being made toward compliance expenditure goals (**Key Control 1 - Control Activities/Monitoring**). The written protocols and pivot tables used to calculate LOE expenditures was provided by HCA fiscal staff. See Level of Effort (MOE) Criteria 11.8.22 for pivot tables criteria.

## **LOE Requirement 2.2**

We were informed that this requirement is monitored by program management in conjunction with support from contract and legal staff. We spoke to the Federal Block Program Manager to discuss HCA's controls regarding supplemental spending. The program and fiscal staff meet monthly to discuss the current status of the grant, any potential problems, and upcoming items (**Control Activities/Information and Communication**). During this meeting they will also discuss all different types of funding sources and how they are to be distributed. This is particularly prevalent during contract execution each biennium. The vast majority of federal funding for alcohol and other drug prevention and treatment programs are provided via payments to providers, therefore HCA pays particular attention to the available funding sources when executing contracts. When new contracts are executed, the Authority includes either the following language in the

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contract, *"grant funds cannot be used to supplant current funding of existing activities"*, or will include a clause in the general terms, applicable laws section that states, *"during the term of this Contract, Contractor must comply with all applicable federal, State, and local laws and Regulations, and all amendments thereto, that are in effect when the Contract is signed or that come into effect during the term of this Contract."* If the latter statement is included, a listing of the applicable laws are included. These agreements are then signed by the grantee and reviewed and approved by the Chief Legal Officer or Contracts Administrator (**Key Control 2 - Control Activities**). Additionally, when invoices are paid, program managers review and approve payments to ensure charges are allowable based on the contract, including that funds are supplementary and not supplanted (**Key Control 3 - Monitoring**). *Note: This is also an internal control over activities allowed/cost principles.* Staff are familiar with the sub recipients and their typical spending patterns. If the reviewers believe funds are being supplanted, they will question if the expenditure is allowable, ask for additional support, or deny all or a portion of the payment.

### Summary of Key Controls:

**Key Control 1** – Control Activities/Monitoring: On a quarterly basis, the Fiscal Analyst emails report analysis used for tracking level of effort state spending to the Accounting Manager and BH Grants Supervisor who review to ensure the Department is on track for meeting the level of effort requirements.

**Key Control 2** – Control Activities: The Chief Legal Officer or Contracts Administrator reviews each new prevention and treatment services contract to ensure standard language regarding supplanting funding of existing activities or the requirement to meet all applicable laws and regulations (including supplanting funds) is present and has been signed by the grantee prior to approving.

**Key Control 3** – Monitoring: Program Managers review and approve payments to ensure charges are allowable, including that the funds are supplementary and not supplanted (*this is also an internal control over activities allowed/cost principles*).

### **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 to determine if we can place reliance on the controls.

### D.8.PR.G - 93.959-Block Grants for Prevention & Treatment of Substance Abuse - HCA

**Procedure Step:** G. Earmarking - Controls

**Prepared By:** MWS, 11/28/2022

**Reviewed By:** CCM, 11/29/2022

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## 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 key internal controls the agency has established to prevent or detect noncompliance with earmarking requirements.

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

### **Source:**

Brad Killman, Accounting Manager

Jill Arlow, Federal Reporting Manager

Sarah Morris, Behavioral Health Grants Supervisor

Garnet Sprehe, Fiscal Analyst

### **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**

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*



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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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 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**

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.

We reviewed Part 4 of the 2022 Compliance Supplement and noted the following:

**3.a** The state shall expend not less than 20 percent of SABG for primary prevention programs for individuals who do not require treatment of SA. The programs should educate and counsel the individuals on such abuse and provide for activities to reduce the risk of such abuse by the individuals (42 USC 300x-22; 45 CFR sections 96.124(b)(1) and 96.125).

**3.b** Designated states (i.e., any state whose cases of Acquired Immunodeficiency Syndrome (AIDS) is 10 or more per 100,000 individuals (as indicated by the number of such cases reported to and confirmed by the Centers for Disease Control and Prevention for the most recent calendar year for which data are available)), shall expend not less than 2 percent and not more than 5 percent of the award amount to carry out one or more projects to make available to individuals early intervention services for HIV disease (EIS HIV) at the sites where the individuals are undergoing SA treatment. If the state carries out two or more projects, the state will carry out one such project in a rural area of the state unless the secretary waives the requirement (42 USC 300x-24; 45 CFR sections 96.128(a)(1), (b), and (d)). Note: The applicable percentage is based on the percent change in a current year allotment to the base year allotment under the Alcohol, Drug Abuse and Mental Health Services (ADMS) Block Grant. Any “designated state” whose percentage change in

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allotment is greater than 5 percent is required to obligate and expend 5 percent of the SABG allotment for the applicable federal fiscal year (FFY) to establish one or more projects designed to provide EIS HIV at the site(s) at which individuals are receiving SA treatment.

In FFY 2011, SAMHSA amended the EIS HIV program policy to allow states that were previously considered a “designated state” during any of the three prior FFYs for which a state was applying for a grant and whose AIDS case rates dropped below the AIDS case rate threshold, to opt to continue to set aside 5 percent of the award amount for EIS HIV. Such states are authorized to obligate and expend 5 percent of SABG funds for EIS HIV in accordance with section 1924(b)(4) and 45 CFR section 96.128(a)(2). **Not Applicable**

**3.c** The state may not expend more than 5 percent of the grant to pay the costs of administering the grant (42 USC 300x-31; 45 CFR section 96.135 (b)(1)).

**3.d** The state may not expend grant funds for providing treatment services in penal or correctional institutions in an amount more than that expended for such programs by the state for fiscal year 1991 (42 USC 300x-31; 45 CFR section 96.135(b)(2)). **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.

Will Sogge, External Audit Liaison, provided the Internal Controls Request Response over Earmarking and written procedures on October 27, 2022. See SABG Internal Control Response Letter - Earmarking Earmarking (High Level Report) Procedure for details.

In SFY21, HCA received an internal control material weakness finding and a material non-compliance finding. We reviewed the findings as well as the SFY22 Corrective action plan. We noted the CAP has a completion date of March, 2023. We inquired with the Authority on the status of this CAP and we were informed that the CAP has been completed, just that an updated CAP has not been submitted to OFM. 2021\_Single\_Audit\_Findings SFY21 SABG CAPs

We met with the following HCA staff on November 2, 2022, to gain an understanding of the Earmarking process and discuss key internal controls:

- Jill Arlow, Federal Accounting & Reporting Manager
- Angela Visser, Federal Financial Reporting Section Manager
- Sarah Morris, Behavioral Health Grants Supervisor
- Will Sogge, External Audit Liaison
- Kari Summerour, External Audit and Compliance Manager
- Garnet Sprehe, Fiscal Analyst

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SAO attendees:

- Desiree Rennau, Auditor-in-Charge
- Cassandra Metzler, Audit Supervisor
- Mitch Steelman, Assistant Auditor

To ensure the earmarking requirements are met, the Authority establishes allocation codes to track program expenditures in their accounting system (**Key Control 1 - Information and Communication**). The grant specific account coding is established by Sarah Morris or the grant analyst assigned to the SABG who is part of the Financial Reporting Unit. The grant analyst would establish the new coding, such as the cost objective, revenue source, schedule, schedule links, and allocation code. The allocation code, as well as indirect costs that run through admin bases, are key to tracking earmarking requirements for admin (5% cap) and prevention (min 20%)

The Authority uses the following allocation codes to track expenditures:

- Treatment: FY2020 – 8240, FY2021 - 8241, and FY2022 - 8242
- Administration: FY2020 – 8250, FY2021 - 8251, FY2022 - 8252 (Note: there are also indirect costs that will be included in the total for administration costs for the earmarking calculation, this includes all other allocation codes which are not included as part of treatment or prevention activities)
- Prevention: FY2020 – 8260, FY2021 - 8261, and FY2022 - 8262

On a monthly basis, the Fiscal Analyst (Garnet Sprehe) uses source reports from the Enterprise Reporting System to monitor current prevention and administrative expenditures to determine if the Authority is on track to meet earmarking requirements (**Key Control 2 - Control Activities/Monitoring**). The Fiscal Analyst runs a Web Intelligence Report by cost objective/allocation and will then create a pivot table to determine the total expenditures charged to each allocation code (which correlates to the earmarking requirements). See Earmarking (High Level Report) Procedure criteria details. Sarah Morris, BH Grant Supervisor, and her staff run this report for each grant award that is currently open and has expenditures charged. They review the information to ensure at least 20% of the total grant funds were spent on prevention programs (earmarking requirement 3a) and not more than 5% of grant funds were spent on administration (earmarking requirement 3c). During the analysis, the current expenditure levels for Pregnant and Parenting Women (PPW) is also reviewed to ensure the Authority is on track to meet level of effort requirement. This Excel workbook is then reviewed by the Behavioral Health Grant Supervisor, Sarah Morris. The BH Supervisor checks that the earmarking requirements have been met and verbally approves the document. After the workbook is approved, it is forwarded to the program unit and budget unit to review. If it is found that a program is not on track to meet earmarking requirements, an email is sent by Jill Arlow's team containing the related reports to program management. A meeting is then scheduled between Jill Arlow, Angela Visser, Sarah Morris, and program management to discuss options for ensuring that all programs meet the expenditure requirements.

At the transaction level fiscal staff review invoices to ensure coding is correct. This includes reviewing the allocation code to verify the invoice is correctly coded to either prevention, treatment or administration. The Financial Services Manager, Megan Church, or Fiscal Lead reviews each reimbursement request workbook before approving to ensure coding, signatures and amounts are correct and charges are related to the appropriate time period (**Key Control 3 - Control Activities**). (Note: this key control is identified from Activities Allowed/Cost Principles and also identified as a key control for period of performance). Missing Info? Since each grant is available for obligation and expenditure for two years, a final report is run once the grant closes to determine total expenditures charged

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by each allocation code. Because the A19 approvals are prepared on a almost daily basis, there is high assurance that the Authority will meet the earmarking requirements when the grants close.

## **Summary of Key Controls:**

**Key Control 1** – Information and Communication: To ensure the earmarking requirements are met, the Authority uses unique allocation codes to track program expenditures in their accounting system.

**Key Control 2** – Control Activities/Monitoring: On a monthly basis, the Behavioral Health (BH) Grant Fiscal Analyst uses source reports from the Enterprise Reporting System to monitor current prevention and administrative expenditures to determine if the Authority is on track to meet earmarking requirements.

**Key Control 3** – Control Activities: The Financial Services Manager or Fiscal Lead reviews each reimbursement request workbook before approving to ensure coding, signatures and amounts are correct and charges are related to the appropriate time period (*Note: This is also a key internal control for Activities Allowed/Cost Principles and Period of Performance.*)

## **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 to determine if we can place reliance on the controls.

## **D.8.PRГ - 93.959-Block Grants for Prevention & Treatment of Substance Abuse - HCA**

***Procedure Step:*** H. Period of Performance - Controls

***Prepared By:*** MWS, 1/12/2023

***Reviewed By:*** CCM, 2/15/2023

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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 key internal controls the agency has established to prevent or detect noncompliance with period of performance requirements.

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

## **Source:**

- Jill Arlow, Federal Accounting & Reporting Manager
- Angela Visser, Federal Financial Reporting Section Manager
- Sarah Morris, Behavioral Health Grants Supervisor
- Will Sogge, External Audit Liaison
- Kari Summerour, External Audit and Compliance Manager

## **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**

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\*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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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).

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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.***

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



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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).

| 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 | On the date on which the State or subgrantee makes a binding written                                     |

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|  |   |
|--|---|
| or subgrantee.   | 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 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.

We reviewed Part 4 of the 2022 Compliance Supplement and noted the following:

Any amounts awarded to the state for a fiscal year shall be available for obligation and expenditure until the end of the fiscal year following the fiscal year for which the amounts were awarded (42 USC 300x-62).

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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.

Will Sogge, External Audit Liaison, provided the Internal Controls Request Response over Period of Performance on October 27, 2022. See SABG Internal Control Response Letter - Period of Performance

We reviewed the grant award notices and identified the following periods of performance:

- FFY2020 grant award: 10/1/2019 - 9/30/2021 (ended during audit period)
- FFY2021 grant award: 10/1/2020 - 9/30/2022
- FFY2022 grant award: 10/1/2021 - 9/30/2023 (began during audit period)

We met with the following HCA staff on November 2, 2022, to gain an understanding of the Period of Performance process and discuss key internal controls:

- Jill Arlow, Federal Accounting & Reporting Manager
- Angela Visser, Federal Financial Reporting Section Manager
- Sarah Morris, Behavioral Health Grants Supervisor
- Will Sogge, External Audit Liaison
- Kari Summerour, External Audit and Compliance Manager

SAO attendees:

- Desiree Rennau, Auditor-in-Charge
- Cassandra Metzler, Audit Supervisor
- Mitch Steelman, Assistant Auditor

Cost objective coding in place during SFY22 audit period was as follows:

| Cost Objective                         | Cost Objective Title              |
|--|-----------------------------------|
| 959E1 (Shown as "9590" in Exp. report) | SUBSTANCE ABUSE BG ENHANCED FFY21 |
| 959A0                                  | SA BLOCK GRANT FFY 2020           |
| 959A1                                  | SA BLOCK GRANT FFY 2021           |
| 959A2                                  | SA BLOCK GRANT FFY 2022           |

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|       |                           |
|-------|---------------------------|
| 959A9 | SA BLOCK GRANT FFY19      |
| 959R1 | SA BLOCK GRANT ARPA FFY21 |

HCA establishes new cost objectives and allocation codes each federal fiscal year to ensure expenditures are charged to the proper grants (**Key Control 1 - Control Activities**). The establishment of new coding applies to all program expenditures, including prevention and treatment services and indirect expenditures. Cost objectives are part of the Authority's automated cost allocation schedule. In mid September, the cost allocation plan is built and established for launch in October to use on the next year's grant. Staff use allocation codes to assign expenditure coding. Federal draws are based on the expenditure amounts recorded in the designated cost objectives. 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 cost objective/allocation coding not being currently active (**control activities**). The new coding goes into effect when the previous award has been expended, since new grant awards are received each year. The Grant Fiscal Analyst uses month of service source reports from the Enterprise Reporting System to ensure amounts charged are correct and related to the appropriate time period (**Control Activities/ Monitoring**). If there are late expenses attributed to a grant that has been closed, those expenses are sent through an exception process and Accounts payable will send an email asking for verification that the grant is closed. At that point the expense in question goes to the Executive Manager for review and approval to charge the late expense to operational income, not grant funding.

Invoices are received monthly or quarterly from the sub recipients and vendors. The program obtains the A-19s through email. Program Managers will review the request and support documents to ensure charges are allowable and meet period of performance requirements. Once approved, the program manager will email accounts payable to process the payment (**Key Control 2 - Control Activities/Monitoring**). The accounts payable (AP) staff pull these emails to begin the payment process. For each A-19, the AP staff will access the contract log to get the proper account coding and ensure the contract is not overspent. Payments are coded to a specific allocation code, based on month of service, which will automatically apply the correct cost objective. The accounts payable staff will send the payment request to program for approval prior to setting up the toolbox and establish payment. If payment is requested for services which were provided in a month of service which occurred more than 90 days prior, a second level of program review is required prior to processing payment. Then, the AP staff creates a toolbox to upload payment request into AFRS. The Financial Services Manager or Fiscal Lead reviews each workbook before approving payment to ensure coding is correct for the year and project based on allocation and that the signatures and amounts are also correct (**Key Control 3 - Control Activities/Monitoring**).

### Summary of Key Controls:

**Key Control 1 – Control Activities:** The Authority establishes new cost objective and allocation codes each federal fiscal year to ensure expenditures are charged to the proper grants.

**Key Control 2 – Control Activities/Monitoring:** Program Managers review support documents with respect to invoiced charges on A-19 and approve payments to ensure charges are allowable and meet period of performance requirements. *(This is also a key control for activities allowed)*

**Key Control 3 – Control Activities/Monitoring:** The Financial Services Manager or Fiscal Lead reviews each workbook before approving payment to ensure coding, approvals, and amounts are correct and charges are related to the appropriate time period. *(This is also a key control for activities allowed)*

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## **Finding Followup:**

SABG received a control finding during the SFY21 audit period. We reviewed the corrective action plan associated with this finding (finding 057). SFY21 SABG CAPs

After speaking with HCA staff Sarah Morris and Jill Arlow we understand that SABG has a new process for processing late allocations to grants that have closed. They have protocols in place to redirect these expenses to a LID to ensure that late expenses are allocated to operational income and are not applied to the closed grant. This process is new and was in place for most of SFY22. We have taken this under consideration for control risk and testing.

## **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 to determine if we can place reliance on the controls.

## **D.8.PRG - 93.959-Block Grants for Prevention & Treatment of Substance Abuse - HCA**

***Procedure Step:*** L. Reporting - Controls - SF-425

***Prepared By:*** MWS, 1/12/2023

***Reviewed By:*** DLR, 1/13/2023

|                      |
|----------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

### **Source:**

- Jill Arlow, Federal Accounting & Reporting Manager

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- Angela Visser, Federal Financial Reporting Section Manager
- Sarah Morris, Behavioral Health Grants Supervisor
- Will Sogge, External Audit Liaison
- Kari Summerour, External Audit and Compliance Manager

## **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.***

#### **AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

##### **Federal Funding Accountability and Transparency Act (FFATA)**

##### **Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282)**

**(Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this**

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information (<https://www.usaspending.gov/search>).

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

**(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).

### **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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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**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.***

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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### 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)<br/>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**

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 Reporting.

We reviewed Part 4 of the 2022 Compliance Supplement and noted the following report is applicable to the program:

##### **1. Financial Reporting**

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- *SF-425, Federal Financial Report*

## **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.

In SFY21, HCA received a finding for not having adequate internal controls over and did not comply with the reporting requirements for SABG. We also reviewed the corrective action plan, both documents can be found here. 2021 Single Audit FindingsSFY21 SABG CAPs

Will Sogge, External Audit Liaison, provided the SF-425 protocols and Internal Controls Request Response over Reporting on October 28, 2022. See SABG Internal Control Request Letter - Reporting FFR SF-425 Procedure for details.

We met with the following HCA staff on November 2, 2022, to gain an understanding of the Reporting process and discuss key internal controls

- Jill Arlow, Federal Accounting & Reporting Manager
- Angela Visser, Federal Financial Reporting Section Manager
- Sarah Morris, Behavioral Health Grants Supervisor
- Will Sogge, External Audit Liaison
- Kari Summerour, External Audit and Compliance Manager

SAO attendees:

- Desiree Rennau, Auditor-in-Charge
- Cassandra Metzler, Audit Supervisor
- Mitch Steelman, Auditor

## **Financial Reporting - SF-425**

Grants open during SFY22:

| <b>Award Period</b>   | <b>Federal Fiscal Year</b> | <b>Cost Objective</b> | <b>Grant Award Closed during SFY22?</b> |
|-----------------------|----------------------------|-----------------------|---|
| 10/1/2019 - 9/30/2021 | 2020                       | 959A0                 | Yes                                     |
| 10/1/2020 - 9/30/2022 | 2021                       | 959A1                 | No                                      |
| 10/1/2021 - 9/30/2023 | 2022                       | 959A2                 | No                                      |

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Per the grant agreements outlined in the Notice of Award, the SF-425 is due to the Federal Government by December 29th of each year for the grant award that closed during the period. For instance, the report for the FFY20 grant award, opened October 1, 2019 and closed September 30, 2021, would be due by December 29, 2021. See ([SAMHSA NGA M2](#)).

The report lists important information regarding the agency, such as the Entity Identification Number (EIN), Federal Grant Number, Recipient Account Number, DUNS number, and reporting period. The SF-425 reports total cash receipts, cash disbursements, cash on hand, federal funds authorized, federal share of expenditures, federal share of unliquidated obligations, total federal share, and unobligated balance of federal funds.

SF-425 Reports are completed for grants that have closed during the current fiscal period. As the grants close the allocation codes are closed to prevent further expenses from being attributed to a closed grant. A fiscal analyst will run Enterprise expenditure and revenue reports to receive data from AFRS to populate the SF-425 report (**Control Activities/Information and Communication**). The expenditure reports are also used to ensure that the closing grants have been utilized as much as possible to exhaust all funds available. The SF-425 report is submitted through the PMS and awaits review by the Grants Supervisor. The Grants Supervisor, Sarah Morris, reviews the amounts listed on the SF-425 report against program expenditures to ensure the report is accurate prior to signing and submitting it to the federal grantor. (**Key Control 1 – Control Activities/ Monitoring**).

HCA also uses allocation codes to track program expenditures as follows:

- Treatment: FY2020 – 8240, FY2021 - 8241, and FY2022 - 8242
- Administration: FY2020 – 8250, FY2021 - 8251, and FY2022 - 8252
- Prevention: FY2019 – 8269, FY2020 – 8260, FY2021 - 8261, and FY2022 - 8262

During our gaining an understanding of Earmarking Controls, we identified the following: The Fiscal Analyst prepares a monthly analysis of the grant expenditures by allocation codes to ensure the total expenditures are aligned with the amount reported on the SF-425. The Fiscal Analyst runs a Enterprise Reporting Expenditure Report by cost objective and will then create a pivot table to determine the total expenditures charged to each allocation code (which correlates to the earmarking requirements). The final reports used for earmarking are compared with the final SF-425 report to confirm they match.

HSA developed new protocols handling the arrival of late expenditures marked for grants that have closed for SFY23. Under the old process and continuing into September of 2022, when requests for payment were received after reports had been submitted, closed grants would be reopened and a Journal Voucher would be created to update AFRS accounts. This caused discrepancies between actual expenditures incurred and those reported in SF-425. Beginning September 2022, new protocols dictate that all payment requests received after reports have been submitted will go through an exception plan, which requires the Fiscal Analyst to fill out a form in Excel. The form is emailed to Sarah for review and approval, then sent to the Federal Financial Reporting team for processing through AFRS. These late items will be charged to a LID and utilize operational income separate from the grant. Reconciliations are conducted by the BH Grants Fiscal Analyst to ensure all appropriate and eligible costs are recorded to the award with necessary adjustments made for receipt of late payments or advances. These adjustments do not impact the final amounts reported on the final SF-425 (Control Activities).

### Summary of Key Controls:Key Control 1?

# State of Washington

**Key Control 1 – Monitoring:** The BH Grants Supervisor reviews the amounts listed on the SF-425 report against program expenditures to ensure the report is accurate prior to signing and submitting it to the federal grantor.

**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 to determine if we can place reliance on the controls.

**D.8.PRГ - 93.959-Block Grants for Prevention & Treatment of Substance Abuse - HCA**

***Procedure Step:*** L. Reporting - FFATA

***Prepared By:*** DLR, 11/21/2022

***Reviewed By:*** CCM, 11/21/2022

|                      |
|----------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

**Source:**

Jill Arlow, Federal Accounting & Reporting Manager

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Angela Visser, Federal Financial Reporting Section Manager  
Sarah Morris, Behavioral Health Grants Supervisor

## **Conclusion:**

Based on our understanding of internal controls over Reporting, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess **preliminary control risk as high and will report a finding for a material weakness**. No internal control testing is necessary in this instance. See 2022-069 The Health Care Authority did not have adequate internal controls over and did not comply with requirements to ensure it filed accurate and timely reports required by the Federal Funding Accountability and Transparency Act for the Block Grants fo

## 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.*

#### **AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

**Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282)**

**(Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding**

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**Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at [USASpending.gov](https://www.usaspending.gov) as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

**(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).

### **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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Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.

**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.***

Guidance/Criteria:

## **INTERNAL CONTROL UNDERSTANDING**

## State of Washington

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)<br/>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**

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



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specific requirements for Reporting.

We reviewed Part 4 of the 2022 Compliance Supplement and noted the following report is applicable to the program:

- **Special Reporting for Federal Funding Accountability and Transparency Act (FFATA)**

## 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 noted in the SABG award letters, the FFATA requirement went into effect starting October 1, 2019 with the FFY20 award letter and subsequent awards. During our audit period, the Authority was responsible for submitting the Federal Funding Accountability and Transparency Act (FFATA) reports. On October 21, 2022, we requested the Authority's internal controls related to the FFATA Reporting requirement. On October 28, 2022, Will Sogge provided the Reporting internal control response which stated "Internal controls were developed and implementation started, however controls over FFATA reporting were not fully implemented in FY22." See SABG Internal Control Request Letter - Reporting for details.

We met with the following HCA staff on November 2, 2022, to gain an understanding of the FFATA Reporting process and discuss key internal controls

- Jill Arlow, Federal Accounting & Reporting Manager
- Angela Visser, Federal Financial Reporting Section Manager
- Sarah Morris, Behavioral Health Grants Supervisor
- Will Sogge, External Audit Liaison
- Kari Summerour, External Audit and Compliance Manager

SAO attendees:

- Desiree Rennau, Auditor-in-Charge
- Cassandra Metzler, Audit Supervisor
- Mitch Steelman, Auditor

Sarah Morris explained the Authority documented procedures for their FFATA reporting process (see FFATA Procedure). D.8.41 FFATA forms are pre-filled during the contracting process and completed by the subrecipients at the time the contract is executed, then returned to the Contracts Unit. FFATA Forms are emailed to the HCA Federal Accounting Reporting Unit FFATA Inbox, which is maintained by the BH Grant Supervisor and Lead. Emails are color categorized to the grant it pertains to and verified for an internal HCA Federal Subaward Identification Form that includes the UEI, FAIN, and grant information. Fiscal staff then key in the subaward information in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). Once all reports have been entered, fiscal staff make a PDF and save it to the FFATA Information\2022 FFATA Submitted Forms folder on the shared drive.

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Sarah confirmed, the Authority only submitted two FFATA reports, for one subaward each, during the SFY22 audit period.

**Evaluation of Results:** Did you identify any control deficiencies? **Yes**

1. During the audit period, the Authority did not have any controls in place for FFATA reporting. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.
2. Due to the Authority not having any controls implemented for FFATA Reporting during SFY22 and submitting only two reports during the audit period, this area is considered to have a HIGH risk assessment. We will issue a control finding, see 2022-069 The Health Care Authority did not have adequate internal controls over and did not comply with requirements to ensure it filed accurate and timely reports required by the Federal Funding Accountability and Transparency Act for the Block Grants fo.

**Preliminary Control Risk Assessment**

**Step 4**

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).

**D.8.PRГ - 93.959-Block Grants for Prevention & Treatment of Substance Abuse - HCA**

**Procedure Step:** M. Subrecipient Monitoring - Controls

**Prepared By:** DLR, 3/8/2023

**Reviewed By:** CCM, 3/9/2023

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 key internal controls the agency has established to prevent or detect noncompliance with subrecipient monitoring requirements.

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

**Source:**

Rachelle Amerine, Contracts Administrator

Renae L'Heureux, Contracts and Procurement Manager

Lucilla Mendoza, Tribal Behavior Health Administrator

Daniel Highley, BH Program Manager

Tony Walton, Adult Substance Abuse Disorder Section Manager (Treatment & Recovery)

Sarah Mariani, SUD and MH Promotions Section Manager (Prevention)

Maureen Bailey, Recovery Support Services Supervisor (Recovery)

Teesha Kirschbaum, Deputy Director of Recovery Support Services (Recovery)

Elizabeth Venuro, Child, Youth & Family BH Section Admin (Prenatal)

Michael Brown, Program Integrity Assistant Director, (Oversees Subrecipient Monitoring Work group)

**Conclusion:**

**Subrecipient Contract Identification Element and Monitoring Activities:**

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

**Risk Assessments:**

**For Prevention, Recovery, BHASO, Tribal, and Treatment** - 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. We did note for the tribal unit that there was one (1.9% of newly executed contracts in audit period) contract that did not receive a risk assessment. We will take this into consideration with our testing results.

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:

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1. Specific federal identification elements per 2 CFR section 200.332(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).

**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

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 200.332(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.

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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).

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 200.331, .332, 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.

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## 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):

| <i>Subaward Contract Checklist</i>  |   |
|---|---|
| Element   | Element   |
| (i) Subrecipient name (which must match the name associated with its unique entity identifier);           | (viii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;   |
| (ii) Subrecipient's unique entity identifier;   | (ix) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;  |
| (iii) Federal Award Identification Number (FAIN);   | (x) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);   |
| (iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency; | (xi) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;  |
| (v) Subaward Period of Performance Start and End Date;  | (xii) Assistance Listings number and Title; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement; |
| (vi) Subaward Budget Period Start and End Date;   | (xiii) Identification of whether the award is R&D; and  |
| (vii) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;    | (xiv) 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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## **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).

### **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,



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there is no governmental review of the actual costs incurred by the awardee in performance of these fixed about 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.

We reviewed Part 4 of the 2022 Compliance Supplement and noted the following:

The state must conduct monitoring activities in accordance with sections 75.351 through 75.353 of Subpart D of 45 CFR 75.

## **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.

Will Sogge, External Audit Liaison, provided the following Internal Controls Request Responses over Subrecipient Monitoring.

- BH-ASO: IC request letter - BHASO Subrecipient Monitoring
- Tribal: IC request letter - Tribal Subrecipient Monitoring
- Prevention: IC request letter - Prevention Subrecipient Monitoring
- Recovery: IC request letter - Recovery Subrecipient Monitoring

SABG funds are subawarded to subrecipients through five different units: Prevention, Treatment (SUD), BHASOs, Recovery, and Tribal. Each unit has different staff and processes to comply with subrecipient monitoring. Therefore, we gained an understanding from each unit on how it monitors the subrecipients that are contracted through each unit. These meetings were conducted via Teams with Desiree Rennau, Cassandra Metzler, and Mitch Steelman from SAO, and Will Sogge (External Audit Liaison), Kari Summerour (External Audit and Compliance Manager), and Michael Brown (Director, Program Integrity) from HCA. The dates and program staff that attended each meeting are listed below:

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December 5, 2022:

- For Contracts Unit:
  - Rachelle Amerine, Contracts Administrator
  - Renae L'Heureux, Contracts and Procurement Manager
- For Tribal Affairs:
  - Lucilla Mendoza, Tribal Behavior Health Administrator
  - Aren Sprack, Tribal Affairs Administrator

December 6, 2022

- For BHASO:
  - Daniel Highley, BH Program Manager
  - Ruth Leonard, MC & BH Contracts Monitoring Unit Supervisor

December 13, 2022:

- Janet Cornell, SABG Program Manager
- Amber Rosalez, Management Analyst 4
- Kimberly Wright, BH Planning and Policy Supervisor
- Tony Walton, Adult Substance Abuse Disorder Section Manager (Treatment & Recovery)
- Sarah Mariani, SUD and MH Promotions Section Manager (Prevention)
- Maureen Bailey, Recovery Support Services Supervisor (Recovery)
- Teesha Kirschbaum, Deputy Director of Recovery Support Services (Recovery)
- Elizabeth Venuro, Child, Youth & Family BH Section Admin (Prenatal)
- Michael Brown, Program Integrity Assistant Director, (Oversees Subrecipient Monitoring Work group)

Number of contracts for each unit: See [Subrecipient Monitoring Testing Add Detailed Spreadsheet](#)

| Unit                | Total Subrecipient Contracts | New Subrecipient Contracts |
|---------------------|------------------------------|----------------------------|
| Prevention          | 71                           | 29                         |
| Recovery            | 23                           | 19                         |
| Adult SUD Treatment | 3                            | 3                          |
| BHASO               | 8                            | 0                          |
| Tribal Affairs      | 29                           | 1                          |

### **(a) Subrecipient Contracts – Identification Elements:**

For ***Prevention*** contracts, the new Community Prevention and Wellness Initiative (CPWI) contracts are typically set up at the beginning of a new biennium for

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two year terms. The process starts with the Contract Manager creating the Goods and Services Request (GSR) which documents all applicable grant and contract information that is then provided to the Office of Contracts and Procurement (OCP) for contract execution. If the "subrecipient" box under item 2 is marked to indicate the contract type, the Electronic Contracts Management System (ECMS) will automatically be prompted to include the grant information identified on the GSR and any applicable subrecipient language. After the contract is drafted, it is sent back to the prevention contract manager responsible for the contract to ensure the required subrecipient language is included in the contract.

For *Recovery Support Services* (RSS) contracts, the process is the same as stated above using a GSR and submitting it to OCP to create the contract.

For the *BHASO* contracts, Daniel Highley, BH Program Manager, explained that he creates the GSR and ensures the "subrecipient" box is marked. Daniel works with Janet Cornell, SABG Program Manager and DBHR to draft Exhibit F "Notification" and provide amounts to fiscal staff. Ruth Leonard, MC & BH Contracts Monitoring Unit Supervisor reviews the GSR and it is then sent to OCP.

For *Tribal* contracts, Lucilla explained that the Indian Nation Agreements (INAs) have five (5) year umbrella agreements (this covers general terms and conditions) with two-year statement of work agreements that are in line with biennium. The required subrecipient language is included in the umbrella agreement. The INAs negotiate agreements through a formal consultation with the tribes first and once finalized, the contracts are created the same as the other units. Lucilla noted there are also three Urban Indian Organization subrecipients that are not tribal governments and do not go through consultation. Lucilla explained Tribal Affairs use HCA boilerplate contracts for the Urban Indian Organizations and these contracts look different than tribal contracts, however the scope and statement of work are the same for both types of contracts. For both types of contracts, Lucilla creates a GSR and submits it to OCP.

### ***Office of Contracts and Procurement***

We met with Rachelle Amerine, Contracts Administrator, and Renae L'Heureux, Contracts and Procurement Manager, on December 5, 2022, to discuss the process and controls in place once the contracts unit receives a GSR. Rachelle explained the Authority receives the Notice of Award from SAMHSA with relevant information, including the FAIN, ALN, and budget period. Program staff work with Janet Cornell to ensure the project is allowable against the grant. Rachelle stated that when the GSR has the "subrecipient" box marked, it will prompt the contract unit staff to include the following:

- Federal Award Identification for Subrecipients- an Exhibit (P) or Attachment to every program agreement with each contractor. The document shows the award information including the award name, ALN name, ALN number, the federal grantor (SAMHSA), etc.
- Federal Compliance & Assurance Certification

These attachments ensure that the contracts meet this subrecipient requirement. The contract is then reviewed by the contract unit supervisor that oversees all DBHR contracts. It is then signed by Rachelle (up to \$1 million contract) or the Chief Legal Officer (over \$1 million contract).

Subrecipients are informed of the ALN number and all pertinent grant regulations through the Federal Award Identification for Subrecipients document, which is signed by the Chief Legal Officer or Contracts Administrator (**Key Control 1 - Control Activities**).

### **(b) Risk Evaluations:**

*Note:* During the SFY21 single audit, the Authority received a finding because it did not have adequate internal controls and did not comply with federal requirements to ensure risk assessments are completed for subrecipients. The finding found issues in Tribal, Prevention, Recovery, and BH-ASO. A copy of the

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corrective action plan is on page 6 at SFY21 SABG CAPs with a completion date of December 2021.

The risk assessment is an evaluation of each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward. The Authority's risk assessment process evaluates exposures to the chance of harm or loss that could rise from any particular activity, and is the primary means by which contract monitoring activities are prioritized. Contract and Program Managers for each unit are responsible for completing the HCA Contracting Risk Assessment and Monitoring Plan prior to contract execution. Will Sogge, External Audit Liaison, provided us with a copy of the Risk Assessment and Monitoring Plan ( Risk Assessment - Monitoring Plan Form FINAL Protected) for reference. We noted the Risk Assessment contains three sections: 1) Service Level Risk Factors and Services Level Risk Strategies, 2) Contractor Risk Factors and Contractor Risk Strategies, and 3) Monitoring Plan. The Risk Assessment Form must be completed and submitted to HCA OCP with the approved GSR when requesting a new contract. If there are changes to the original risk assessment that was completed with the new contract, the completed updated risk assessment form must be sent with approved GSR when requesting an amendment.

### ***Subrecipient Working Group***

The multi-divisional subrecipient working group was established towards the end of SFY19 and due to the pandemic had some delays. This working group made progress during SFY22. Michael Brown, Program Integrity Assistant Director, who oversees this working group, stated the risk assessment and monitoring tools that will be utilized agency-wide have been finalized. In the fall of 2021, they conducted training to applicable staff on how to use these tools to ensure a consistent process is followed across the agency and will continue identifying additional staff for training. Going forward, this training will also be incorporated into the training for all new contract managers.

### ***Prevention:***

Risk assessments are completed by contract managers for new contracts and amendments as needed and sent to OCP. Risk assessments are added to the ECMS by OCP. OCP ensures necessary risk assessments must be completed prior to contract execution. Sarah Mariani, SUD and MH Promotions Section Manager, stated Prevention submitted forms for new subrecipients contracts during SFY22.

### ***Treatment & Recovery:***

Contract Managers complete risk assessments for new contracts and amendments (as needed) using the Risk Assessment Form and sends to OCP. The OCP adds risk assessments to ECMS to ensure necessary risk assessments are completed prior to contract execution.

### ***BH-ASO's***

Daniel stated overall risk assessments were completed when subrecipients became ASO's. There were no new BHASO subrecipients during SFY22 and no risk assessments have been completed in the last three or four years. The Authority stated risk assessments for BHASO were implemented starting with January 2023 contracts.

### ***Tribal***

We reviewed the internal control request response and noted the following: "Tribal risk assessments procedures are in the process of being finalized, but no risk assessments were performed in FY22." During our understanding meeting, Lucilla Mendoza, Tribal Behavior Health Administrator, confirmed no risk assessments were completed for Tribal subrecipients. Risk assessments for Tribal subrecipients will begin once the procedures are finalized. During our review

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of new subrecipient contracts, we identified Tribal had one new contract during the audit period. New Tribal Contract?

Risk Assessment KC Summary for Prevention, Treatment, and Recovery: Contract Managers complete risk assessments for new contracts and amendments (as needed) using the Risk Assessment Form, which is sent to OCP. OCP adds risk assessments to ECMS to ensure necessary risk assessments are completed prior to contract execution. (**Key Control 2** – Control Activities).

***Weakness:*** The Tribal risk assessments are in the process of being finalized and no risk assessments were completed during SFY22. During our review of new subrecipient contracts, we identified one new Tribal contract was executed during the audit period. Weakness?

### **(c) Monitoring Activities:**

***Note:*** During the SFY21 single audit, the Authority received a finding having inadequate internal controls and not complying with federal subrecipient monitoring requirements. This finding found issues in the tribal, prevention, and recovery units. A copy of the corrective action plan is at SFY21 SABG CAPs (page 7) with an estimated completion date of January 2023. The corrective action plan outlines work being done by the subrecipient working group and tribal affairs, details are included in the summary below.

Each unit that oversees SABG contracts is responsible for monitoring the subrecipient. The Authority monitors the CPWI (Prevention), Recovery Support Services, and Tribal contracts on a biennial basis. BH-ASOs are contracted for 2-years from January 1 - December 31 (new contracts started on January 1, 2021) are monitored on an annual basis.

### ***Subrecipient Working Group - Monitoring Tool***

The same subrecipient working group noted above in the risk assessment section is also developing internal controls and monitoring procedures for subrecipients to be implemented agency-wide. The group has created a uniform process to track and monitor desk and site visits for subrecipients, but it has not been implemented agency-wide.

### ***Prevention:***

Sarah stated that an on-site visit to each CPWI contractor is conducted at least once during the two-year contract. There are 3 areas that are reviewed:

1. Program review- is the contractor meeting the service expectations of the contract?
2. Contract review- are all components of the contract being fulfilled? Are there any noncompliance patterns that need to be discussed? There are also a few items that are always checked on site, such as verifying that background checks are being completed and confirming if the Charitable Choice Clause is applicable.
3. Fiscal review- a sample of A-19s (typically 3 months) is judgmentally selected by the program manager and all supporting documentation is reviewed for payments requested and paid. If there are issues, the program manager can decide to review more documents to determine the frequency and severity of the issue. If the issue seems to be a one-time thing, it may be excluded from the final report, but if it is a systemic or more severe issue, it will be included in the final report and require follow-up. Most common issues include late reporting and missing subrecipient approvals for their subcontractor payments.

During the COVID-19 pandemic, monitoring activity was completed virtually. The Contract Manager sends the subrecipient a prep document that includes a list of requested documents. The contract manager will receive these documents through secure file transfer and review prior to the visit. This review covers the

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program, contract, and fiscal elements. The contract manager uses a standardized checklist when completing visit to ensure all elements are reviewed. At the end of a review, a letter is sent to the subrecipient with the conclusions and any deficiencies identified requiring a corrective action plan (CAP). The subrecipient will provide the CAP, the contract manager will approve it, it will be implemented, and finally the contract manager will review the CAP to close out the monitoring visit.

A tracking spreadsheet is used to ensure visits are completed in the two-year contract period. This tracker is maintained on the share drive and each contract manager updates it. The managers (such as Sarah) check it monthly or so to verify these visits are on track to be completed. The Prevention Supervisors regularly review tracking spreadsheet that lists all subrecipients and when monitoring is scheduled along with steps to completion to ensure subrecipients are properly monitored (**Key Control #3 - Monitoring**)

### ***Treatment:***

Tony Walton, Adult Substance Abuse Disorder Section Manager (Treatment & Recovery), is new to SUD and stated he plans to follow the same monitoring process by using a tracking spreadsheet to ensure subrecipients receive monitoring. Tony explained the tracking spreadsheet is reviewed regularly to ensure subrecipients receive on-site (virtual) monitoring visits (**Key Control #3 - Monitoring**). Contract managers use a modified checklist based on location and program.

### ***Recovery:***

The Recovery Support Services Supervisors regularly review tracking spreadsheet that lists all subrecipients and when monitoring is scheduled along with steps to completion (**Key Control #3 - Monitoring**). Maureen "Mo" Bailey, Recovery Support Services Supervisor, explained most contracts are performance based and Program Managers who oversee the contracts review documentation to verify deliverables are met before approving A-19s. RSS Contract Managers conduct annual on-site (virtual) programmatic review visits using a modified form based on the individual program. Each monitoring plan is unique to each RSS contract and is based on the subrecipient contract. Contract Managers track site (virtual) visits using a tracking spreadsheet to ensure all subrecipients are properly monitored based on contractual requirements.

### ***BH-ASO's:***

Daniel Highley, BH Program Manager, explained the BH-ASO's are required to submit an annual Substance Abuse Block Grant Plan and Project Summary & Expenditure Plan to ensure planned activities are allowable and provided a copy of the plan for reference during the audit. See [BH ASO SABG Plan Template SFY 23 with Co-responder](#). Daniel and a Medicaid Program Division (MPD) Strategic Design and Program Oversight - Behavioral Health Program Manager review and approve the annual plans submitted by each BH ASO before subrecipients are authorized to expend block grant funding. Approval is sent via email to the BHASO. The subrecipient is also required to submit an annual report that outlines how the subrecipient met the deliverables of the contract, met requirements for training, compliance, and the PPW population.

Annual reviews are conducted virtually by MPD TeamMonitor staff. Karen Buchannan, Supervisor for Team Monitor, schedules annual desk reviews with each of the eight BH-ASOs. TeamMonitor is a team of people from different sections, including program integrity, BHASO team, and Medicaid program. TeamMonitor staff send the BHASO questions (see [Team Monitor 18 2021 ASO Fed Blck Grt FR](#)) and a list required documentation and conduct the annual desk reviews, which include program and fiscal elements, reviewing each section of the subrecipient contract to ensure deliverable are met. MPD Strategic Design and Program Oversight Behavioral Health Program Managers and Section Manager participate in the desk reviews. Daniel and Ruth review all

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documentation and responses for the block grants then enter it into the system. If the information provided is not sufficient, they request additional documentation. After reviewing documentation and responses, TeamMonitor staff and Ruth Leonard, MC & BH Contracts Monitoring Unit Supervisor, go over results with the BH-ASO at the site (virtual) visit. Penny Bichler and Trisha Young, Team Monitor Leads, are tasked with tracking these visits using a TEAMonitor Calendar to ensure they are completed (**Key Control 4 - Monitoring**). Daniel provided a copy of the calendar for reference at 2023External TEAMonitor Calendar DRAFT2.

Monthly A-19s are reviewed prior to payment to ensure the expenditures align with the approved plan that is submitted annually. Daniel provided a copy of the A19 BH-ASOs are required to submit for reference during the audit. See A19 K4947 Greater Columbia SABG SFY 23 . The A19workbook includes a Monthly Service Report and Monthly Sub Contractor Report. When A19 are received, Daniel checks funding sources and ensures funding is available and reviews the service tab to confirm the number of services and to ensure there are no unduplicated clients, and the subcontractor tab to identify how funds were spent.

### ***Tribal***

The corrective action plan states the Authority's Office of Tribal Affairs (OTA) began scheduling desk monitoring beginning June 2021. Tribal Affairs established protocols to complete monitoring activities with each Indian Nation on a biennial basis. In March 2021, Tribal Affairs obtained consent from each Indian Nation to use the monitoring tool. In April 2021, formal monitoring requests were sent to each Indian Nation.

Staff perform review of each subrecipient's annual narrative, review quarterly fiscal reports including supplemental data reporting, and conduct desk monitoring every two years.

Lucilla stated due to the pandemic, desk monitoring for July 2019 - June 2021 cycle began in April 2021 and may have carried over into SFY22. Desk monitoring for the current biennium is scheduled to begin January 2023. Lucilla provided a copy of the INA Desk Monitoring Tool, a standardized checklist used for each of these virtual visits (see INA Desk Monitoring Letter and Monitoring Tool). The checklist includes a review of the Tribal Plan (required to be completed by the tribe), goals achieved as outlined in the statement of work, required reports submitted, quarterly A-19s submitted, and in-depth review of fiscal and programmatic supporting documents for one quarter. The OTA utilizes tracking spreadsheets to document fiscal invoices (including dates approved), monitoring checklist, annual narratives, and email communication with programs.

Desk Monitoring is coordinated by regional tribal liaison and program managers (prevention and treatment). OTA inquires with the tribe if they want to meet or just send relevant data. Most tribes prefer to meet virtually with program managers to review the questions in the Desk Monitoring Tool. To complete monitoring activities, HCA requests supporting fiscal and programmatic documentation for all Tribal program and activities funded under the INA for the period, such as fiscal ledgers, sign in sheets for activities implemented and training flyers. Once the desk monitoring tool is filled out, it is sent to program via email for review. Emails and dates are tracked in the tracking sheet.

To ensure all subrecipients are compliant with grant rules and use grant funds for authorized purposes, a unit supervisor or contract manager uses a spreadsheet to track monitoring visits are completed using a template contract monitoring tool ("checklist") that is completed by Program Managers when conducting and documenting the results of on site reviews (**Key Control 3: Monitoring**).

Program Managers also ensure funds are used for authorized purposes when they review and approve payments for contracts providing prevention and treatment

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services under the Substance Abuse Block Grant (**Key Control 5: Monitoring/Control Activities**).

## **Summary of Key Controls:**

**Key Control 1:** The Chief Legal Officer or Contracts Administrator reviews each contract to ensure all required subrecipient contract information is included and then signs each new contract for SABG related services. This contract notifies the subrecipient of pertinent grant award information through the Federal Award Identification document.

**Key Control 2:** Contract Managers complete risk assessments for new contracts and amendments (as needed) using the Risk Assessment Form, which is sent to OCP. The OCP adds risk assessments to ECMS to ensure necessary risk assessments are completed prior to contract execution. (Prevention, RSS, Treatment)

**Key Control 3:** The Program Supervisors regularly review tracking spreadsheet that lists all subrecipients and when monitoring is scheduled along with steps to completion to ensure subrecipients are properly monitored. (Prevention, RSS, Treatment, Tribal)

**Key Control 4:** The Team Monitor Leads track monitoring visits using a TEAMonitor calendar to ensure all BH-ASOs receive required on site (virtual) monitoring. (BHASO) KC3 & 4

**Key Control 5:** Program Managers also ensure funds are used for authorized purposes when they review and approve payments for contracts providing prevention and treatment services under the Substance Abuse Block Grant (*Note: This control is the same for Activities Allowed*).

## **Summary of Control Weaknesses:**

Risk Assessments:

- Tribal risk assessments procedures are in the process of being finalized. We identified one new subrecipient contract executed during the audit period and no risk assessments were completed for Tribal subrecipients in SFY22. This is one out of a total of 52 new subrecipient contracts (1.9%).

## **Evaluation of Results:**

### **Subrecipient Contract Identification Element and Monitoring Activities:**

We did not identify any control deficiencies.

### **Risk Assessments:**

We did not identify any control deficiencies related to Prevention, Treatment, BHASO, and Recovery Support Services. For the Tribal unit, we identified one new subrecipient out of a total of 52 new subrecipient contracts (1.9%). Based on our understanding, Tribal did not complete any risk assessments during the audit period. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **less than material**. The Authority established internal controls related to risk assessments for most of the contracts, however controls have not been implemented across all units.

## **Preliminary Control Risk Assessment**

### **Step 4**

### **Subrecipient Contract Identification Element and Monitoring Activities:**

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.



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## **Risk Assessments:**

**For Prevention, Recovery, BHASO, Tribal, and Treatment** - 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. We did note for the tribal unit that there was one (1.9% of newly executed contracts in audit period) contract that did not receive a risk assessment. We will take this into consideration with our testing results.

## **D.16.PRG - 93.658-Foster Care-Title IV-E - DCYF**

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

***Prepared By:*** JDP, 10/14/2022

***Reviewed By:*** MKH, 10/17/2022

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:**

AFRS  
Compliance Supplement  
SEFA

### **Conclusion:**

We have provided an overview of material expenditure activities for the Activities Allowed compliance requirement. The following areas will be tested at Activities Allowed in Foster Care.

- Subobject NB (Program Index A1911 - FFH Maintenance Payments) excluding SSO (2113, 2149, 2160, 2167, 2168, 2169)
- Subobject NB (Program Index A1971 - FC Supv Visit) excluding SSO (2124)

The following areas will be tested at Centralized areas:

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- Indirect Costs (See. [DCYF Centralized Cost Allocation](#))
- Administrative costs related to payroll allocated via RMTS (See. [DCYF Centralized RMTS](#))
- Administrative costs related to payroll allocated via PACAP (See. [DCYF Centralized Cost Allocation](#))

## 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

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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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**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

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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 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

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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 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;



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- (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.

#### **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

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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)<br/>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" | Use policy 3240 table in the policy tab to determine minimum selection size (policy tab) |

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|  |   |   |
|--|---|---|
|  | samples can be done by the computer in the sampling method.   |   |
| 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 <b>types</b> 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 <b>only</b> 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

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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                                  |
| 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 |
|--|--|

**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 any available program guidelines to determine which activities and costs are allowed or unallowed. We identified the following:

Activities Allowed: According to the grant agreement and part four of the 2022 Compliance Supplement, the Department may expend program

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funds in accordance with the Title IV-E's maintenance schedule and in accordance with 45 CFR section 1356.21, to:

- Individuals serving as foster family homes
- childcare institutions
- public or private child-placement or child-care agencies

Such payments may include the cost of (and the cost of providing, including certain associated administrative and operating costs of an institution):

- Food
- Clothing
- Shelter
- Daily supervision
- School supplies
- Personal incidentals
- Liability insurance with respect to a child
- Reasonable travel to the child's home for visitation, as well as reasonable travel for the child to remain in the same school he or she was attending prior to placement in foster care.

The compliance supplement explicitly states that the following services are not allowable:

- Social services for counseling or treatment to ameliorate or remedy personal problems, behaviors or home conditions
- Medical and education expenses (outlined in 42 USC 675(4)(A))
- Costs of conducting investigations of sex trafficking allegations or other forms of child abuse or neglect
- Costs for providing social services, such as counseling or treatment to victims of sex trafficking or other children or youth

### 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 (more than 5%) to the program the auditor must test the internal controls (and compliance) over them.*

We found that the Department does recover indirect costs with a cost allocation plan and had expended \$17,006,733.13 or (13.75%). We will be testing the indirect costs in our Centralized Cost Allocation area (See. DCYF Centralized Cost Allocation). To see the indirect expenditure report (See. Final DCYF Foster Care Expenditure Report). Indirect expenditures are identified with a program index starting with an R and Allocation 9100

### Material Expenditures

We identified the following expenditure activities that are directly charged to the program and are quantitatively material (more than 5.00%):

- Subobject NB (Program Index A1911 - FFH Maintenance Payments) excluding SSO (2113, 2149, 2160, 2167, 2168, 2169): \$8,847,245.77 or 7.15%

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- The Department charged 7.15% (8.8 million) of total 2022 expenditures for FFH Maintenance Payments. We found that there are multiple Subsubobject activities associated with the Program Index with their own set of unique internal controls for the activity. We removed the SSO's that had a different set of controls and were immaterial to the program. The remaining Subsubobject activities will be tested which are related Basic Foster Care payments and Foster Care Level 2-4 payments. CPA payments were removed as it was immaterial 2.70% and had different controls (See. [Final DCYF Foster Care Expenditure Report](#))
- Subobject NB (Program Index A1971 - FC Supv Visit) excluding SSO (2124): \$7,341,541.02 or 5.94%
  - The Department charged 5.94% (7.3 million) of total 2022 expenditures for FC Supv Visit. We found that there are multiple Subsubobject activities associated with the Program Index with their own set of unique internal controls for the activity. We removed the SSO's that had a different set of controls and were immaterial to the program. The remaining Subsubobject activities will be tested which are related Travel payments through the SPROUT system. Professional payments were removed as it was immaterial 0.10% and had different controls (See. [Final DCYF Foster Care Expenditure Report](#))

We then further analyzed these areas by identifying the Allocations that were associated with the Program Index. These Program Indexes and Allocations are what are used to allocate federal funding during the SFY. Because the Cost Allocation system utilizes the Program Index and Allocation to Cost Allocate expenditures we are able to identify the original transactions that were charged to the grant. To do this we run a new WebIntelligence report without the Cost Objectives in the query request, and utilize the PI and Allocations we identified with Subobject NB in the query request. This second report will provide the original transactions prior to the Cost Allocation system splitting the expenditure into Federal and State expenditures. The report will provide us with a cost allocation funding type (CAFT) of "blank", N, F, and S. The blank transactions will be the original transactions.

A quick overview of how the expenditures flow through at the Department is, when the Department enters a transaction into the system with a blank CAFT, they give it the necessary accounting coding and ensure the Program Index and Allocation is correct as this is the driver of the Cost Allocation system. At the end of the night the blank transactions are reversed out with the N CAFT and then redistributed based to bases and/or cost objectives based on the Program Index and Allocation that was tied with the original transactions which creates the F (Federal), and S (State) side of the transaction. Program Index and Allocation is important to know as it is the driver of the Cost Allocation system.

For more details on how CAS works refer to our work at Cost Allocation (See. [DCYF Centralized Cost Allocation](#))

- Objects A&B (Salaries and Wages; Employee Benefits)
  - Administrative costs related to payroll allocated via RMTS: \$31,784,738.95 or 25.70%
    - The Department charged 25.70% (32 million) of total 2022 expenditures via RMTS for payroll expenditures. We will test these expenditures at Centralized RMTS (See. [DCYF Centralized RMTS](#)).
  - Administrative costs related to payroll allocated via PACAP \$18,393,166.03 or 14.87%
    - The Department charged 14.87% (18.5 million) of total 2022 expenditures via PACAP for payroll expenditures. We will test these expenditures at Cost Allocation (See. [DCYF Centralized Cost Allocation](#)).



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## Summary of Activities Allowed (Direct and Material Areas being tested at Foster Care)

- Subobject NB (Program Index A1911 - FFH Maintenance Payments) excluding SSO (2113, 2149, 2160, 2167, 2168, 2169)
- Subobject NB (Program Index A1971 - FC Supv Visit) excluding SSO (2124)

## D.16.PRG - 93.658-Foster Care-Title IV-E - DCYF

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

***Prepared By:*** CL, 1/6/2023

***Reviewed By:*** MKH, 1/11/2023

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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

### **Source:**

Chris Morrison, Fiscal Integrity Unit Manager, Financial and Business Services, DCYF

Tammy Cain, Client Services Payment Program Manager, DCYF

Bob Ensley, Manager of Federal Funding, DCYF

Christine Degraw, Payment Integrity Specialist, DCYF

Kristin Messner, Fiscal Integrity Manager, DCYF

Ivy Martinez, Federal Funding Policy & Training Program Manager, DCYF

Doug Allison, Supervisor of the Education and Adolescent Services Unit

Caitlin O'Hea, Family Time Program Manager

Stefanie Niemela, Audit and Policy Liaison, Financial Services, DCYF

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## **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.

***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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the**

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document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.

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)<br/>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 <b>types</b> 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 <b>only</b> 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 |
|--|--|

**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.

**Note: New provisions that have been added to UG:**

2CFR 200.215 – Never contract with the enemy (effective November 12, 2020)

2CFR 200.216 - Prohibition on certain telecommunications and video surveillance services or equipment (Effective August 13, 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.

We met with the Department on August 2nd, 2022 to gain an understanding of the internal controls in place that ensure the Department only charges the Foster Care grant for allowable activities. The following staff were present during our meeting: During the meeting, we discussed the internal controls identified in the internal control letter (See. [Foster Care Internal Control request letter - Activities Allowed-Cost Principles](#))

- Chris Morrison, Fiscal Integrity Unit Manager, Financial and Business Services, DCYF

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- Tammy Cain, Client Services Payment Program Manager, DCYF
- Bob Ensley, Manager of Federal Funding, DCYF
- Christine Degraw, Payment Integrity Specialist, DCYF
- Kristin Messner, Fiscal Integrity Manager, DCYF
- Ivy Martinez, Federal Funding Policy & Training Program Manager, DCYF
- Doug Allison, Supervisor of the Education and Adolescent Services Unit
- Caitlin O'Hea, Family Time Program Manager
- Stefanie Niemela, Audit and Policy Liaison, Financial Services, DCYF

Federally funded Foster Care Maintenance payments are only allowable when paid on behalf of an eligible child. This being the case, we will rely on the work performed in the eligibility portion of the audit in lieu of separately identify and testing controls over eligibility here.

### **Identifying Foster Care Maintenance Payments**

The Department utilizes the Cost Allocation System to identify costs and submit them to the proper benefiting federal programs. The Cost Allocation System utilizes Program Index and Allocation to allocate expenditures. The Department is able to identify Foster Care Maintenance payments by Program Index. When the Department makes Foster Care Maintenance payments they utilize a distinct Program Index and Allocation that specifically identifies Foster Care Maintenance payments. The Department provided the coding for these payments and we were able to identify the Foster Care Maintenance payments that were made by the Department during our audit period. We broke down our payments in Subobject NB by Program Index to identify the specific activities that were material to our program. The Program Index for Foster Care Maintenance payments is A1911.

To ensure Basic Foster Care payments and Special Receiving Care payments to providers for Foster Care children are accurate and allowable the Social Worker utilizes the Social Worker Placement Entry Tool or the Child Location App and the Foster Care Rate Assessment/contracted special receiving care contract to get their placement entered and their rate, its then reviewed by the clerical worker and sent to the fiduciary for entry of the placement. **(Control Activities - Automated Control)**

**Six month look-back by Federal Funding Unit:** As we described in the eligibility section, the Department's Federal Funding Unit manages each IV-E foster care case in the Department's case load. The Federal Funding unit requires each IV-E specialist to periodically re-determine whether each child in their caseload continues to remain IV-E eligible. This process is known as a "six-month look-back". During the re-determination, the specialist looks back on all payments made since the last look-back and determines if the child met the reimbursement criteria for each day in the month the Department claimed IV-E status . If the Specialist determines the child's reimbursability status changed during the look-back period, the specialist will identify those payments where the item/service that was not reimbursable and manually adjust the source of funds (SOF) to a state funds only code (SOF 5). This adjustment in FamLink will make a retroactive adjustment in the accounting record that will effectively re-pay the grantor by reducing the amount of the next bi-weekly cash draw.

FamLink will continue to make the recurring subsidy payments until an automated system control suspends adoption support payments on the

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child's 18th birthday (**Control Activities, Automated Control**).

- The child turns 18 years old. (Or 21 if the IV-E agency determines the child has a mental or physical disability which warrants the continuation of assistance)
- The IV-E agency determines the parent is no longer legally responsible for the support of the child
- The IV-E agency determines the child is no longer receiving any support from the parents

Children are eligible for foster care maintenance payments until their 18th birthday, unless the child meets the extended eligibility requirements.

### Summary of Key Controls

**Key Control #1 (Control Activities - Automated Control)** - The FamLink rate assessment tool determines the foster care rate level based on parameters entered by social workers.

**Key Control #2 - (Control Activities, Automated Controls)** FamLink will continue to make the recurring subsidy payments until an automated system control suspends adoption support payments on the child's 18<sup>th</sup> birthday

- The child turns 18 years old. (Or 21 if the IV-E agency determines the child has a mental or physical disability which warrants the continuation of assistance)
- The IV-E agency determines the parent is no longer legally responsible for the support of the child
- The IV-E agency determines the child is no longer receiving any support from the parents

**Evaluation of Results:** Did you identify any control deficiencies? No

### 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.

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**Procedure Step:** Family Time A-B. Activities Allowed/Cost Principles - Controls  
**Prepared By:** JDP, 10/27/2022  
**Reviewed By:** MKH, 10/28/2022

## 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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

### Source:

Cost Allocation and Grant Manager, Leon Terao  
Audit Liaison, Stefanie Niemela

### Conclusion:

Based on our understanding of internal controls over Activities Allowed and Cost Principles, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess **preliminary control risk as high and will report a finding for a material weakness**. No internal control testing is necessary in this instance. We determined that controls were not in place to ensure that supporting documents for invoiced costs were reviewed. We will issue a control finding for a repeat issue (See: 2022-048 The Department of Children, Youth, and Families did not have adequate internal controls to ensure payments to providers for travel and family visits were allowable and adequately supported for the Foster Care program.)

## 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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).

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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).

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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.

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**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:

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

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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 circumstances in the following sections of this part:

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- (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 treated as a direct cost, a department should only request reimbursement for this type of cost if permitted under the terms of its grant



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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)<br/>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 <b>types</b> 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 <b>only</b> 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 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.

**Note: New provisions that have been added to UG:**

2CFR 200.215 – Never contract with the enemy (effective November 12, 2020)

2CFR 200.216 - Prohibition on certain telecommunications and video surveillance services or equipment (Effective August 13, 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.

During our meeting we learned about the process of how Travel and Family visits are assigned to providers. What happens is Department has specific regions with providers for travel and family visits they can assign to when a visitation plan is created. Visitation plans are details of the visit plan for the child and parent(s). The specialist will create the visit plan based on court documents and other information to ensure the safety of the child. At the end of every night there is a nightly upload of all visit plans to Sprout. This is where the provider is assigned their cases and then subcontracts these out to vendors for travel and visits. When the travel is completed, the subcontractor sends a visit report to the provider to compile with other visit reports for their payment. These visit reports have detailed information that is then uploaded into Sprout at summary level and then processed by DCYF for payment.

**Payments for Transport and Sibling Visitation Activities:**

Payments to contractors are allowable for the purpose of providing transportation for family and sibling visits of foster care children. The Department utilizes FamLink and Sprout to provide these travel services to foster care children. Before a payment for Travel/Sibling Visitation can occur a Social Service Specialist creates a visit plan that provides the court ordered visit schedule. The Social Service Supervisor will review and approve Visit Plans prior to assigning a contracted provider to provide the service to ensure travel sibling visitation is provided to children with allowed travel visitation rights. **(Control Activities)**.

When the contracted provider completes the transport, they submit the visitation information into Sprout which includes the details of visit and the visit report which includes details of the visit. The completion of the Visit Report enables the contracted provider to be able to claim reimbursement for expenses related to the visit, such as travel time, mileage, and other expenses. Sprout then created the invoice, based on the built in fee table, that is then submitted to the contracted provider for verification. Once the Contracted provider completes the verification of their invoice its forwarded to the fiduciary office for payment. The payment sent to the fiduciary is a summary level form that does not include supporting documentation for the payment. The fiduciary reviews the payment processed

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through SPROUT to ensure the payment is allowable and accurate prior to releasing payment. **(Control Activities)**. We asked the Department who ensures that these summary level reports are monitored to ensure that the invoices are supported. We found the Contracts Compliance team monitors contracts. See the Contract Monitoring section for details of contract monitoring.

## **Contract Monitoring**

We met with Stephen Cotter, Rachel Denny, Richard Morgan, and David Sexton, on August 18th, 2022 to discuss the Contract Monitoring that was in place during SFY22. Because of COVID and staff shortages the Contracts team was unable to complete all contracts that were required to have a Comprehensive Compliance review in SFY21, however in SFY22 the Department had begun catching up on SFY21 reviews and working on SFY22 reviews. The Contracts team became fully staffed on September 2021. Of the 29 SFY21 and SFY22 reviews that needed to take place, 9 of them had been completed with another 2 in the process of being completed. We spoke with them about how risk assessments are done and the Department does not do risk assessments on individual contractors. This is because the risks are considered the same across contracts, however, a risk assessment on a larger scale is performed at different contract types. In addition to Comprehensive Compliance Reviews. The Department also performs desk monitoring where a more general review occurs.

### *Comprehensive Compliance Review*

The Department is required to complete a comprehensive compliance review on a family time contractor at least once every four years. The Department has a list of all active contractors and then randomly assigns numbers to the contractors signifying when they will be audited in that 4 year period. The Comprehensive Compliance review is a review of the contractors policies and procedures. When documents are reviewed it is to verify that they are in compliance with the contract. For example when Family Time is reviewed, was a visit report completed, and did the dates and times coincide with the visit. When we asked about billing, the Department stated that due to the large number of contractors to review and the time it would take to review supporting documentation that supporting documentation for billing is not reviewed.

### *Desk Monitoring*

When desk monitoring is performed, the Department reviews documentation of policies, verifies if there is a separate billing agent for the contractor. a bit confusing They will also verify that there is a process in place for the contracted services to ensure that the information that is provided is reliable.

## **Control Weakness**

During our discussion of both types of fiscal monitoring that was occurring, we were informed that there is no review of actual supporting documents. Supporting documents will be reviewed if complaints are submitted, or the fiduciaries notify the Contract Monitoring team to look at billings. **(Control Weakness)**.

## **Prior Year Finding**

In SFY21 we determined that The Department of Children, Youth, and Families did not have adequate internal controls over and did not comply with level of effort requirements over Allowable Activities and Cost Principles (See: Finding 2021-040). The Department has not yet completed its Corrective Action Plan for this finding (see: 307 DCYF 2021-014 Foster Care Activities Allowed Travel Expenses CAP).

## **Summary of Key Controls**

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**Key Control #1 (Control Activities)** - The Social Service Supervisor will review and approve Visit Plans prior to assigning a contracted provider to provide the service to ensure travel sibling visitation is provided to children with allowed travel visitation rights.

**Key Control #2 (Control Activities)** - The fiduciary reviews the payment processed through SPROUT to ensure the payment is allowable and accurate prior to releasing payment. can we do this

**Key Control Weakness** - The fiscal monitoring is not sufficient enough to ensure family time related payments were for allowable activities, accurate and supported. Supporting documents will be reviewed if complaints are submitted, or the fiduciaries notify the Contract Monitoring team to look at billings. **(Control Weakness).**

**Evaluation of Results:** Did you identify any control deficiencies? Yes

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 **more than remote** and the magnitude of potential noncompliance is **material**.
2. Conditions are the same as for the control finding in prior year.

### **Preliminary Control Risk Assessment**

#### **Step 4**

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). We will issue a finding for a material weakness (See. 2022-048 The Department of Children, Youth, and Families did not have adequate internal controls to ensure payments to providers for travel and family visits were allowable and adequately supported for the Foster Care program.)

### **D.16.PRГ - 93.658-Foster Care-Title IV-E - DCYF**

**Procedure Step:** E. Eligibility - Controls

**Prepared By:** CL, 1/6/2023

**Reviewed By:** MKH, 4/21/2023

Purpose/Conclusion.

#### **Purpose:**

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that only eligible individuals and



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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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to eligibility of participants.  
To provide a preliminary control risk assessment based upon our understanding of the internal controls.

### **Source:**

Stefanie Niemela- Audit and Policy Liaison  
Kerrienne Vincent, Background Check Program Manager  
Charles Meach, Background Check Operations Analyst  
Melanie Meyer, Administrator, Adoption Programs  
Lindsay LeFever, Adoption Support Program Manager  
Becky Taylor, QA Program Manager  
Ivy Martinez, Title IV-E Training and Policy Program Manager  
Bob Ensley, Manager of Federal Funding

### **Conclusion:**

Based on our understanding of internal controls over Eligibility, we assessed preliminary control risk as low. We will issue an exit item for the control weakness and recommend the Department begin reperforming quarterly secondary reviews of eligibility workers (See. )

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

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

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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**

To determine the program's specific eligibility requirements, we examined Part 4 of the 2022 Compliance Supplement and the Title IV-E Desk Guide.

For the Department to receive a IV-E reimbursement to support a child in Foster Care, the child must be IV-E eligible and services must be IV-E reimbursable.

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Eligibility is determined based upon the child's custodial and socio-economic circumstances (AFDC eligibility), court findings that it was contrary to the welfare of the child to remain in the home and court findings that the Department made reasonable efforts to prevent the removal of the child.

Reimbursability is based upon licensure of the foster home and periodic court findings every twelve months that demonstrate that the Department made reasonable efforts to permanently place the child in a suitable home.

During the meeting, we discussed the internal controls identified in the internal control letter (See: Internal Control request letter - Eligibility & Foster Care Internal Control request letter - Eligibility).

### Initial Eligibility

IV-E Eligibility begins by the Department making a determination of initial eligibility. For a child to be initially eligible, the following conditions must be met:

- A valid judicial determination authorizing removal that contains a contrary to welfare (CTW) finding, or...
  - A voluntary placement agreement (VPA) authorizing removal. If the child's removal was the result of a VPA, a judicial finding that it is in the child's best interest to remain in foster care must be issued within 180 days.
- A court determination obtained within 60 days stating either that the Department made "reasonable efforts to prevent removal" or that such efforts were imprudent due to the child's circumstances. (*An REPR is not required for a child who entered foster care via a VPA*).
- The Department or IV-E participating Tribe has sole responsibility for placement and care of the child (i.e. "placement & care authority" or "PCA")
- The child must be under the age of 18, unless participating in extended foster care EFC and have U.S. citizenship or qualified alien status.
- The child must meet the eligibility requirements of the former Aid to Families with Dependent Children (AFDC) program, which is determined on three different criteria:
  - The child must have been living with a relative of specified degree.
  - Child must be deprived of dual parental support due to death, absence, disability/incapacity, or unemployment of principal wage earner.
  - The income level and resources of the home from which the child was removed must not exceed the applicable AFDC standard.
    - Note: Effective October 1, 2018, the AFDC requirement is not applicable if the Department placed the child with a parent residing in a licensed residential family-based treatment facility for substance abuse. (*In this case the child would be in foster care under the placement and care authority (PCA) of the Department but would be placed with their parent because, in the Department's judgement, it was in the best interest of the child to do so.*)

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## **Reimbursement Eligibility**

The establishment of initial title IV-E eligibility does not automatically permit the Department from claiming the FFP reimbursement under title IV-E. A child who has met all criteria for initial title IV-E eligibility must also meet the applicable reimbursement eligibility criteria before any IV-E reimbursement may be claimed. IV-E reimbursability of a IV-E eligible child may fluctuate throughout the duration of the foster care placement episode, depending on whether the criteria for IV-E reimbursement are met.

- The Department must continue to have sole Responsibility for Placement and Care. (demonstrated in the court re-determination document).
- The Department must make reasonable efforts to finalize a permanent placement Plan within 12 months of the child entering foster care and every 12 months thereafter (demonstrated in a court order).
- Child must be placed in a fully licensed foster home or childcare institution. The licensure must include:

### For a Licensed Foster Home

- The Foster family home provider must have satisfactorily met a criminal records check
- The foster family home provider must have satisfactorily met a fingerprint-based background check
- The Department must check or request a check of a State-maintained child abuse and neglect registry in each state in which the prospective foster parents and any other adults living in the home have resided in the preceding five years.

### For a Licensed Childcare Institution

- The licensing file for the institution must contain documentation which verifies that safety considerations with respect to the staff of the institution have been addressed. Effective October 1, 2018, the licensing file of the childcare institution must consist of proof that all adults working therein must have satisfactorily passed a nationwide fingerprint-based background check and a child abuse and neglect registry check.

All eligibility requirements must be met prior to claiming any federal reimbursement. Claiming may begin effective the first day of placement in the month in which all title IV-E eligibility and reimbursability criteria are met.

## **Background Check & Safety Requirements**

Effective October 1st, 2006, the Department's licensure process must include a FBI fingerprint-based criminal record check for Foster Family

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Home Providers and Household Members 18 years or older. The result must determine the provider/household member has not committed any of the following felonies: (outlined in 42 USC 671(a)(20)(A)(i) and (ii)).

- Child abuse or neglect
- Spousal abuse
- A crime against children (including child pornography)
- A crime involving violence, including:
  - Rape
  - Sexual assault
  - Homicide
  - Physical assault, within the past five years
  - Battery, within the past five years
  - Drug-related offense, within the past five years

Effective October 1st, 2006, the Department must include a check of the State's child abuse and neglect registry in their licensure process. The check is intended to ensure the prospective adoptive parent(s) and any other adult residing in the home in the preceding five years have not been added to IV-E State's child abuse and neglect registry.

With regard to child-care institutions and group care facilities, the compliance supplement states the Department must retain documentation that verifies that "safety considerations with respect to staff of the institution have been addressed (45 CFR 1356.30(f)).

Effective October 1, 2018 "safety considerations" in the licensing file must consist of proof that all adults working in the institution have undergone and successfully passed:

- Fingerprint-based record checks against the National Crime Information Center (as defined in section 28 USC§53(f)(3)(A))
- Child abuse and neglect registry checks for all adults working in the child-care institution were conducted

On July 13, 2022 we met with Stefanie Niemela, Kerriane Vincent, and Charles Meach to gain an understanding of the Department's Background check process. The background check unit only performs background checks requested by social workers in the field after applicants have completed a background check authorization form. There are different types of background checks based on need. The request goes into Background Check System (BCS), if necessary BCS generates fingerprint appointment form to be sent to applicant. Those who had conditional approval without fingerprint check under Covid proclamation need to fingerprint after June 1, 2022 or lose approval.

### **Extended Foster Care**

Based on the provisions of the Fostering Connections to Success and Increasing Adoptions Act of 2008, Washington extends foster care support to eligible youth under the age of 21, through the Extended Foster Care Program (EFC). As with regular foster care support, a child in Extended Foster Care, must be IV-E eligible and IV-E reimbursable. Additionally, there is a set of special eligibility requirements as well.

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## **IV-E Eligibility & Reimbursability**

Although all Title IV-E Eligibility & Reimbursability requirements are technically still in place, some of them are modified for the EFC program. The exceptions are listed below:

- Age: A youth in EFC must be at least 18 years of age, but no more than 20 years of age.
- AFDC Eligibility: AFDC eligibility for extended foster care is based on the youth without regard to his/her parents or others residing in the home from which the youth was removed.
- Placement and Care Authority: Even though he or she may be living independently, a youth in extended foster care is considered to be a child who is under the placement and care responsibility of the Title IV-E agency.
- Parental Deprivation: If a youth is participating in extended foster care, the parental deprivation requirement is considered to have been met.

## **Special EFC Eligibility Requirements**

In addition to the modified eligibility and reimbursability requirements, eligible youth must meet any one of the following criteria:

- Enrolled in high school, GED, or other equivalent secondary education program
- Enrolled in post-secondary education program (such as college or vocational school)
- Enrolled in a program or activity designed to promote employment or remove barriers to employment (such as Job Corps).
- Employed 80 hours or more per month, or
- Not able to engage in any of the activities described above due to a documented physical or mental medical condition.

## **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 July 26, 2022 we met with:

Stefanie Niemala, Audit and Policy Liaison

Melanie Meyer, Administrator, Adoption Programs

Lindsay LeFever, Adoption Support Program Manager

Becky Taylor, QA Program Manager

Ivy Martinez, Title IV-E Training and Policy Program Manager

Bob Ensley, Manager of Federal Funding

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to discuss eligibility for the Foster Care program.

### **The children receiving foster care support are eligible**

To ensure the Department only claims IV-E reimbursement on benefits paid on behalf of eligible recipients it employs two separate processes, the initial determination process and the redetermination process. The Department has documented the procedures thoroughly in the Title IV-E Desk Guide.

### **Initial Determination**

IV-E Specialists, who are stationed throughout the state, screen all new foster care cases for IV-E eligibility. FamLink (the Department's Child Welfare Database) sends an automated email to a Title IV-E Specialist in the child's geographic area each time a social worker inputs an out-of-home foster care placement into FamLink.

The IV-E specialist opens the case by documenting the opening date on an excel sheet and then begins gathering information from systems such as FamLink, ACES and Barcode to make the eligibility determination. The IV-E Specialist utilizes a IV-E Initial eligibility checklist to ensure all requirements have been considered before making the determination. To ensure that all eligibility requirements are reviewed the department utilizes the Title IV-E Module and it includes all eligibility requirements **(Information/Communication)**. To make the determination, the IV-E specialist performs the following steps:

- Obtains the judicial determination or VPA from the child's social worker and checks to ensure the document states
  - That it was contrary to the welfare of the child to remain in the home
  - That the Department made reasonable efforts to prevent removal of the child within 60 days of removal. Or in the event of a voluntary placement agreement (VPA), a judicial finding that it is in the child's best interest to remain in foster care, issued within 180 days of removal.
  - That the Department has sole placement and care authority of the child
  - Verifies the child's age and citizenship status by consulting one or more databases to which the Department has access. *Note: The IV-E specialist can accomplish this by obtaining a birth certificate, which may already be present in one of the Department's databases.*
  - Verifies the licensure status of the foster home or institution into which the child was placed.
- They also verify, that the income and resources of the home from which the child went to determine if they meets the eligibility requirements of the former Aid to Families with Dependent Children (AFDC) program.
  - Establish an eligibility month
  - Identify an AFDC Linkage Home
  - Identify and verify the child's parental deprivation factor
  - Identify the child's AFDC Assistance Unit



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- Identify and evaluate the income and resources of the child's Assistance Unit.

To ensure that the IV-E specialist completed the eligibility determination for an individual in the foster care program they follow the 4E Module in Famlink and have a narrative to describe all the eligibility requirements, within this module we can see the day the eligibility was determined, who completed it, a redetermination tab, and a narrative of what was reviewed (**Control Activities**).

### Redetermination

In order to determine if the IV-E eligible children continue to be reimbursable throughout their time in foster care, a IV-E Specialist conducts a review the IV-E file of each child in their caseload at 180 day intervals; this review is called a redetermination.

During the redetermination, the IV-E Specialist performs the following steps:

- Ensures the sole responsibility for placement and care of the child remains with the Department.
- Ensures the child is still placed in a fully-licensed foster family home or child care institution.
- Ensures the child is not receiving SSI benefits or does not have an SSI application pending.
- Ensures the required judicial finding of contrary to welfare (CTW) is present. ***Note:** This is only done at the initial determination unless the child entered via VPA, in which case it can be documented at time of initial or at review depending on when the finding was made.*
- Ensures the Department has made reasonable efforts to finalize the permanent plan (REPP) of a child who entered foster care on a court order within 12 months and every 12 months thereafter.
- Or, for a child who entered foster care on a VPA, ensures a judicial finding that it is in the child's/youth's best interest to remain in foster care was obtained within 180 days of placement.
- Or, for youth over the age of 18 participating in Extended Foster Care, a judicial finding that it is in the youth's best interest to remain in Extended Foster Care. ***Note:** This is not required if the youth was in foster care at age 18 and continued into EFC with no break in placement.*

FamLink will continue to make the recurring subsidy payments until an automated system control suspends Foster Care Payments on the child's 18<sup>th</sup> birthday (**Automated/Control Activities**)

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- The child turns 18 years old. (Or 21 if the IV-E agency determines the child has a mental or physical disability which warrants the continuation of assistance)
- The IV-E agency determines the parent is no longer legally responsible for the support of the child
- The IV-E agency determines the child is no longer receiving any support from the parents

### IV-E Quarterly Peer Review

The Department has outlined its documentation standards in section seven of the Title IV-E Desk Guide. These standards reduce the likelihood that the Department will request IV-E reimbursement for foster care recipients who are not IV-E eligible. To ensure IV-E staff are accurately determining eligibility and documenting said determinations consistently, management in the Federal Funding Unit perform a quarterly cross-regional peer review.

Each quarter the Federal Funding Manager, Bob Ensley, or his designee, randomly select three cases from the case load of each of its 33 IV-E specialist and assigns them to other IV-E Specialists in different regions with instructions to review the case for accuracy and consistency.

The reviewer documents their work using the MS Access-based IV-E review tool and posts the results to a SharePoint site. Bob examines the results and informs the regional managers who work with the IV-E specialists to resolve any errors identified during the review

Because COVID-19 the Department has stopped performing quarterly secondary reviews of Title IV-E specialists. **(Control Weakness)** See

We discussed this Key Control Weakness with the Department. During the meeting, the Department stated that because COVID-19 pandemic moved workers work from home the Department was unable to perform secondary review they used to perform because documents are coming in variety of formats, secondary review was not feasible. However, the Department informed us that the Departments Eligibility workers are long term and normally do not resign or move to new positions and most workers have years of experience determining eligibility. In addition to the staff being knowledgeable due to service time. The eligibility supervisors will audit 100% of a new employees determinations until the supervisor determines that the worker is completing claims properly and accurately. To ensure that staff are determining eligibility properly prior to new staff being released to work on eligibility determinations on their own supervisors will review 100% of staff work for accuracy **(Control Activities)**.

The Department will be performing quarterly review of eligibility determination in SFY 2023.

### Background Checks and Safety Requirements

#### Group Care Facilities (Employees background checks)

Group Care is a general term for a licensed facility that is maintained and operated for a group of children on a twenty-four hour basis to provide

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a safe and healthy living environment that meets the developmental needs of the children in care.

Group Care Facilities are not a permanent home for Foster Children, however they provide a higher level of care for the children that are in these facilities. These facilities do not have a home study either. These licenses are renewed every three years. The employees in the all need to have received background checks prior to working in the facility. Before becoming a licensed group care facility the Department requires the facility to complete an application to become a group care facility. To ensure that the facility has met the requirements to become a Group Home the Department completes a Group Home Checklist to verify that the facility is compliant before receiving funds and that background checks were completed, the review is documented by Department Staff and reviewed by the supervisor before who notifies the facility in writing and provides them with a license number, Famlink also has built in segregation of duties controls where the licenser cannot approve their own work and license the facility. **(Control Activities)**.

The renewal process is the same as the initial application.

### Provider Licensing (Foster Family Homes)

For traditional foster homes, the Department conducts necessary background checks during the provider's home study. The Department administers the home study in order to determine whether a provider is suitable to care for a foster or adoptive child. The home study evaluates a provider's character, home environment and criminal background. All potential foster care and adoption providers must agree to and successfully pass a home study before the Department will place a foster/adopted child with a provider. Two divisions in the Department collaborate to complete the home study, the Division of Licensed Resources (DLR) and the DCYF Background Check Unit (BCU).

*Note: In some situations, the court will place a child with a relative before the Department can complete a home study. In these situations, the Department is required to complete an in-state name/DOB-Based Background check prior to placement.*

DLR begins the home study process upon receiving an application and background check from the potential provider. A DLR social worker, known as a Licenser, uses a standardized checklist to ensure they administer the home study according to policy. Upon receiving the application, the Licenser forwards the potential provider's background check authorization form and Out of State Child Abuse & Neglect check (OOS CA/N) form to a centralized inbox at DCYF BCU where a Background Check Specialist begins performing the required background checks. The Licenser also arranges for the provider and all household members age 18 or older to submit their fingerprints.

After the Specialist has performed the required background checks, they update the background check tab in FamLink to indicate the type of background check (i.e. fingerprint, in-state or child abuse and neglect registry) and if the applicant passed or did not pass and provide the Licenser with a results summary.

After the licenser receives the summary and completes the checklist, they submit the home study to their supervisor for review and approval. The supervisor examines the licenser's work to ensure the home study contains all necessary elements, including the mandatory background checks.

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If the supervisor approves the licensor issues the license number and notifies the provider in writing. Foster Home Licenses are valid for three years. To ensure that the Provider has met the requirements to become a Foster Family Home the Department completes a Foster Home Licensing Checklist to verify that the facility is compliant before receiving funds and that background checks were completed, the review is documented by Department Staff and reviewed by the supervisor before who notifies the facility in writing and provides them with a license number, Famlink also has built in segregation of duties controls where the licensor cannot approve their own work and license the facility.

### **(Control Activities)**

The renewal process is the same as the initial application.

### **Basic Foster Care Payments and Special Receiving Care**

To ensure Basic Foster Care payments and Special Receiving Care payments to providers for Foster Care children are accurate and allowable the Social Worker utilizes the Social Worker Placement Entry Tool or the Child Location App and the Foster Care Rate Assessment/contracted special receiving care contract to get their placement entered and their rate, its then reviewed by the clerical worker and sent to the fiduciary for entry of the placement **(Control Activities-Automated Control)**

Prior to the onset of Covid, the Department had a peer review process that involved the teams from each of the six locations reviewing random cases approved by the other locations. Because this involved the team coming together to look at paper files, this monitoring control ceased, but the Department is hoping to resume these regular reviews in fall of 2022.

The Department found that during the public health emergency a number of cases were denied because of pandemic related instability that should have been approved. They are reviewing these cases to ensure licenses can be issued in these cases if appropriate.

The Department has found that certain active payable cases are not being reimbursed by the Federal government. They have described this as a glitch in Famlink in which payments are not aligned with eligibility. As these cases are discovered by IV-E Specialists they are referred for review and correction. The foster care families are receiving appropriate payment, but the State is not being reimbursed in these cases.

### **Summary of Key Controls**

**Key Control #1** - To ensure that all eligibility requirements are reviewed the department utilizes the Title IV-E Module and it includes all eligibility requirements. To ensure that the IV-E specialist completed the eligibility determination for an individual in the foster care program they follow the 4E Module in Famlink and have a narrative to describe all the eligibility requirements, within this module we can see the day the eligibility was determined, who completed it, a redetermination tab, and a narrative of what was reviewed **(Control Activities)**.

**Key Control # 2** - FamLink will continue to make the recurring subsidy payments until an automated system control suspends Foster Care Payments on the child's 18<sup>th</sup> birthday **(Automated/Control Activities)**

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**Key Control #3** - To ensure that the facility has met the requirements to become a Group Home the Department completes a Group Home Checklist to verify that the facility is compliant before receiving funds and that background checks were completed, the review is documented by Department Staff and reviewed by the supervisor who notifies the facility in writing and provides them with a license number, Famlink also has built in segregation of duties controls where the licensor cannot approve their own work and license the facility **(Control Activities)**.

**Key Control #4** - To ensure that the Provider has met the requirements to become a Foster Family Home the Department completes a Foster Home Licensing Checklist to verify that the facility is compliant before receiving funds and that background checks were completed, the review is documented by Department Staff and reviewed by the supervisor who notifies the facility in writing and provides them with a license number, Famlink also has built in segregation of duties controls where the licensor cannot approve their own work and license the facility. **(Control Activities)**

**Key Control #5 (Control Activities - Automated Control)** - The FamLink rate assessment tool determines the foster care rate level based on parameters entered by social workers.

**Control Weakness #1** - Because COVID-19 the Department has stopped performing quarterly secondary reviews of Title IV-E specialists.

**Mitigating Control #6 - (Control Activities)** - To ensure that staff are determining eligibility properly prior to new staff being released to work on eligibility determinations on their own supervisors will review 100% of staff work for accuracy

**Evaluation of Results:** Did you identify any control deficiencies? Yes

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. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **remote** and the magnitude of potential noncompliance is **less than material**.

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

After discussion with the Department and the identification of a mitigating control we believe the risk of non-compliance is Low and will proceed with testing of controls and compliance to determine if controls were sufficient to ensure compliance. We will issue an Exit Item for the Control Weakness and recommend the Department begin reperforming quarterly secondary reviews of eligibility workers (See.

### **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.

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## D.16.PR.G - 93.658-Foster Care-Title IV-E - DCYF

**Procedure Step:** L. Reporting - Controls

**Prepared By:** CL, 8/24/2022

**Reviewed By:** MKH, 9/26/2022

### 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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

#### **Source:**

Stefanie Niemela- Audit and Policy Liaison

Leon Terao- Cost Allocation Grants Manager

#### **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.*

### **AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

#### **Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at [USAspending.gov](https://www.usaspending.gov) as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

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**(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).

### 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

**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:



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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).

### **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)<br/>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**

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

We examined part four of the 2022 compliance supplement, which listed the following applicable areas:  
Form CB-496, Title IV-E Programs Quarterly Financial Report:

- Part 1, Expenditures, Estimates and Caseload Data, columns (A) through (D)
- Part 2, Prior Quarter Expenditure Adjustments – Foster Care, columns (A) through (E)
- Part 3, columns (A) through (F)

## **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 with their internal controls over Reporting on June 2, 2022 (See. [Internal Control request letter - Reporting](#)) and received a response on June 23, 2022 (See. [Foster Care Internal Control request letter Response- Reporting](#)).

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July 12, 2022 we met with Stefanie Niemela and Leon Terao to gain an understanding of the Department's reporting process and key controls. During the meeting, we discussed the internal controls identified in the internal control letter. We also asked they note any discernable differences between how the reporting for Adoption and Foster Care may differ in which, they reported that they used different coding to run the reports but the overall process is the same.

The Cost Allocation Grants Manager examines the Department's chart of accounts/expenditure-codes in relation to the CB-496 instructions and prepares a crosswalk-document that lists the reporting criteria (i.e AFRS expenditure coding and/or other info) to ensure that it will produce the information needed for each line of the CB-496 and signs the crosswalk indicating its approval for use. **(Control Activities)** After the Cost Allocation Grants Manager (CAGM) has the crosswalk, they obtain the applicable child count information from the Data unit, who acquires the information from FamLink via SQL Server query. To ensure the child count is correct the CAGM reviews the sequel query data to ensure that it is for the correct period **(Control activities)**. The CAGM then follows the instructions in the crosswalk and prepares the CB-496 report using a combination of source reports from AFRS and child count information for each line and records the information on a draft of the CB-496 reporting form in the ACF Online Data and Collection Center (OLDC) . The CAGM then sends the expenditure, child count information, and the draft report to the Cost Allocation Manager for review. The Cost Allocation Manager reviews backup documentation to ensure it was derived from the instructions in the crosswalk, and that the supported-figure ties to the number on the draft report. Once the review is complete, the Cost Allocation Manager certifies and submits the report in OLDC indicating their review **(Control Activities)**.

Note about tribal expenditure information: The Lummi and Quinault Indian Tribes, which are the only tribes participating in the state's IV-E program, use separate FMAP rates for maintenance payments that differ from the state FMAP rate. The Department accounts for these tribal payments under two distinct COBJ codes. However, the cost allocation system (CAS) does not automatically allocate tribal maintenance payment-costs to these COBJs based on the respective tribal rates. This is because programming FamLink (which is where the CAS gets the information to know how to split the cost) to account for more than one FMAP rate would be prohibitively difficult. Therefore, FamLink codes all payments (including tribal payments) at the state FMAP rate, which the CAS allocates accordingly at 50/50 Fed/State. The cost allocation staff then retroactively correct the amounts via JV based on payment data provided by the data unit. Because it is possible to program FamLink to track tribal affiliation, the Data unit writes a SQL query to identify all maintenance payments made to recipients who were affiliated with the tribes during the reporting period. The cost allocation staff then use this information to JV the funds to the Quinault and Lummi COBJs respectively.

### Summary of Key Controls:

**Key Control #1-Control Activities:** The Cost Allocation Grants Manager examines the Department's chart of accounts/expenditure-codes in relation to the CB-496 instructions and prepares a crosswalk-document that lists the reporting criteria (i.e AFRS expenditure coding and/or other info) to ensure that it will produce the information needed for each line of the CB-496 **(Control Activities)**

**Key Control #2-Control Activities:** To ensure the child count is correct the CAGML reviews the sequel query data to ensure that it is for the correct period **(Control Activities)**

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**Key Control #3-Control Activities:** The Cost Allocation Manager reviews backup documentation to ensure it was derived from the instructions in the crosswalk, and that the supported-figure ties to the number on the draft report. Once the review is complete, the Cost Allocation Manger certifies and submits the report in OLDC indicating their review (**Control Activities**).

**Evaluation of Results:** Did you identify any control deficiencies? No

## 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.

## D.16.PRГ - 93.658-Foster Care-Title IV-E - DCYF

**Procedure Step:** N. Special Tests and Provisions - Payment Rate Setting & Application - Controls

**Prepared By:** CL, 1/6/2023

**Reviewed By:** MKH, 1/11/2023

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: Payment Rate Setting and Application

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to Payment Rate Setting and Application.

To provide a preliminary control risk assessment based upon our understanding of the internal controls **for each Payment Rate Setting and Application.**

### **Source:**

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Stefanie Niemela, Audit Liaison  
Hung Tang, State Plans Manager  
Tim Kelly, Rates and Methods - Fiscal  
Charles Wang, Rates and Forecast Senior Administrator  
Kristin Messner, Fiscal Integrity Manager  
Chris Morrison, Fiscal Integrity Unit Manager

## **Conclusion:**

### **Special Test #1 - Payment Rate Setting and Application**

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 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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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***

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*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**

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, and any available program guidelines to determine specific requirements for Special Tests and Provisions.

## **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 internal control in a letter and received the following response (See. [Foster Care Internal Control request letter - Special Tests and Provisions](#))

We met with DCYF Staff to ensure it complies with federal requirements, the Department has hired two state plans coordinators. The Coordinators

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are responsible for being knowledgeable of the compliance requirements and updating the Departments Operation and policy manual and Title IV-E State Plan with the maintenance and administrative cost rates, rate methodology (to ensure allowability) and frequency of reviewing rates (to ensure continued appropriateness).

The Department has policies and procedures for establishing foster care maintenance and administrative rates that will ensure rates are properly determined and allowable **(Control Activities)**.

The Department has established rate structures for regular foster care maintenance payments, Behavioral Rehabilitation Service (BRS), and administrative service and management fees and they perform an economic analysis every four years to determine rates. To ensure that rates are allowable rates for foster care maintenance and administrative costs are updated in a timely manner, the Department maintains a rolling 3 year calendar invite to ensure they perform the analysis every 4 years **(Control Activity)**.

Foster Care Maintenance Payments: The Department established the regular foster care rate structure based on the U.S. Dept. of Agriculture (USDA) average monthly costs for 2 parent/2 child households. It is a four tiered structure with levels 2 - 4 assigned to foster parents who provide care to children who require a greater amounts time to meet the needs of the child.

Washington Foster Care Rates are listed on the Department's [website](#) and are outlined below.

| Age of Child  | Basic    | II (includes Basic Rate) | III (includes Basic Rate) | IV (includes Basic Rate) |
|---------------|----------|--------------------------|---------------------------|--------------------------|
| 0 to 5 years  | \$672.00 | \$849.92                 | \$1,195.51                | \$1,474.30               |
| 6 to 11 Years | \$796.00 | \$973.92                 | \$1,319.51                | \$1,598.30               |
| 12 & Older    | \$810.00 | \$987.92                 | \$1,333.51                | \$1,612.30               |

WAC 110-50-0440 requires the Department to use the Foster Care Rate Assessment Tool, to determine the foster care rate that the Department will pay on behalf of the child. The tool uses an algorithm to analyze the needs of the child and the foster parent's ability and time required to meet those needs ( WAC 110-50-0510) . The assessment tool does this by considering the average number of hours the foster parent spends in caring for the child that are beyond those expected for a typically developing child of the same age, (WAC 110-050-0480). After the assessor inputs the information, the Assessment Tool calculates the child's rate based on the hours and weight of each domain.

Behavioral Rehabilitation Services: The Department does not "calculate" BRS with a logic matrix like regular foster care. Instead, the BRS Regional Manager and the BRS provider discuss the child's needs and select a pre established rate. The rate the Department will pay a BRS



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provider is determined through a negotiation between the provider and the BRS Regional Manager. In this negotiation, the two individuals discuss the child's condition, as documented by the child's social worker. After the manager and the provider have agreed upon a service level/rate, the manager will document the negotiated rate in FamLink.

**Administrative Payments Rates:** For services other than foster care maintenance payments, the Department has established a set of administrative payments rates. These rates have been established to pay private vendors for providing services to foster children. The Department has established rates for day Care, child placement agency (CPA) Management Fees and Visit Services.

(Note: private vehicle mileage reimbursement for foster parents and volunteers is reimbursable at the rates outlined in the SAAM Manual, Chapter 10.9. When changes to these rates are necessary the Department is informed via OFM of mileage changes, or other financial staff notify the rate setters that changes to rates need to occur they notify the Payment and Rate Setting Group. There are two types of Family Time rate changes that occur. The first is Emergent Care. This rate is not changed through SPROUT this is invoice in excel format that will be updated and placed on the DCYF website to be used by vendors. The changes for emergent care are discussed by multiple groups. The excel document will be updated to reflect the changes that were discussed and agreed upon. When these changes have been made the groups that helped make these changes will set a final meeting to go over the changes and approve them before uploading the excel document to the DCYF website. The Payment Rate Setting Group reviews rates before uploading the rate table (Excel Document) to the DCY website to ensure that the rate changes reflect the correct amounts(**Control Activities**). The last type of family time payment is related to SPROUT Payments. These changes are more in depth and have multiple steps before being implemented into the SPROUT system. When rates are needing changes just like emergent care. The Payment and Rate Setting group will get together and update an Excel document that mimics the SPROUT database based on there discussions and new rates set for mileage ect.

This Excel document when completed is sent to the SPROUT Contractor who then makes the changes in the SPROUT system and pulls data based on the prior two months. The first month will be data before the change and the second month will be the new change. This allows Rates and Methods - Fiscal Manager, to review the changes that were made to verify that the SPROUT system is paying the correct amounts according to the changes the Payment and Rate Setting group made by running tests on the data. After the tests have been ran, the Rates and Methods Fiscal Manager, will send the tests to the Fiscal Integrity Managers team for a final review of the work prior to sending the SPROUT Contractors a message to let the update go live on the set date. The Fiscal Integrity Managers team will perform a final review of the tests showing the changes in the SPROUT data to confirm that all updates were accurate and complete before sending a confirmation to the SPROUT Contractor (**Control Activities**).

To ensure the Department pays the correct rates for these services, they rely on the fiduciary specialist to review the vendor's invoice before the Department makes a payment. To ensure Basic Foster Care payments and Special Receiving Care payments to providers for Foster Care children are accurate and allowable the Social Worker utilizes the Social Worker Placement Entry Tool or the Child Location App and the Foster Care Rate Assessment/contracted special receiving care contract to get their placement entered and their rate, its then reviewed by the clerical worker and sent to the fiduciary for entry of the placement (**Automated Control - Control Activities**). key controls #5

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## Summary of Key Controls

**Key Control #1 (Control Environment):** The Department has policies and procedures for establishing foster care maintenance and administrative rates that will ensure rates are properly determined and allowable.

**Key Control #2 (Control Activity):** To ensure that rates are allowable rates for foster care maintenance and administrative costs are updated in a timely manner, the Department maintains a rolling 3 year calendar invite to ensure they perform the analysis every 4 years

**Key Control #3 (Control Activities):** The Payment Rate Setting Group reviews rates before uploading the rate table (Excel Document) to the DCYF website to ensure that the rate changes reflect the correct amounts **(Control Activities)**

**Key Control #4 (Control Activities):** The Fiscal Integrity Managers team will perform a final review of the tests showing the changes in the SPROUT data to confirm that all updates were accurate and complete before sending a confirmation to the SPROUT Contractor

**Key Control #5 (Control Activity - Automated Control)** - The FamLink rate assessment tool determines the foster care rate level based on parameters entered by social workers.

**Evaluation of Results:** Did you identify any control deficiencies? No

## 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.[key control #3](#)

## E.5.PR.G - 21.023-Emergency Rental Assistance Program - COM

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

**Prepared By:** DLR, 1/19/2023

**Reviewed By:** CCM, 1/20/2023

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## 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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

### **Source:**

Kathy Kinard, Office of Family and Adult Homelessness Manager

Kathryn Dodge, Treasury Rent Assistance Program Manager

### **Conclusion:**

Based on our understanding of internal controls over Activities Allowed and Cost Principles, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess **preliminary control risk as high and will report a finding for a material weakness**. No internal control testing is necessary in this instance. See 2022-016 The Department of Commerce did not have adequate internal controls over and did not comply with requirements to ensure payments to subrecipients of the Emergency Rental Assistance program were allowable and properly supported.

## 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.

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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.

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

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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.]

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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).

## 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

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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;

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;

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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 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.



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## **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;
- (g) §200.332 Fixed amount subawards;
- (h) §200.413 Direct costs, paragraph (c);
- (i) §200.430 Compensation—personal services, paragraph (h);

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- (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.

#### **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

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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)<br/>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                              |

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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 <b>types</b> 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 <b>only</b> 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.

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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.

**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.

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**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.
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

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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.

#### **Note: New provisions that have been added to UG:**

2CFR 200.215 – Never contract with the enemy (effective November 12, 2020)

2CFR 200.216 - Prohibition on certain telecommunications and video surveillance services or equipment (Effective August 13, 2020)

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## **Inherent Risk of Noncompliance**

### **Step 1**

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 risks when designing our tests of compliance.

- The Emergency Rental Assistance Program (ERA) is considered a "higher risk" program in the 2022 Compliance Supplement.
- ERA is a new program launched on January 5, 2021.
- Treasury guidance was initially released in January 2021 and last updated in June 2022.

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 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:

#### **From 2022 Compliance Supplement:**

#### **Activities Allowed/Unallowed**

ERA 1 and ERA 2 funds may be used for administrative expenses, housing stability services, and financial assistance on behalf of an eligible household, as defined in the Treasury guidance. In the case of ERA 2, after October 2022, grantees that have obligated 75 percent of their allocations may choose to use up to 25 percent of their allocation for, "other affordable rental housing and eviction prevention purposes, as defined by the Secretary, serving very low-income families." As of March 1, 2022, Treasury had not yet released guidance to further define these additional uses.

Where applicable, the final ERA 1 payment amount distributed by Treasury to the ERA 1 grantee through an ERA 1 "redirect" and/or "reallocation" process, pursuant to Treasury's Reallocation Guidance, is described on Treasury.gov. If a grantee receives redirected or reallocated funds, the funds are subject to the same requirements under the ERA 1 Award Terms previously accepted by the grantee in connection with their ERA 1 award with the addition that grantees receiving reallocated ERA 1 funds may request from Treasury an extension of their final obligation date from September 30, 2022, to December 29, 2022. Please see the ERA page at Treasury.gov and ERA FAQs ([Treasury ERA FAQ \(August 25, 2021\)](#)) for the latest guidance regarding eligible uses under ERA 1 and ERA 2.

**Administrative Expenses:** The revised Award Terms for ERA 1 and ERA 2 awards issued by Treasury permits ERA grantees to use award funds provided to cover both direct and indirect administrative costs. The cost of a grantee contacting a landlord to encourage their participation and acceptance of ERA assistance is one of many examples of an eligible administrative cost. Under ERA 1, a grantee may use up to 10 percent of the total award amount for direct and indirect administrative costs and may use up to 10 percent of the total award amount for housing stability services. Under ERA 2, a grantee may use up to 15



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percent of the total award amount for direct and indirect administrative costs and may use up to 10 percent of the total award amount for housing stability services as described below (see also FAQ 29).

**Housing Stability Services:** Under ERA 1, housing stability services includes case management and other services related to the COVID-19 outbreak intended to help keep households stably housed. Under ERA 2, housing stability services do not have to be related to the COVID-19 outbreak. For ERA 1 and ERA 2, housing stability services include those that enable households to maintain or obtain housing. Such services may include, among other things, eviction prevention and eviction diversion programs; mediation between landlords and tenants; housing counseling; fair housing counseling; housing navigators or promotoros that help households access programs or find housing; case management related to housing stability; housing-related services for survivors of domestic abuse or human trafficking; legal services or attorney's fees related to eviction proceedings and maintaining housing stability; and specialized services for individuals with disabilities or seniors that support their ability to access or maintain housing (see FAQ 23).

**Financial Assistance:** Financial assistance to households includes payment of rent, rental arrears, utilities and home energy costs, utility and home energy costs arrears, and other expenses related to housing pursuant to section 501(c)(2)(A) of the Act and section 3201(d)(1)(A) of ARPA. Please note that under the ERA1 program, award funds used for "other expenses" must be related to housing and "incurred due, directly indirectly, to the novel coronavirus disease (COVID-19) outbreak" (see section 501(c)(2)(A)(v) of the Act). However, the ERA2 statute requires that "other expenses" be "related to housing" but does not require that they be incurred due to the COVID-19 outbreak (see section 3201(d)(1)(A)(V) of ARPA). The amount of financial assistance for prospective rent cannot exceed three months under a single household application. There is no maximum dollar amount for the cumulative financial assistance that may be provided on behalf of an eligible household beyond the requirements set forth in the ERA FAQs. These requirements include that amounts paid be based on documentation of household income, leases, and equivalent forms (or for applicants unable to present adequate documentation, a written attestation from the applicant up to a monthly maximum of 100 percent of the greater of the Fair Market Rent or the Small Area Fair Market Rent for the area in which the applicant resides) and that the amount of assistance provided to any household under ERA 1 and ERA 2, including assistance provided by other ERA 1 and ERA 2 grantees cannot exceed 18 months.

Financial assistance arrears may only cover household expenses accrued on or after March 13, 2020, up to a maximum of 15 months for ERA 1 and a maximum of 18 months, under ERA 1 and ERA 2 combined. For prospective rent assistance greater than three months up to the statutory maximum of 18 months under ERA 1 and ERA 2, the household must apply to the program again and the grantee must have sufficient funds. Households may receive up to 12 months of assistance under ERA 1 and an additional three months if necessary to ensure housing stability for the household for a total of three months. This means that for ERA 1, the maximum rental arrears monthly coverage period, where applicable, is 15 months where necessary for housing stability and households may only receive up to three months of prospective rent, where applicable and qualifying (see FAQ 10).

Examples of other costs for both ERA 1 and ERA 2 include relocation expenses (including prospective relocation expenses), rental security deposits, rental fees including application and screening fees, reasonable accrued late fees, Internet service to a given rental unit, and rental bonds where necessary to avoid an eviction order, as provided in the Treasury guidance and subject to certain conditions (for example, that Internet service expenses are eligible only if grantees establish policies governing the appropriate of use for this purpose).

**Other Affordable Rental Housing and Eviction Prevention Purposes:** Treasury anticipates releasing an FAQ soon to further define these uses.

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## **Allowable Costs / Cost Principles**

The cost principles in 2 CFR Part 200, Subpart E (Cost Principles) except the 2 CFR 200.418 and 2 CFR 200.419 apply to ERA 1 and ERA 2. Under ERA 1, a grantee may use up to 10 percent of the total award amount for direct and indirect administrative costs. Under ERA 2, a grantee may use up to 15 percent of the total award amount for direct and indirect administrative costs (see FAQ 29).

## Indirect Costs

We identified indirect costs totaling \$122,425.82 out of \$437,409,569.29 total grant expenditures (less than 1%). This amount is immaterial and no further testing is deemed necessary.

## Material Expenditures

(SFY22 ERA Expenditures 7.19.2022 - UPDATED) Sign Off 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: \$436,879,951.59; 99.88% of total program expenditures.

## **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.

Kathryn Dodge, Treasury Rent Assistance Program Manager, provided the following policies and procedures:

- Internal Control Letter Response: [ [Activities Allowed - Cost Principles - Commerce response 7.21.22](#) ]
- Addressing Fraud and Ineligible Use of Funds Policy: [ [Addressing Fraud Resources and Ineligible Use of Funds Sample Policy and Guidance V2](#) ]
- Community Services and Housing Division (CSHD) Monitoring Procedure: [ [FINAL CSHD Monitoring Procedures](#) ]
- CSHD Monitoring Definitions: [ [Monitoring Definitions](#) ]
- T-RAP 1.0 and 2.0 Monitoring Plan: [ [T-RAP 1.0 and 2.0 Monitoring Plan](#) ]

Commerce's Emergency Rental Assistance Program (ERA) is referred to as the Treasury Rent Assistance Program (T-RAP). Treasury ERA1 funds are part of the T-RAP 1.0 contract. The Treasury ERA2 funds are part of the T-RAP 2.0 contract. To administer the programs, Commerce contracts with county governments and nonprofit organizations, which Commerce considers as grantees.

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We met with Kathy Kinard, OFAH Manager, and Kathy Dodge, Treasury Rent Assistance Program Manager, on July 22, 2022, to discuss the process and controls in place to ensure compliance is met for subrecipient payments. Kathryn explained categorical budgets are established for each grantee during the initial contracting process to ensure grantee's expenditures meet Treasury's budget requirements for administrative costs and financial assistance.

### **Grantee Payments**

Grantees are required to send their budgets in order to establish the contract. The amounts included in each budget category and relevant budget caps are established at the time of initial contracting when establishing the grantee's budget. The assigned Grant Coordinator reviews the budget to ensure these caps are met before the contract is executed. For example, all T-RAP 1.0 (ERA1) budgets were reviewed to ensure that a maximum of 10% of the grantees total budget was allocated to Admin, and all T-RAP 2.0 (ERA2) budgets were reviewed to ensure a maximum of 15% of the grantees total budget was allocated to Admin. Before the contract is routed to the grantee for their signature, the Program Manager reviews the budget and checks that the allocated amounts are allowable as well. **(Key Control #1 - Control Activities)**

Commerce uses the Contract Management System (CMS) to manage a grantee's reimbursement requests and budget information. At contract execution, the Grant Coordinator manually enters the budget categories and period of performance from the contract into CMS. Grantees are required to utilize funds on allowable expenses only, as outlined in the T-RAP Program Guidelines (See [T-RAP Guidelines V3](#) pg. 11-16). Grantees must submit invoices for expenses within the established budget categories only but are not required to submit supporting details when requesting reimbursement. Grantees with subcontractors are required to submit a Voucher Detail Report [[T-RAP 2.0 Voucher Detail Worksheet](#)] which contains a roll up of expenditures for each budget category. This report does not contain expenditure line items or rental payments as Grantees submit this information in the Monthly Report Forms. The Grantees access their account in CMS to input the reimbursement requested amount for each budget category. CMS prevents expenditures from being recorded to the expenditure categories in excess of budget without appropriate review and approval. The Grant Coordinator with approved spending authority then reviews the reimbursement request for allowable limits and period of performance, then compares the expenditures to the available budget for each expenditure prior to approving for payment **(Key Control #2 - Control Activities)**. Spending authority allows Grant Coordinators to approve only the invoices for specific programs with budget codes for the contracts they are overseeing and limits the amount they are able to approve the reimbursement for. Kathryn explained the Program Manager must request approval from Commerce fiscal and executive management to allow the Grant Coordinator to approve grantee's reimbursement requests.

At least quarterly, the Program Manager runs expenditure reports out of CMS to check for expenditure issues and ensure grantee's are staying within approved budget categories **(Key Control #3 - Control Activities/Monitoring)**. The Program Manager reviews the expenditure report by individual contract and by program, then by the program as a whole.

Kathryn explained grantees are able to request budget revisions to move funds between budget categories throughout the course of the contract. When a budget revision is requested, the Grant Coordinator ensures the revision maintains the required caps. If the grantee has already allocated the maximum amount of funds to Admin, they can only move funds out of this budget category and into Rent/Utilities. The Program Manager also reviews the revision to ensure the adjusted budgets stay within the required budget caps. Kathryn noted the T-RAP Program Guidelines establish restrictions for allowable activities, budget revisions and what kind of moves are allowable. See ([T-RAP Guidelines V3p. 22](#)). Grant Coordinators conduct technical assistance trainings on program guidelines and are available for questions on allowable expenses. Multiple trainings on allowable expenses were also held before the T-RAP contracts went into place.

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## **Program Monitoring**

As mentioned in the Grantee Payment section above, the Department does not require grantees to submit supporting details when requesting reimbursement. Instead, the ERA Program relies on program monitoring to ensure grantees reimbursement requests are only for allowable financial assistance expenses (rent, utilities, and other housing costs).

Commerce launched a program monitoring of T-RAP 1.0 (ERA1) in February 2022. This program monitoring consists of three components: client file review, Ineligible Use of Funds policy and procedure review, and fiscal back up documentation review. Grantees with a high risk assessment score have been prioritized for monitoring first. The Department is currently in the process of monitoring T-RAP 1.0 (ERA1 funds). The T-RAP 2.0 program (ERA2 funds) will be monitored next, with a tentative plan to launch in Fall of 2022 after the T-RAP 1.0 monitoring concludes.

### **ERA1**

Grant Coordinators use the T-RAP Monitoring Form ([T-RAP 1.0 Monitoring Form V1](#)) to review the grantee's client files and every document contained within the files. This check includes making sure that only allowable financial assistance expenses (rent, utilities, and other housing costs) were utilized for the household. (**Key Control #4 - Monitoring**) For example, the Grant Coordinator would be able to see that more than three months of future rent was provided to the household at one time, which would not be allowable. Grant Coordinators randomly select a minimum of five client files off a monthly report form from the period of performance and request all client file paperwork associated with the household ID. See T-RAP Report Form at .

Grant coordinators review each section of the Household Information & Eligibility Form ([T-RAP Household Information & Eligibility Form Version 3](#)) to ensure it is filled out properly and any required accompanying documentation to ensure household eligibility is complete and sufficient. If a grantee has used categorical eligibility ([Categorical Eligibility](#)), a fact-specific proxy ([Fact-Specific Proxy - Census Tracts](#)), or self-declarations, the grant coordinator would see this collected on the form and verify this information. Treasury strongly encourages flexibility in terms of documenting a household's eligibility for ERA. Self-declaration are allowable for each criteria and that must be documented. Verbal verifications and electronic signatures are encouraged when obtaining hard signatures adds time constraints to processing the household's application. Grantees also have discretion to provide waivers or exceptions to this documentation requirement to accommodate disabilities, extenuating circumstances related to the pandemic, or a lack of technological access. In these cases, the grantee is still responsible for making the required determination regarding the applicant's household income and documenting that determination.(See FAQ 4 [Treasury ERA FAQ \(August 25, 2021\)](#))).

The grant coordinator also verifies that no additional documentation was collected other than what was necessary to document household eligibility. If any additional documentation is collected, the grant coordinator explores the reasoning and determines whether it is an undue burden on the household, or part of a reasonable effort to prevent fraud or ineligible use of funds.

Grantees are required to have a policy and procedure for preventing and addressing potential ineligible use of funds. This policy and procedure also addresses how they prevent fraudulent applications from being funded. Commerce has provided a sample policy and procedure and additional guidance for this. See ([Addressing Fraud Resources and Ineligible Use of Funds Sample Policy and Guidance V2](#)). Kathryn explained Grant Coordinators review the grantee's policies and procedures for ineligible use of funds during program monitoring to ensure the three policy components are covered, and provide recommendations on how to bolster the policy to guarantee funds are used for eligible households.

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Kathryn explained during program monitoring, Grant Coordinators also conduct a fiscal monitoring on an invoice sample to ensure the Rent/Utilities and Other Housing Costs expenditures were allowable. (**Key Control #5 - Monitoring**) Grant Coordinators request fiscal back up documentation with the Rent/Utilities and Other Housing Costs expenses for a specific invoice. Source documentation and program forms must match the Rent/Utilities and Other Housing Costs expenses listed on the the grantee's general ledger. T-RAP Payment Forms must be accurately filled out and reflect allowable expenses.

Monitoring results are communicated via email through a Monitoring Letter and a finalized Monitoring Form. The Monitoring Form will highlight results found by listing findings, discrepancies, recommendations, and strengths. All monitoring results are reviewed by the Program Manager for accuracy and consistency. Monitoring findings that require the grantee to pay back funds are reviewed by the HAU Managing Director before the monitoring results are sent.

We inquired how the Department ensures administrative and operations expenses are allowable. Kathryn explained the Department laid out allowable expenses in the T-RAP Program Guidelines (see T-RAP Guidelines V3 p.11) and provided technical assistance as needed. Grantees also received training on determining allowable expenses prior to contracting. Larger grantees include a Voucher Detail Worksheet which includes each budget category and payment amounts to each sub-grantee. However, smaller grantees without sub-grantees were not required to submit a Voucher Detail Worksheet.

Grant Coordinators began program monitoring in February 2022 for the ERA 1 program (T-RAP 1.0). We identified 38 grantees that received reimbursement payments for ERA 1. (*Note: Opportunity Council had two separate locations (with separate contracts), Whatcom County and San Juan County*). See [SFY22 ERA Expenditures 7.19.2022 - UPDATED]. Kathryn explained the Department made a decision in fall/winter 2021 to move most of the small and medium grantees to the Coronavirus State and Local Fiscal Recovery Fund (**CSLFRF**) program because these grantees were having trouble meeting reporting requirements and getting funds out timely due to increasing burden of reporting requirements as Treasury continued to add to the reporting requirements and increased the frequency of reports due. To mitigate risk, Commerce streamlined the program to include 12 grantees (see highlighted on "Vendor by Project" tab) that were also receiving a direct award from Treasury because they had the capacity to meet reporting requirements. See ERA 1 Allocations (page 13) for grantees with eligible local government allocations.

We inquired how many grantees received monitoring during the audit period. Kathryn informed us Commerce only completed program and fiscal monitoring for three ERA1 grantees with expenditures totaling \$11,439,513.23 (2.6% of total grant expenditures) before SFY22 ended. The Department is still in the process of conducting monitoring for the ERA1 program but due to workload, are only able to conduct monitoring for three grantees at a time. Kathryn also noted the 24 small and medium ERA 1 grantees that were moved to CSLFRF did not receive program and fiscal monitoring to ensure ERA 1 funds totaling \$32,770,508.58 (7.5% of grant expenditures) were used for allowable activities, as they were moved before Commerce began monitoring. (**Control Weakness #1**). These grantees will only be monitored for CSLFRF (ERAP 2.0) rent assistance.

### ERA2

During our review and analysis of program expenditures, we identified the Department began processing reimbursement payments for ERA 2 grantees in November 2021. During our understanding meeting on July 22, 2022, Kathryn explained program monitoring for the T-RAP 2.0 program (ERA 2 funds) will be begin after T-RAP 1.0 monitoring concludes. The tentative plan is to launch in Fall 2022. The Department did not conduct monitoring for the nine ERA 2 grantees to ensure funds totaling \$176,916,116.84 (40.5% of grant expenditures) were used for allowable activities. (**Control Weakness #2**)

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We met with Kathryn and Kathy on 8/10/2022 to confirm our understanding and inquire about the documentation Grant Coordinators review prior to issuing payment. Kathryn confirmed grantees submit Monthly Report Forms that contain line items, rental payment details, and Service Month, which are reviewed for evidence of work performed for meeting contract deliverables and reporting purposes and are submitted to Treasury. However, the Monthly Report Forms are not compared to reimbursement requests because the reported amounts wouldn't match due to the timing of submission. **(Control Weakness #3)** Reports are due the 7th of each month and are used to report required data to Treasury on the 15th each month. Grantees' invoices are due on the 20th of the month following the provision of service. Larger grantees with subcontractors submit a Voucher Detail Report with roll up totals for each budget category. Kathy informed us they would request source documentation from subrecipients (grantees) to support payment testing, as these are the documents reviewed during Program and Fiscal Monitoring. During the audit period, the Program completed reviews for three grantees and had started reviewing for three additional grantees. Charts to Support Highlighted Sections

We determined the Department did not monitor to ensure ERA 1 and ERA 2 funds totaling \$425,440,438.36 were used for allowable activities. See SFY22 ERA Expenditures 7.19.2022 - UPDATED for details.

### Summary of key internal controls:

**Key Control #1:** Prior to contract execution, the Grant Coordinator reviews the budget to ensure each budget category meets with budget cap requirements. The Program Manager then reviews grantee's budget to ensure allocated amounts are allowable, before the contract is routed to the grantee for their signature.

**Key Control #2:** The Grant Coordinator with approved spending authority reviews the reimbursement request for allowable limits and period of performance, then compares the expenditures to the available budget for each expenditure prior to approving for payment.

**Key Control #3:** At least quarterly, the Program Manager runs expenditure reports out of CMS to check for expenditure issues and ensure grantee's are staying within approved budget categories.

**Key Control #4:** During program monitoring, Grant Coordinators review client files and every document contained within the files to ensure that only allowable financial assistance expenses (rent, utilities, and other housing costs) were utilized for the household.

**Key Control #5:** Grant Coordinators also conduct a fiscal monitoring on an invoice sample and review all back up documentation for a Rent/Utilities and Other Housing Costs expenses to ensure the expenditures were allowable.

**Control Weaknesses:** Magnitude See summary of Control Weakness at SFY22 ERA Expenditures 7.19.2022 - UPDATED

**Control Weakness #1:** The Department did not (and will not) monitor 24 small and medium ERA1 grantees to ensure funds totaling \$32,770,508.58 (7.5% of grant expenditures) were used for allowable activities.

**Control Weakness #2:** The Department has not started monitoring the nine ERA 2 grantees to ensure funds totaling \$176,916,116.84 (40.5% of grant expenditures) were used for allowable activities.

**Control Weakness #3:** The Department did not require source documentation to support reimbursement requests. Monthly Report Forms, which contain line items, rental payment detail, and Service Month are reviewed reporting purposes and evidence of work performed to meet contract deliverables, but not for support of reimbursement requests.

### Evaluation of Results: Yes

1. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of

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noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.

2. During our control understanding, we determined that the Department did not require receipts or proof of payment with the A-19 requests to ensure the expenditures were for allowable activities. Additionally, the Department did not have a control in place for over half the audit period to review actual costs to ensure subrecipient expenditures were properly supported. The Department began fiscal and program monitoring for ERA 1 in February 2022. **We determined the Department did not complete fiscal or program monitoring to ensure funds totaling \$425,440,438.36 (97.3% of grant expenditures) were used for allowable activities**, see [SFY22 ERA Expenditures 7.19.2022 - UPDATED](#).

- During the audit period, the Department only completed monitoring for three of the 38 subrecipients (totaling \$11,439,513.23; 2.6% of total expenditures) for ERA 1 and began monitoring an additional three.
- The Department will not conduct ERA 1 program and fiscal monitoring for 24 subrecipients that were moved to CSLFRF rent assistance program to ensure funds totaling \$32,770,508.58 (7.5% of grant expenditures) were used for allowable activities.
- Of the remaining 13 ERA 1 subrecipients, the Department did not complete monitoring for 10 9 grantees to ensure funds totaling \$215,753,812.94 (49.3% of grant expenditures) were used for allowable activities. This monitoring is planned to occur in SFY23.
- The Department did not begin program and fiscal monitoring for ERA 2 grantees to ensure funds totaling \$176,916,116.84 (40.5% of grant expenditures) were used for allowable activities. Monitoring for ERA 2 is tentatively scheduled to begin in Fall 2022.

### Preliminary Control Risk Assessment

#### **Step 4**

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). [Create Issue](#)

See: [2022-016 The Department of Commerce did not have adequate internal controls over and did not comply with requirements to ensure payments to subrecipients of the Emergency Rental Assistance program were allowable and properly supported.](#)

### E.5.PR.G - 21.023-Emergency Rental Assistance Program - COM

**Procedure Step:** H. Period of Performance - Controls

**Prepared By:** DLR, 8/22/2022

**Reviewed By:** CCM, 8/23/2022

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.

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To identify key internal controls the agency has established to prevent or detect noncompliance with period of performance requirements.  
To provide a preliminary control risk assessment based upon our understanding of the internal controls.

## **Source:**

Kathy Kinard, OFAH Manager  
Kathryn Dodge, Treasury Rent Assistance Program Manager

## **Conclusion:**

Based on our understanding of internal controls over Period of Performance, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess **preliminary control risk as high and will report a finding for a material weakness**. No internal control testing is necessary in this instance. See 2022-016 The Department of Commerce did not have adequate internal controls over and did not comply with requirements to ensure payments to subrecipients of the Emergency Rental Assistance program were allowable and properly supported.

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**



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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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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.

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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).

### §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

## State of Washington

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).

| 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.      |

## State of Washington

|  |   |
|--|---|
| (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 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 risks when designing our tests of compliance.

- The Emergency Rental Assistance Program (**ERA**) is considered a "higher risk" program in the 2022 Compliance Supplement.
- ERA is a new program launched on January 5, 2021.
- Treasury guidance was initially released in January 2021 and last updated in June 2022.

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**

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. We identified the following from the 2022 Compliance Supplement:

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Under Section 501(e)(1) of the Consolidated Appropriations Act, 2021, the period of performance for ERA 1 awards began on the date that the grantee executed the ERA 1 Award Terms and ended on December 31, 2021. Section 3201(h) of ARPA extended the award period of performance from December 31, 2021 to September 30, 2022. Pursuant to Section 501(e)(2) of the Consolidated Appropriations Act, 2021, Treasury extended the award period of performance to end on December 29, 2022 for ERA 1 grantees that receive reallocated funds.

Under section 3201(g) of ARPA, the period of performance for ERA 2 awards begins on the date that Treasury and the grantee executed the ERA 2 Award Terms and ends on September 30, 2025. All award funds not obligated or expended by the end of the period of performance date for ERA 1 and ERA 2 awards must be returned to Treasury as part of the award closeout process pursuant to 2 CFR 200.344(d), including amounts distributed through redirection and reallocation.

### **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.

Kathryn Dodge, Treasury Rent Assistance Program Manager, provided the following:

- Internal Controls Response: Period of Performance - Commerce response 7.6.22
- T-RAP Interagency Agreement: T-RAP Interagency Agreement FINAL
- T-RAP Amendment Template to extend contract: T-RAP Amendment template to extend contract

We identified the following:

- T-RAP 1.0 - Period of Performance was March 1, 2021 to December 31, 2021. Treasury extended end date to September 30, 2022. Final invoices with expenses through September 30, 2022 are due October 31, 2022.
- T-RAP 2.0 - Period of Performance is October 1, 2021 to June 30, 2023. Final invoices with expenses through June 30, 2023 are due July 13, 2023.
- Assistance cannot be provided for arrears that were accrued before March 13, 2020.

We met with Kathryn Dodge, Treasury Rent Assistance Program Manager, and Kathy Kinard, Office of Family and Adult Homelessness Manager, on July 7, 2022 to gain an understanding of internal controls over Period of Performance.

Kathryn explained that each program has a separate contract with the period of performance listed on the facesheet as the Start date and End date, which is used for all grantees receiving program funds. In addition to the period of performance, the contract also includes grantee information and the budget they are allocated. Once signed and finalized, the contract is set up in the Contract Management System (CMS), Commerce's contracting and reimbursement management system, with the grantee's budget and period of performance, which shows as the "Start Date" and "End Date" in CMS. The "Cost Date" is also included, which is the date that the grantee can start incurring expenses, and this is always the same as the "Start Date". Changes to the grantee's profile within CMS are restricted to authorized personnel. The Start Date and End Date can only be edited through the execution of a contract amendment.

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Reimbursement requests can be submitted by the grantees and processed for expenses incurred during the period of performance. Each request includes a time period for when the expenses occurred, which grantees enter as the "Service From" and "Service To" dates. CMS has built in controls to prevent grantees from requesting reimbursement outside of the period performance set up in CMS. (**Key Control #1- Control Activities**).

After the grantee submits the reimbursement request in CMS, the Commerce Grant Coordinator reviews the invoice to ensure that the reimbursement period does not fall outside the period of performance (**Key Control #2 - Control Activities**). Once the Grant Coordinator approves the reimbursement request in CMS, the invoice goes to Fiscal for final review and payment.

We met with Kathryn and Kathy on August 10, 2022, to confirm our understanding for Activities Allowed and inquire about the documentation Grant Coordinators review prior to issuing payment. Kathryn confirmed grantees submit Monthly Report Forms (see [T-RAP Report Form Version 7](#)), that contain line items, rental payment details, and Service Month, which are reviewed for evidence of work performed for meeting contract deliverables and reporting purposes and are submitted to Treasury. However, the Monthly Report Forms are not compared to reimbursement requests because the reported amounts wouldn't match due to the timing of submission. (**Control Weakness #1**) Reports are due the 7th of each month and are used to report required data to Treasury on the 15th each month. Grantees' invoices are due on the 20th of the month following the provision of service. Larger grantees with subcontractors submit a Voucher Detail Report with roll up totals for each budget category. Actual source documentation to support payment testing is reviewed during Program and Fiscal Monitoring. During the audit period, the Department completed ERA 1 reviews for three grantees and had started reviewing for three additional grantees. The Department did not begin monitoring for ERA 2 during the audit period.

Treasury guidance allows payments for past rent and utilities dated back to March 13, 2020. Kathryn explained grantees report actual dates for rent and utilities arrears and expenditures in the Monthly Report Form. The Monthly Report is submitted before grantees invoice each month and is not included with the reimbursement request.

## Summary of Key Controls and Control Weakness

We identified the following Key Controls: [Key Controls & Possible Weakness](#)

**Key Control #1:** When grantees submit reimbursement requests in CMS, each request includes a time period for when the expenses occurred, which grantees enter as the "Service From" and "Service To" dates. CMS has built in controls to prevent grantees from requesting reimbursement outside of the period performance set up in CMS.

**Key Control #2:** After the grantee submits the reimbursement request in CMS, the Commerce Grant Coordinator reviews the invoice to ensure that the reimbursement period does not fall outside the period of performance.

**Control Weakness:** The Department did not require source documentation to support reimbursement requests. Monthly Report Forms, which contain line items, rental payment details, and Service Month are reviewed reporting purposes and evidence of work performed to meet contract deliverables, but not for support of reimbursement requests. Instead, the Department developed a monitoring plan to review detailed supporting documentation to ensure expenditures occurred within the period of performance, but this activity for most of the expenditures did not begin until SFY23. See activities allowed understanding for more details: [A-B. Activities Allowed/Cost Principles - Controls](#) .

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## Weakness Reason

### **Evaluation of Results:** Did you identify any control deficiencies? **Yes**

1. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.
2. During our control Activities Allowed understanding, we determined that the Department did not require receipts or proof of payment with the A-19 requests to ensure the expenditures were for allowable activities and occurred within the period of performance. Additionally, the Department did not have a control in place for over half the audit period to review actual costs to ensure subrecipient expenditures were properly supported. The Department began fiscal and program monitoring for ERA 1 in February 2022. We determined the Department did not adequately review funds totaling \$425,440,438.36 (97.3% of grant expenditures) to ensure grantee reported expenditure dates were within the period of performance.

## Preliminary Control Risk Assessment

### **Step 4**

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). [Link to Issue](#)

See [2022-016 The Department of Commerce did not have adequate internal controls over and did not comply with requirements to ensure payments to subrecipients of the Emergency Rental Assistance program were allowable and properly supported.](#)

## E.5.PR.G - 21.023-Emergency Rental Assistance Program - COM

**Procedure Step:** L. Reporting - Controls

**Prepared By:** KMT, 3/27/2023

**Reviewed By:** CCM, 3/27/2023

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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

### **Source:**

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Kathryn Dodge, Treasury Rent Assistance Program Manager  
Mary Baldwin, Commerce Specialist, Grant Coordinator  
Gena Allen, Internal Control Officer  
Britni Kennedy, Accounting Program Support Manager  
Alisha Meder, Grants and Loan Supervisor  
Erin Waila, Fiscal Analyst 4

## **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.*

**AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

**Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282)**

**(Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative**



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agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).

For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.

In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.

**(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).

### 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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*Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.*

**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.***

Guidance/Criteria.:

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### 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)<br/>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 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 risks when designing our tests of compliance.

- The Emergency Rental Assistance Program (ERA) is considered a "higher risk" program in the 2022 Compliance Supplement.
- ERA is a new program launched on January 5, 2021.
- Treasury guidance was initially released in January 2021 and last updated in June 2022.

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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**

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 Reporting. We identified the following to be applicable from the 2022 Compliance Supplement:

#### **1. Financial Reporting**

1. SF-425, Federal Financial Report

#### **2. Special Reporting**

1. ERA 1 and ERA 2 Reports

- **Monthly Reports (1505-0266):** Two reporting questions are included in the information collection for the Interim Quarterly Reports. Beginning with the monthly report for the April 1 through April 30, 2021, period of performance for ERA 1 generally due to Treasury by May 15, 2021, state, local and territorial grantees receiving ERA 1 awards submit monthly reports. For ERA 2, monthly reporting began with the June 1 through June 30, 2021 period of performance and reports were due to Treasury by July 15, 2021, or where otherwise extended in an approved authorization from [EmergencyRentalAssistance@Treasury.gov](mailto:EmergencyRentalAssistance@Treasury.gov). Grantees receiving ERA 1 and ERA 2 allocations later in the award cycle as evidenced by award or reallocation dates are not required to submit reports for periods not covered by the assistance agreement.
  - The key lines on the form are:
    - Total number of participating households that received ERA assistance of any kind; and
    - Total amount of ERA funds expended by the ERA grantee to or for participating households on behalf of eligible households. This a key line item because it feeds into Treasury's reallocation formula, as detailed in guidance at Treasury.gov.
- **Quarterly Reports (1505-0266):** All ERA grantees must submit quarterly reports with reporting periods of one calendar quarter and several cumulative fields covering all activity from the date of award through the quarter close. These reports provide financial and performance data regarding grantee administration of their ERA projects and capture program design in addition to program status data elements. Quarterly reports are intended to capture standard financial and performance data, as well as detailed information on qualifying direct and indirect expenditures pursuant to the government-wide Federal Funding Accountability and Transparency Act (FFATA) reporting requirements and in accordance with Section 15011 of the CARES Act, as amended and interpreted in Treasury's reporting and compliance guidance on Treasury.gov.
  - The key line items in the form are:
    - The cumulative amount obligated by the grantee; and
    - The cumulative amount expended by the grantee
  - The above are key line items because grantees must certify 65 percent of funds as having been obligated, including the assumed up to 10 percent obligation provided for in Treasury's guidance, to qualify for receiving a reallocation payment for

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ERA1 and grantees are subject to returning funds under reallocation where their expenditure ratio for ERA 1 is less than the requirement in effect at the time, as detailed in Treasury's reallocation guidance (the threshold escalates).

## 3. Special Reporting for Federal Funding Accountability and Transparency Act

We identified the following in Treasury's *ERA Reporting Guidance* v 3.2 (3/29/22) at [Reporting Guidance v2](#).

### Financial Reporting

*This component of the ERA Quarterly Report has been updated effective with the Quarter 1, 2022 report (Feb. 15, 2022), to require Recipients to provide financial data directly into Treasury's portal, rather than by uploading SF-425 forms as was required previously. (page 33 in Treasury Guidance)*

### Monthly Reports

- All ERA1 and ERA2 Recipients must certify and submit Monthly Reports for April 2021 through June 30, 2022
- Monthly Reports require two data points:
  - Total number of participant households in the reporting period, and
  - Total amount of ERA funds expended in the reporting period.

### Quarterly Reports

- All ERA1 and ERA2 Recipients must certify and submit Quarterly Reports. Each Quarterly Report covers one calendar quarter. See [Reporting Control and Compliance Testing](#) for reporting periods and due dates for required Quarterly Reports.

***NOTICE ON FFATA (Federal Subaward Reporting System) REPORTING:*** *To assist in reducing ERA Recipients' reporting burden, Treasury will provide the required information to the FSRS.gov system on behalf of the Recipient in keeping with the \$30,000 reporting threshold, timing, and data elements required by 2 CFR Part 170 and as discussed in this guidance. However, Recipients may choose to report the required information directly to FSRS.gov. A Recipient who reports the information directly to FSRS.gov should notify Treasury that it has done so. (page 14 in Treasury Guidance)*

### 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 Departments written policies and procedures related to Reporting as part of gaining an understanding of internal controls.

Kathryn Dodge, Treasury Rent Assistance Program Manager, provided the Internal Control Letter Response: [\[Reporting - Commerce response 7.28.22\]](#), and the following T-RAP Excel Spreadsheets:

- T-RAP Report Form: [\[T-RAP Report Form Version 7\]](#)
- T-RAP - ERAP Report Tracker: [\[T-RAP-ERAP Report Tracker\]](#)

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- FFR Process: [Federal Financial Reporting FFR Process](#)
- Report Procedure - LiveStories ([Report Procedure - Washington State Dept. of Commerce](#))

Kathy Kinard provided the following:

- Treasury Quarterly Reporting Clarification: [ERA-Quarterly-Reporting-Special-Tip-with-Clarifications](#)

We met with Kathryn Dodge, Treasury Rent Assistance Program Manager, Mary Baldwin, Commerce Specialist, and Gena Allen, Internal Control Officer, on July 28, 2022 to gain an understanding of internal controls over Reporting.

## Financial Reporting:

### SF-425

The SF-425 report is due quarterly, and is primarily run by the Fiscal Program. Quarterly, Fiscal staff use an established SF-425 template to create the report. Fiscal staff first run a report in the Enterprise Reporting system for the federal award they are working on, which contains expenses and revenues used within the reporting period.

We met with Britni Kennedy, Accounting Program Support Manager, Alisha Meder, Grants and Loans Supervisor, Erin Walia, Fiscal Analyst 4, and Kathryn Dodge, Treasury Rental Assistance Program Manager, on August 23, 2022 to gain an understanding of the SF-425 Federal Financial Reporting process. The SF-425 details grant expenditures by state and federal share, any unobligated balance, and indirect costs for the reporting period. The SF-425 reports for ERA 1 and ERA 2 are due quarterly.

Commerce uses the Contract Management System (CMS) to manage a grantee's reimbursement requests and budget information. CMS automatically downloads financial data for each project from AFRS every night. Erin Walia, Fiscal Analyst 4 (FA 4), runs a quarterly CMS report that shows which FFRs are due for the upcoming reporting cycle. For ERA 1 and ERA 2, Erin prepares the SF-425 in CMS, as CMS pre-populates data-fields and information. Erin runs an Enterprise Reporting (ER) "Project Billing Flexible by Project" report using the project code assigned to the federal award, which contains expenditures and revenues to-date by project. The expenditures and revenues from ER are compared to the pre-populated data in CMS. Once Erin completes the SF-425 in CMS, Budget Staff overseeing the award review the entered amounts to ensure the amounts match. The Accounting Program Support Manager (Britni) or Grants and Loans Supervisor (Alisha) will then review to ensure amounts reconcile and there are no typos before hitting the "approve" button in CMS. **(Key Control #1) (Control Activities)**. The FA4 (or another supervisor) will review and certify the data entered into Treasury with the data in CMS, to ensure the report is accurate and complete. **(Key Control #2) (Control Activities)** Once completed, fiscal staff provide the completed report and backup documentation to Kathryn, who enters the required data points into the Treasury Portal and submits. The upload is timestamped.

Beginning March 2022, Treasury Reporting Guidance requires Recipients to provide financial data directly into Treasury's portal, rather than by uploading SF-425 forms as was required previously. We confirmed with the Erin, Alisha, and Kathryn, prior to March 2022, Fiscal uploaded the SF-425 document and entered the data points into Treasury's Portal when submitting report.

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## Special Reporting:

The monthly reports are simple and report on households served and the amount expenses. The quarterly reports focus on the participant data, such as the costs that covered expenses for different types of recipients (individuals, landlords, third-parties, etc.).

For both the monthly and quarterly reports, grantees fill out an Excel file titled "*T-RAP Report Form Version 7.xlsm*", which contains information on the funds paid to the households under the grantees' jurisdiction. The form contains three sections of information:

- Section 1 - the number of households that applied, how many received assistance, how many received housing stability services only, and the total amount approved on housing stability services.
- Section 2 - list every household served by the grantee, payee type, household demographics, number of months paid, amounts paid.
- Section 3 - which expenses were paid to different types of recipient (individual or entity such as landlord, household, etc.), date of payment, amount of payment, etc.

See the form for additional detail on each section: [[T-RAP Report Form Version 7](#)].

Sections 1 and 2 of the form are used for monthly reports, and section 3 is for the quarterly reports. Grantees must list out information on every household that received funds within the reporting month or quarter, and submit the completed reports to Mary Baldwin, the Commerce Grant Coordinator, by the 7th of the month following the month of service. The Program Coordinator reviews and approves the report forms for completeness and accuracy (**Key Control #3 - Control Activities**).

The T-RAP Report Form has data validation checks embedded into it that help grantees visualize any missing data points as well as inaccurate or duplicative data in their reports. This template insures that no duplicate entries are added in the section that lists the paid households, all money distributed is reconciled against household data, and that visual errors are highlighted in red when an entry is incorrect or formatted improperly. Additionally, the form contains an errors tool that calculates discrepancies amongst the data Grantees entered into their reports. For example, if a Grantee stated a Household received \$500 in Utility Assistance, the template would compare that against Household Participation data, also entered by the grantee. If the Household Participation data showed \$450 for that given Household, the Grantee would be made aware of the discrepancy and unable to submit their report.

The Program Manager uses an Excel file titled "*T-RAP - ERAP Report Tracker*", to monitor timeliness of report submissions to ensure federal compliance (**Key Control #4 - Monitoring**). They establish calendar appointments to track monthly and quarterly report due dates, and follow up with grantees that have not submitted the Report Form on time.

Once Commerce receives the completed forms from the grantees, they provide them to LiveStories, Commerce's data aggregation and analysis partner. LiveStories is sent all T-RAP Report Forms for the given reporting period to aggregate the data into the Treasury-required reporting format. ElaborateThe completed reports are sent to Kathryn Dodge, who uploads the reports to the Portal by the 15th of the month following the reporting period. (**Control Activities**). When she completes this step, the upload is timestamped at the time the report is submitted.

We asked Kathryn how Commerce ensures the reports received from LiveStories are accurate and complete prior to submitting to Treasury. Kathryn stated, per their contract with LiveStories, they must review submitted report forms to verify data, automate warning for data quality issues and other inconsistencies, and provide warnings to Commerce when data issues are detected. Kathryn and

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program staff have weekly meetings with LiveStories' data management staff to ensure any reporting issues or questions are addressed.

The contract with LiveStories requires the contractor to have processes in place to verify data integrity to ensure the report is accurate and complete (**Key Control #5 - Control Activities**). Kathryn provided a copy of the LiveStories original contract and Amendment A, which added the reporting responsibilities. We noted the purpose of the original contract is to assist county governments and non-profit organizations receiving Commerce rent and utility assistance funding with processing of requests for rent and utility assistance for the Eviction Rent Assistance Program 2.0 (CSLFRF, ALN 21.027).

We examined LiveStories contract Amendment A, which included an amendment start date of December 15, 2021. We located the Scope of Work and noted Commerce revised the original contract to include the following additional activities:

Collect, organize, and aggregate rental assistance data and generate data points that can be submitted to Treasury for T-RAP 1.0 (12 grantees) and T-RAP 2.0 (11 grantees).

1. Automate report form submissions so T-RAP grantees submit data to LiveStories through web form.
2. Notify grantees of due dates and validate submissions.
1. Review submitted report forms to verify data. Automate warnings for data quality issues and other inconsistencies. Provide warnings to Commerce when data issues are detected.
3. Aggregate grantee reports into key monthly and quarterly data points and provide data to Commerce for submission to Treasury.
4. Consolidate monthly and quarterly data sheets submitted to Commerce by the 12th of each month and no later than the 14th of each month.
5. Update and correct past reports for T-RAP 1.0 and 2.0 from March 2020 as errors are discovered and corrections are made available.

To ensure accuracy of reports, LiveStories established standardize tools and processes that are followed to ensure data and reporting accuracy. Grantees submit data using standardized reporting tools. Each grantee must use the *T-RAP Report Form Version 7*, a specific Excel macro enabled template which enables demographic data aggregation, participation data aggregation, and visual errors and validation, for their monthly reporting submissions. Version control is also verified to ensure grantees are submitting the data in the most recent version of the templates and the Department does not accept data in any other format.

Diagnostic checks are performed on each Grantee submission through the approved template to identify and resolve any outstanding errors. If needed, the Grantee is contacted to resubmit a corrected file. LiveStories then aggregates data for all Grantees into a monthly program file and performs diagnostic checks at the aggregate level. LiveStories reconciles monthly and quarterly reports against each other before submission to Commerce. For monthly reports, the Demographic and Participation Data is analyzed against each other for accuracy. For quarterly reports, the aggregate Grantee data is reconciled against monthly reports for accuracy.

Kathryn noted prior to contracting with LiveStories in December 2021, Mary Baldwin, the Grant Coordinator, was responsible for aggregating all data from the *T-RAP Report Forms* into a monthly program file and reconciling the reports against each other. Kathryn reviewed to ensure reports were accurate and complete, prior to submitting the reports to Treasury. (**Key Control #6 - Control Activities**).

Treasury requires quarterly reports to be submitted, however in the beginning of this program, Treasury also required interim quarterly reports. This was because



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while the program was being implemented and rolled out, Treasury was adjusting its guidance and fine-tuning what needed to be reported

The key line items on the quarterly reports (the cumulative amounts obligated and expended) are generated by the Fiscal Program during the SF-425 process. (See Key Controls #1 and #2). The key line items on the interim quarterly reports are generated by the Grant Coordinator. Quarterly, the Fiscal Analyst or Grant Coordinator generates a report to identify the key line items, which is reviewed by the Accounting or Program Manager prior to being submitted to Treasury (**Key Control #7**).

### FFATA Reporting:

We met with Kathy Kinard, OHAF Manager, and Kathryn Dodge, Treasury Rent Assistance Program Manager, on July 7, 2022. Kathy and Kathryn confirmed Commerce did not report directly to FSRS.gov. Kathryn stated she sent an email to Treasury to confirm the Treasury provided the information to the FSRS.gov system. We have determined this report is not direct and material at the Department level since Treasury is fulfilling this reporting requirement.

### **Summary of Key Controls**ID Report

#### Financial Reporting

**Key Control #1:** Once the Fiscal Analyst completes the SF-425 in CMS, Program Budget Staff review amounts to ensure they match expectations, then the Accounting Program Support Manager or Grants and Loans Supervisor review to ensure the amounts on the SF-425 reconcile with backup documentation and there are no typos before hitting the “approve” button in CMS. KC 1

**Key Control #2:** The FA4 (or another supervisor) will review and certify the data entered into Treasury with the data in CMS, to ensure the report is accurate and complete.

#### Special Reporting - monthly and quarterly

**Key Control #3:** Grantees use the T-RAP Report Form to provide information on every household that received funds within the reporting month or quarter, and submits the completed reports to Commerce. The Program Coordinator reviews and approves the report forms for completeness and accuracy.

**Key Control #4:** The Program Manager uses an Excel file titled "*T-RAP - ERAP Report Tracker*", to monitor timeliness of report submissions to ensure federal compliance.

**Key Control #5:** Beginning December 31, 2021, the contract with LiveStories requires the contractor to have processes in place to verify data integrity to ensure the report is accurate and complete.KC?

**Key Control #6:** Prior to December 31, 2021, the Grant Coordinator was responsible for aggregating all data from the T-RAP Report Forms into a monthly program file and reconciling the reports against each other. The Program Manager then reviewed to ensure the reports were accurate and complete prior to submitting the reports to Treasury.

**Key Control #7:** Quarterly, the Fiscal Analyst or Grant Coordinator generates a report to identify the key line items, which is reviewed by the Accounting or Program Manager prior to being submitted to Treasury.

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

### 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 to determine if we can place reliance on the controls.

## E.5.PR.G - 21.023-Emergency Rental Assistance Program - COM

*Procedure Step:* N. Special Tests and Provisions - Controls

*Prepared By:* KMT, 3/23/2023

*Reviewed By:* CCM, 3/27/2023

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:

- **ERA 1 Funds Redirection**
- **ERA Funds Reallocation**

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to ERA 1 Funds Redirection and ERA Funds Reallocation.

To provide a preliminary control risk assessment based upon our understanding of the internal controls for the Special Test and Provision.

### Source:

- Kathryn Dodge, Treasury Rent Assistance Program Manager
- Mary Baldwin, Commerce Specialist
- Gena Allen, Internal Control Officer

### Conclusion:

- **ERA 1 Funds Redirection**

We determined that the ERA 1 Funds Redirection special test was not direct and material to the audit because no redirection of ERA 1 funds occurred within the audit period. Therefore, we will not be performing additional testing of the ERA 1 Funds Redirection special test.

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- **ERA Funds Reallocation**

We determined that we will test compliance with the ERA Funds Reallocation special test in conjunction with the Reporting compliance test to ensure that it was appropriate that no reallocations occurred. We will test the Treasury reallocation expenditure ratios to ensure that reallocation of ERA funds was not necessary.

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 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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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).

Record of Work Done:

### **Inherent Risk of Noncompliance**

#### **Step 1**

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 risks when designing our tests of compliance.

- The Emergency Rental Assistance Program (**ERAP**) is considered a "higher risk" program in the 2022 Compliance Supplement.
- ERAP is a new program launched on January 5, 2021.
- Treasury guidance was initially released in January 2021 and last updated in June 2022.

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**

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 Special Tests and Provisions. We identified the following from the 2022 Compliance Supplement:

**ERA 1 Funds Redirection:** Where applicable to a grantee, auditors should confirm: 1) that all voluntarily redirected ERA 1 award funds were approved by the grantee's authorizing official in accordance with Treasury guidance; 2) all redirected ERA 1 award funds were deposited to the official, authorized bank account of the receiving grantee, as approved by Treasury; and 3) all ERA 1 award funds received through the redirection process are used in accordance with the ERA 1 Award Terms.

Pursuant to section 501(b)(1)(A) of the Consolidated Appropriations Act, 2021 and Treasury's implementing instructions to requesting grantees, grantees are permitted to redirect ERA 1 funds when a locality receives an ERA 1 award and subsequently transfers 100 percent of the ERA 1 award funds received from Treasury to its eligible state and Treasury approves the transaction. The redirection of award funds is finalized when the locality has submitted the relevant redirection documentation to Treasury and Treasury has provided confirmation of acceptance. At that time, the locality's ERA 1 award is canceled, and the locality has no further legal obligation to Treasury under the ERA 1 award. The state's ERA 1 award is modified by the amount of the funds transferred from

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the local government to the state and the state is responsible as the grantee for reporting on the use of the transferred award funds that become subject to the requirements set forth in the Award Terms previously accepted by the state in connection with its ERA 1 award. A local government that has redirected 100 percent of its ERA 1 award funds to its state but has not submitted the relevant redirection documentation to Treasury or is still awaiting confirmation of acceptance of submitted documentation by Treasury, is still responsible for complying with the ERA 1 Award Terms, including submitting Monthly and Quarterly reports until their redirection forms were submitted and accepted by Treasury.

**ERA Funds Reallocation:** Auditors should confirm that financial information certified by grantees used by Treasury to make reallocation determinations is accurate and that excess funds that are subject to involuntary recapture are returned to Treasury in accordance with Treasury's confirmation letter from [EmergencyRentalAssistance@Treasury.gov](mailto:EmergencyRentalAssistance@Treasury.gov). The financial information certified as part of reallocation includes monthly expenditure and cumulative obligations levels, as described in the Treasury reallocation guidance. ERA 1 expenditures reported monthly by the grantee are inputs to Treasury's reallocation expenditure ratio. ERA1 obligations certified in the Request for Reallocated Funds form (1505-0266), including in the Request for Voluntarily Reallocated Funds, are inputs into determining eligibility to receive reallocated funds. ERA 2 expenditures and obligations reported in quarterly reports by the grantee are inputs to Treasury's ERA 2 reallocation expenditure and obligation ratios. The reallocation expenditure ratio determines whether the grantee is subject to involuntary reallocation due to an insufficient ratio and the amount of excess funds subject to recapture by Treasury. Auditors should confirm the amounts reported as expended and obligated accurately capture the grantee's housing activity at the time of submission, as reflected in a grantee's award and/or financial systems, and that grantees receiving reallocated funds met the Treasury criteria.

Pursuant to section 501(d) of the Consolidated Appropriations Act, 2021, Treasury is required to reallocate "excess" ERA 1 award funds. Treasury's objective in reallocations is to ensure ERA 1 award funds remain available to grantees in accordance with their jurisdictional needs and demonstrated capacity to deliver assistance while the ERA appropriations remain available. Treasury's ERA 1 reallocation guidance on Treasury.gov and previewed here describes how grantees that have expenditure ratios below designated thresholds as of September 30, 2021, were subject to involuntary recapture, in the absence of mitigating actions, requiring the grantee to return funds to Treasury within the provided timeframes. Treasury continues to periodically assess expenditures using escalating expenditure benchmarks to identify and reallocate excess funds. For the first assessment using data as of September 30, 2021, grantees could mitigate the impact of recapture by submitting a certification that the grantee's financial assistance activity had since increased to a level beyond the minimum threshold, committing to a voluntary reallocation, or by providing a Performance Improvement Plan. Treasury's reallocation guidance on Treasury.gov will continue to detail specific ERA reallocation timeliness. The guidance also describes the voluntary reallocation process through which a grantee may request that Treasury reallocate its ERA 1 award funds to other ERA 1 grantees in the same state. Treasury is not recapturing funds from Indian Tribes or Tribally Designated Housing Entities (TDHEs) prior to the end of the second quarter of 2022, except where a Tribal grantee, its TDHE, or housing authority voluntarily return funds to Treasury. Auditors should refer to the ERA 1 reallocation guidance at [www.treasury.gov/era](http://www.treasury.gov/era). Guidance for ERA 2 reallocation can also be found on this site.

### **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.

Kathy Kinard, OFAH Manager, provided Treasury's Reallocation Guidance related to the compliance area as part of gaining an understanding of internal

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controls: Dept Policy?

- ERA-Reallocation-Guidance
- ERA2-Reallocation-Guidance-March-30-2022

Kathryn Dodge, Treasury Rent Assistance Program Manager, provided the Internal Control Letter Response: [Special Tests and Provisions - Commerce response 7.28.22]

We met with Kathryn Dodge, Treasury Rent Assistance Program Manager, Mary Baldwin, Commerce Specialist, and Gena Allen, Internal Control Officer, on July 28, 2022 to gain an understanding of internal controls over Special Test and Provisions. Kathryn began by clarifying the Redirection and Reallocation processes.

## ERA 1 Funds Redirection

Redirection is when another jurisdiction (city or county local government) that was eligible to receive direct awards from Treasury opts out and redirects the award to another jurisdiction within the same state. (See Washington State Allocation on page 13 at [ ERA 1 Allocations] for list of eligible local governments). No jurisdictions that received an ERA 1 award chose to redirect funds.

In October 2021, Whatcom County opted out of administering ERA 2 funds, and redirected the award back to Commerce. The Program Manager received an email from Treasury with the award amount approved for redirection, along with a courtesy email from Whatcom County staff that they were requesting the redirection from Treasury. Diane Klontz approved the redirected funds as Commerce's authorizing official. We noted that Diane Klontz is listed as the authorizing Official in Treasury's ERA Portal. She signed an authorization form to receive the redirected award funds, and fiscal staff confirmed that the funds were appropriately deposited to the Commerce bank account. The ERA 2 award funds received through the redirection process were used in accordance with the ERA 2 Award Terms by being embedded in existing T-RAP 2.0 contracts that require the grantee to follow the T-RAP Program Guidelines, where ERA 2 guidance is outlined in detail.

**We determined that the ERA 1 Funds Redirection special test was not direct and material to the audit because no redirection of ERA 1 funds occurred within the audit period. Therefore, we will not be performing additional testing of the ERA 1 Funds Redirection special test.**

## ERA Funds Reallocation

The reallocation process begins with a monthly review performed by Treasury of the grantees' spending targets. The grantees that consistently don't meet spending targets each month are at risk of having a portion of their award reallocated to another grantee. Commerce has met and surpassed spending targets each month, and therefore has not been at risk of reallocation. The monthly review by Treasury is based off the ERA 1 expenditure amounts reported by the grantees, which are included in the monthly reporting requirement and input into Treasury's reallocation expenditure ratio. For ERA 2, Treasury uses expenditures and obligations reported in the quarterly reports to determine the reallocation expenditure and obligation ratio.

We gained an understanding of controls over the Reporting compliance requirement at: [L. Reporting - Controls].

As it relates to the ERA 1, monthly reporting reallocation, we noted that grantees use the T-RAP Report Form to provide information on every household that

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received funds within the reporting month or quarter, and submits the completed reports to Commerce. The Program Coordinator reviews and approves the report forms for completeness and accuracy. (**Key Control #3 - Control Activities**). Additionally, we noted that prior to contracting with LiveStories in December 2021, Mary Baldwin, the Grant Coordinator, was responsible for aggregating all data from the *T-RAP Report Forms* into a monthly program file and reconciling the reports against each other. Kathryn reviewed to ensure reports were accurate and complete, prior to submitting the reports to Treasury. (**Key Control #6 - Control Activities**).

As it relates to the ERA 2, quarterly reporting reallocation, we noted that the key line items on the quarterly reports (the cumulative amounts obligated and expended) are generated by the Fiscal Program during the SF-425 process (**Key Controls #1 and 2**). The key line items on the interim quarterly reports are generated by the Grant Coordinator. Quarterly, the Fiscal Analyst or Grant Coordinator generates a report to identify the key line items, which is reviewed by the Accounting or Program Manager prior to being submitted to Treasury (**Key Control #7**).

We were informed that there were no reallocations of ERA award funds in the audit period. **As such, we determined that we will test compliance with the ERA Funds Reallocation special test in conjunction with the Special Reporting compliance test to ensure that it was appropriate that no reallocations occurred. We will test the Treasury reallocation expenditure ratios to ensure that reallocation of ERA funds was not necessary. In doing so, we will test to ensure the reports are adequately supported and accurately reported.** Compliance Supplement Req

### ERA Funds Redirection and Reallocation Reconciliation Process

Commerce did not receive any reallocations or redirections of ERA 1 funds during the audit period, however Commerce has a process in place to receive and reconcile the reallocated or redirected funds. When receiving redirected or reallocated award funds, the Commerce Program Manager is directly notified by Treasury via email. Treasury determines the total dollar amount of the funds reallocated. For redirected funds, the grantee must send a request to Treasury to redirect their award, and receive Treasury approval. Once approved, Treasury provides Commerce with an official notice of redirection, including the total award amount. We noted that when receiving either redirected or reallocated funds, Commerce receives an official notice from the Department of Treasury with the dollar amount of funds redirected or reallocated.

The Program Manager alerts Diane Klontz, Commerce's authorizing official, to approve the redirection of award funds. The Program Manager also alerts fiscal staff to track new deposits of funds in Commerce's bank account. Once the funds are deposited in the Commerce bank account, fiscal staff notify the Program Manager so that the funds can be contracted out. The fiscal staff and Program Manager ensure that the correct amount is deposited by reconciling the amount in the Treasury notification email with the amount that is deposited to the bank account (**Control Activities**). If a discrepancy were to occur, the Program Manager would notify Treasury. Relevance

### **Summary of Key Controls:**

#### Financial Reporting

**Key Control #1 (ERA 2 Reallocation):** Once the Fiscal Analyst completes the SF-425 in CMS, Program Budget Staff review amounts to ensure they match expectations, then the Accounting Program Support Manager or Grants and Loans Supervisor review to ensure the amounts on the SF-425 reconcile with backup documentation and there are no typos before hitting the “approve” button in CMS.

**Key Control #2 (ERA 2 Reallocation):** The FA4 (or another supervisor) will review and certify the data entered into Treasury with the data in CMS, to ensure



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the report is accurate and complete.

### Special Reporting - monthly and quarterly

**Key Control #3 (ERA 1 Reallocation):** Grantees use the T-RAP Report Form to provide information on every household that received funds within the reporting month or quarter, and submits the completed reports to Commerce. The Program Coordinator reviews and approves the report forms for completeness and accuracy (*this also a control for Special Tests and Provisions*).

**Key Control #6 (ERA 1 Reallocation):** Prior to December 31, 2021, the Grant Coordinator was responsible for aggregating all data from the T-RAP Report Forms into a monthly program file and reconciling the reports against each other. The Program Manager then reviewed to ensure the reports were accurate and complete prior to submitting the reports to Treasury. (*this also a control for Special Tests and Provisions*).

**Key Control #7 (ERA 2 Reallocation):** Quarterly, the Fiscal Analyst or Grant Coordinator generates a report to identify the key line items, which is reviewed by the Accounting or Program Manager prior to being submitted to Treasury.

**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 not be performing additional testing of the ERA 1 Funds Redirection special test key controls, however we will test compliance with the ERA Funds Reallocation special test in conjunction with the Reporting compliance test to ensure that it was appropriate that no reallocations occurred.

### E.6.PRG - 21.027-Coronavirus State and Local Fiscal Recovery Funds - COM

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

**Prepared By:** TF, 4/13/2023

**Reviewed By:** ACS, 4/17/2023

Purpose/Conclusion.\*

#### **Purpose:**

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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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

## **Source:**

Gena Allen, Internal Control Officer

Kathryn Dodge, Treasury Rental Assistance Program Manager

## **Conclusion:**

Based on our understanding of internal controls over Activities Allowed and Cost Principles, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess **preliminary control risk as high and will report a finding for a material weakness**. No internal control testing is necessary in this instance. See: 2022-019 The Department of Commerce did not have adequate internal controls over and did not comply with requirements for monitoring subrecipients to ensure payments were allowable, properly supported, and met period of performance requirements for the Co.

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).

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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.

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.

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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:

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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).

### **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)**

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- (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;

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.

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### 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 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:

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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;
- (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;



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- (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.

#### **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)**

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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)<br/>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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### 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 <b>types</b> 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 <b>only</b> 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.

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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.

**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.

|           |  |
|-----------|--|
| MTDC Base |  |
|-----------|--|

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| 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.
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.

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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**

#### **Step 1**

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 risks when designing our tests of compliance.

- The Coronavirus State and Local Fiscal Recovery Fund (CSLFRF) is considered a "higher risk" program in the 2022 Compliance Supplement.
- CSLFRF is a new program launched on March 3, 2021.

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- Treasury guidance was initially released in March 2021 and last updated in January 2022, which is after agencies began expending their awards.

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**

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**

Recipients may use CSLFRF payments for any eligible expenses subject to the restrictions set forth in sections 602 and 603 of the Social Security Act as added by section 9901 of the American Rescue Plan Act of 2021 (codified as 42 USC 802 and 42 USC 803 respectively), Treasury's Interim Final Rule and Final Rule at 31 CFR sections 35.7 and 35.8, and FAQs at (<https://home.treasury.gov/system/files/136/SLFRPFAQ.pdf>).

The following activities are not permitted under CSLFRF:

- Offset a reduction in net tax revenue (applicable to states and territories)
- Deposits into pension funds (applicable to all recipients except Tribes)
- Debt service or replenishing financial reserves (e.g., "rainy day funds") (applicable to all recipients)
- Satisfaction of settlements and judgements (applicable to all recipients)
- Programs, services, or capital expenditures that include a term or condition that undermines efforts to stop the spread of COVID-19 (applicable to all recipients)

Recipients may use payments from CSLFRF to:

- Support public health expenditures, by funding COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff;
- Address negative economic impacts caused by the public health emergency, including economic harms to workers, households, small businesses, impacted industries, and the public sector;
- Replace lost public sector revenue to provide government services; recipients may use this funding to provide government services to the extent of the reduction in revenue experienced due to the pandemic.
- Provide premium pay for essential workers, offering additional support to those who have borne and will bear the greatest health risks because of their service in critical infrastructure sectors; and
- Invest in water, sewer, and broadband infrastructure, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure, and to expand access to broadband internet.

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

CSLFRF is considered “other financial assistance” per 2 CFR section 200.1 and is administered as direct payments for specified use. The 2 CFR Part 200, Subpart E is applicable to expenditures under CSLFRF unless stated otherwise.

### Indirect Costs

Gena Allen, Internal Control Officer informed us that the Department does not charge an indirect cost rate or use a cost allocation plan. Indirect costs were charged to Subobject TA, Program Indices 15201 and 91101 and totaled \$246,899.65 or 0.19% of total program expenditures of \$132,364,129.45 (see Commerce Expenditure Analysis and SEFA Reconciliation). **We determined that indirect costs are not direct and material to the program.**

### Material Expenditures

We identified the following expenditure activities (see Commerce Expenditure Analysis and SEFA Reconciliation) that are directly charged to the program and are quantitatively material (more than 5%):

- Subobject NZ (Other Grants and Benefits) with total expenditures of \$131,253,580.73 or 9.54% of total grant expenditures.

## **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.

Kathryn Dodge, Program Manager for the Eviction Rent Assistance Program 2.0 provided the following policies and procedures:

- Internal Control Letter Response: Internal Control request letter - Activities Allowed-Cost Principles
- Addressing Fraud and Ineligible Use of Funds Policy: Ineligible Use of Funds and Fraud Policy updated 7.6.22
- ERAP 2.0 Program Guidelines: ERAP 2.0 Program Guidelines V3 updated August 2022
- ERAP 2.0 Invoice Processing: ERAP 2.0 invoice Procedure (Reimbursement Request)
- Voucher Detail Worksheet: ERAP 2.0 Voucher Detail Worksheet
- Monthly Report Form: ERAP 2.0 Monthly Report Form
- ERAP 2.0 Household Eligibility Form: ERAP 2.0 Household Information & Eligibility Form
- ERAP 2.0 Rent Payment Form: ERAP 2.0 Rent Payment Agreement Form
- ERAP 2.0 Utility Payment Form: ERAP 2.0 Utility Payment Agreement Form

We met with Kathryn Dodge, Program Manager, and Gena Allen, Internal Control Officer, on February 3, 2023, to discuss the process and controls in place to ensure compliance is met for subrecipient payments.

The Eviction Rental Assistance Program 2.0 (ERAP 2.0) falls under the umbrella of all rental assistance programs at Commerce and is funded solely from CSLFRF (ALN 21.027) under the American Rescue Plan Act (ARPA). The 2.0 designation was used to distinguish it from another similarly named but



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separately funded federal rent assistance program, the Emergency Rental Assistance Program (ALN 21.023). The Department administered this separate program in two parallel efforts as the Treasury Rent Assistance Program 1.0 (TRAP 1.0) under the Consolidated Appropriations Act and as the Treasury Rent Assistance Program 2.0 (TRAP 2.0) under ARPA. ERAP 2.0 implementation began during the fall of 2021 and was administered with much of the same policies and procedures as TRAP.

The Department administers the program through subawards (contracts) with 36 subrecipients (grantees), including Washington State counties, several of whom run combined programs with neighboring counties, and nonprofit organizations already providing housing services in their respective areas of operation. 24 of the 36 grantees were moved from the separate TRAP 1.0 program to ERAP 2.0 about midway through the audit period. Kathryn noted that Opportunity Council has separate contracts for San Juan and Whatcom counties and is counted as two subrecipients. Kathryn estimates a ratio of about 60/40 of county to nonprofit grantees. Some grantees, predominantly counties, subcontract with lower tier service organizations. Emergency assistance may only be provided to households that are in rent arrears and have missed at least one rent payment dating back no later than the start of the pandemic in March 2020.

### ***Grantee Payments***

Kathryn explained categorical budgets are established for each grantee during the initial contracting process to ensure grantee's expenditures meet Treasury's budget requirements for administrative costs and financial assistance. Grantees may only use program funds for allowable activities. Grantees are required to send their budgets to Commerce in order to establish the contract. The amounts included in each budget category and relevant budget caps are established at the time of initial contracting when establishing the grantee's budget. The assigned Grant Coordinator reviews the budget proposal to ensure administrative caps are met before the contract is executed. For ERAP 2.0, administrative costs of grantees are capped at 15% and at least 5% of the budget must be allocated to community-based organizations (CBO). The funds provided to CBOs are categorized under a By-and-For designation. Before the contract is routed to the grantee for their signature, the Program Manager reviews the budget and checks that the allocated amounts are allowable as well (**Key Control #1 - Control Activities**).

Commerce uses the Contract Management System (CMS) to manage a grantee's reimbursement requests and budget information. Grantees access their accounts and submit information into CMS through the Secure Access Washington (SAW) portal. At contract execution, the Grant Coordinator manually enters the budget categories and period of performance from the contract into CMS, along with start and end dates, program description and contact information. Master index codes are assigned for each budget category. Grantees are required to utilize funds on allowable expenses only, as outlined in the ERAP 2.0 Program Guidelines [[ERAP 2.0 Program Guidelines V3 updated August 2022](#)]. Allowable expenses are administration, payments for rent and utilities, and pass-through funding to CBOs. Rent and utility payments may not go directly to the tenant.

Grantees request reimbursement by submitting invoices for expenses in each budget category. Each invoice includes an accounting ledger. Reimbursement requests are due by the 20th of each month. Grantees must invoice the program at least monthly and as frequently as weekly. Larger grantees with subgrantees are required to provide a Voucher Detail Worksheet [[ERAP 2.0 Voucher Detail Worksheet](#)] that identifies each budget category and payment amounts to subgrantees. This worksheet does not contain expenditure line items or rental payments as grantees submit this information in the Monthly Report Forms [[ERAP 2.0 Monthly Report Form](#)], which are due by the 20th of each month. Grantees are not required to submit supporting details when requesting reimbursement. Monthly Report Forms, which do include supporting detail, are not compared to reimbursement requests because the reported amounts wouldn't necessarily match depending on the timing and frequency of invoice submission. We will look at supporting documentation as part of subrecipient monitoring, see: [M. Subrecipient Monitoring - Controls](#).

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Grantees input the requested reimbursement amount for each budget category in CMS. The Grant Coordinator with approved spending authority then reviews the reimbursement request for allowable limits and period of performance and compares the expenditures to the available budget for each expenditure prior to approving payment. If the reimbursement request exceeds the Grant Coordinator's approval limit, the Program Manager reviews and approves it (**Key Control #2 - Control Activities**). Each reimbursement request will have only one approval from either the Grant Coordinator or Program Manager depending on whether the amount requested exceeds the approval limit. CMS displays a warning message to program staff if expenditures exceed the grantee's budget. This warning does not prevent the warrant from being approved, but CMS prevents any payments by the Department above the contract limit. *(Note: We determined that identifying this automated control as a key control was not warranted because the control has a minimal effect on compliance, reimbursement requests rarely exceed contract limits, staff review would occur regardless, and verifying the automated control would be difficult and return little benefit.)* The approved request is sent to the accounting team for final payment. Spending authority allows Grant Coordinators to approve only invoices for specific programs with budget codes for the contracts they are overseeing and limits the reimbursement amount they are able to approve. The Program Manager must request approval from Commerce fiscal and executive management to grant spending authority.

At least quarterly, Grant Coordinators run and review expenditure reports out of CMS to ensure grantees are staying within approved budget categories. If there are issues, the Grant Coordinator sends the report to the Program Manager for review (**Key Control #3 - Control Activities/Monitoring**). Grant Coordinators review expenditure reports by individual contract and program. Copies of the reports are reviewed and maintained by the Program Manager. If a problem is found, the contract and budget in CMS are reviewed first and, if necessary, the program reaches out to the grantee for additional information to reconcile or resolve any expenditure issues. The Program Manager also reviews expenditure reports for the program as a whole.

Kathryn explained grantees are able to request budget revisions by email to move funds between budget categories during the contract period. The Grant Coordinator ensures the revisions are within each budget category and inputs the changes into CMS. Grant Coordinators also conduct technical assistance training on program guidelines and are available for questions on allowable expenses. Training on allowable expenses were held before ERAP 2.0 contracts were executed.

### ***Monitoring Activities***

Kathryn stated that all ERAP 2.0 grantee receives program and fiscal monitoring. This monitoring consists of three components: client file review, Ineligible Use of Funds policy and procedure review, and fiscal back up documentation review.

Program monitoring was done in FY22 through a phased approach that began prior to ERAP 2.0 during the implementation of TRAP 2.0. ERAP 2.0 relies on program monitoring to ensure grantees use program funds for allowable expenses, including rent and utilities, verify household eligibility, verify program paperwork is complete, and review any potential fraud or ineligible uses of program funds. This monitoring includes randomly selecting 5 to 10 household files and collecting every document contained within the client files for review.

Fiscal monitoring is also conducted as part of each grantee's program monitoring. Grant Coordinators request complete fiscal back up documentation for a single invoice, including rent and utility expenses. Source documentation, including a copy of the payment check, and program forms must match and support the expenses listed on the the grantee's general ledger. Payment Forms must be accurately filled out and reflect allowable expenses.

During program and fiscal monitoring, Grant Coordinators review complete documentation in a sample of grantee's client (household) files and review complete

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backup documentation in one invoice sample (reimbursement request) to ensure that rent and utility were allowable (**Key Control #4 - Monitoring**).

Upon completion of program and fiscal monitoring, the results are reviewed and approved by Kathryn before being communicated to the grantee via email as a Monitoring Letter, which is also cc'ed to Kathryn. The Monitoring Letter identifies results according to findings, discrepancies, recommendations, strengths, and a corrective action plan, if needed. Monitoring findings that require the grantee to pay back funds are reviewed by the HAU Managing Director before the monitoring results are sent. Grantees are required to respond to corrective action plans within two weeks. Kathryn noted that some monitoring takes up to four months from start to finish. During FY22, the Department initiated monitoring for 22 grantees; however, it completed monitoring for only 13 of those grantees. We noted that 3 grantees were not included on the monitoring tracking sheet. We also identified that GEOCKO was miscategorized as a subrecipient (subobject NZ) when it is a vendor, and we removed it from our subrecipient population and subtracted expenditures totaling \$8,306,434.70. Therefore, we determined that the Department did not complete monitoring of 20 of 32 ERAP 2.0 grantees (or 62.5%) during FY22 to ensure funds totaling \$67,865,271.53 (or 63.7% of total grant expenditures). (**Control Weakness**). For more information on monitoring activities, see: M. Subrecipient Monitoring - Controls.

Based on our understanding and feedback from the Department [Internal Control request letter - Activities Allowed-Cost Principles], we identified the following key internal controls:

### Summary of Key Internal Controls:

**Key Control #1:** Prior to contract execution, Grant Coordinators review each budget category to ensure it does not exceed budget cap requirements. The Program Manager then reviews grantee's budget to ensure allocated amounts are allowable, before the contract is routed to the grantee for their signature. (Control Activities)

**Key Control #2:** Grant Coordinators with approved spending authority reviews the reimbursement request for allowable limits and period of performance, then compares the expenditures to the available budget for each expenditure prior to approving payment. If the reimbursement request exceeds the spending authority, the Program Manager reviews and approves payment. (Control Activities)

**Key Control #3:** At least quarterly, Grant Coordinators run expenditure reports out of CMS and review expenditure issues with the Program Manager to ensure grantee's are staying within approved budget categories. (Control Activities/Monitoring)

**Key Control #4:** During program and fiscal monitoring, Grant Coordinators review complete documentation in a sample of grantee's client (household) files and review complete backup documentation in one invoice sample (reimbursement request) to ensure that rent and utility were allowable. (Monitoring) *Note: Testing will be performed for subrecipient monitoring to ensure this control for activities allowed is in place and operating as intended:* M. Subrecipient Monitoring - Controls

### Summary of Control Weakness:

**Control Weakness:** The Department did not complete monitoring of 20 of 32 ERAP 2.0 grantees (or 62.5%) during FY22 to ensure funds totaling \$67,865,271.53 (or 63.7% of total grant expenditures) were used for allowable activities.

**Evaluation of Results:** We identified control deficiencies.

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1. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.
2. We determined that the Department did not require source documentation to support grantees' reimbursement requests to ensure that expenditures were for allowable activities. Instead, the Department relied on monitoring; however, we determined that the Department did not complete monitoring for 20 of 32 grantees (or 62.5%) totaling \$67,865,271.53 (or 63.7% of total grant expenditures) to ensure that expenditures incurred during FY22 were allowable. See also: M. Subrecipient Monitoring - Controls.

### **Preliminary Control Risk Assessment**

#### **Step 4**

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). See: 2022-019 The Department of Commerce did not have adequate internal controls over and did not comply with requirements for monitoring subrecipients to ensure payments were allowable, properly supported, and met period of performance requirements for the Co.

### **E.6.PR.G - 21.027-Coronavirus State and Local Fiscal Recovery Funds - COM**

***Procedure Step:*** H. Period of Performance - Controls

***Prepared By:*** TF, 2/17/2023

***Reviewed By:*** ACS, 2/24/2023

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 key internal controls the agency has established to prevent or detect noncompliance with period of performance requirements.

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

#### **Source:**

Gena Allen, Internal Control Officer

Kathryn Dodge, Treasury Rental Assistance Program Manager

#### **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.

"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

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

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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).

#### **§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

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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 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 risks when designing our tests of compliance.

- The Coronavirus State and Local Fiscal Recovery Fund (CSLFRF) is considered a "higher risk" program in the 2022 Compliance Supplement.
- CSLFRF is a new program launched on March 3, 2021.
- Treasury guidance was initially released in March 2021 and last updated in January 2022.

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**

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:

#### **H. Period of Performance**

The period of performance for the award under CSLFRF begins on the date the awards are issued (i.e., the date funds are disbursed to recipients) and ends on December 31, 2026, pursuant to the Financial Assistance Agreement.

Recipients may only use funds to cover costs incurred during the period beginning on March 3, 2021 and ending on December 31, 2024, per section 602(g)(1) of the Social Security Act as added by section 9901 of the American Rescue Plan Act of 2021, Pub. L. No. 117-2 and Treasury's Interim Final Rule and Final Rule at 31 CFR section 35.5(a). Recipients must liquidate all obligations incurred by December 31, 2024 under the award no later than December 31, 2026, which is the end of the period of performance. As such, auditors should test that recipients only used award funds to cover costs incurred from the period beginning on March 3, 2021 and ending on December 31, 2024. Auditors should also test that recipients did not incur and apply to their award any new costs during the period beginning December 31, 2024 and ending on December 31, 2026. During this two-year period, recipients are only permitted to liquidate all obligations they incurred by December 31, 2024.

### **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.

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Kathryn Dodge, Treasury Rent Assistance Program Manager, provided the following:

- Internal Controls Response: Internal Control request letter - Period of Performance
- ERAP 2.0 Contract Template (Interagency Agreement - Local Government): ERAP 2.0 Contract Template (Interagency Agreement - Local Government)
- ERAP 2.0 Contract Template (Grant Agreement - Nongovernmental): ERAP 2.0 Contract Template (Grant Agreement - Nongovernmental)
- ERAP 2.0 Amendment Template: ERAP 2.0 Contract Amendment Template

We met with Kathryn Dodge and Gena Allen, Internal Control Officer, on February 9, 2023 to gain an understanding of internal controls over period of performance. We identified the period of performance as March 3, 2021 through December 31, 2024. Rental assistance cannot be provided on arrears accrued before March 1, 2020.

Kathryn explained that the Eviction Rent Assistance Program 2.0 (ERAP 2.0) has a separate contract with the period of performance listed on the contract facesheet as the "Start Date" and "End Date", which is used for all grantees receiving program funds. These dates are checked by the Program Manager before the contract is executed. In addition to the period of performance, the contract also includes grantee information and their allocated budget. Once signed and finalized, the contract is set up in the Contract Management System (CMS), Commerce's contracting and reimbursement management system. The "Cost Date" is also included in CMS, which is the date that the grantee can start incurring expenses, and this is always the same as the "Start Date". Changes to the grantee's profile within CMS are restricted to authorized personnel. The Start Date and End Date can only be edited through the execution of a contract amendment.

Reimbursement requests can be submitted by the grantees and processed for expenses incurred during the period of performance. Each request includes a time period for when the expenses occurred, which grantees enter as the "Service From" and "Service To" dates. After the grantee submits the reimbursement request in CMS, the Grant Coordinator reviews the invoice to ensure that the reimbursement period does not fall outside the period of performance. CMS has built-in controls to alert the Grant Coordinator and prevent payment by Fiscal for expenditures incurred outside the period of performance. (**Key Control #1 - Control Activities**) Kathryn informed us that Grant Coordinators will see a warning message in CMS if the service date range on the invoice is outside of the contract period when approving the warrant; however, this warning does not prevent the warrant from being approved and sent to Fiscal for final review and payment. If the invoice date does not align with the contract period, Fiscal must adjust the start date by amending the contract with the grantee before CMS will allow the invoice to be paid.

Based on our understanding and feedback from the Department [Internal Control request letter - Period of Performance], we identified the following key internal control:

### **Summary of Key Internal Controls:**

**Key Control #1:** The Grant Coordinator reviews the "Service From" and "Service To" dates on a grantee's reimbursement request in CMS to ensure that the reimbursement period for when the expenses occurred does not fall outside of the period of performance. CMS has built-in controls to alert the Grant Coordinator and prevent payment by Fiscal for expenditures incurred outside the period of performance. (Control Activities)

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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 to determine if we can place reliance on the controls.

## **E.6.PRG - 21.027-Coronavirus State and Local Fiscal Recovery Funds - COM**

***Procedure Step:*** I. Suspension and Debarment - Controls

***Prepared By:*** TF, 2/17/2023

***Reviewed By:*** ACS, 2/24/2023

Purpose/Conclusion.\*

### **Purpose:**

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

To identify key internal controls the agency has established to prevent or detect noncompliance with suspension and debarment requirements.

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

### **Source:**

Gena Allen, Internal Control Officer

Kathryn Dodge, Treasury Rent Assistance Program Manager

### **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**

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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

### 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

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**

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## 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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:**

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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).

### 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

## State of Washington

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 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

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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 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 risks when designing our tests of compliance.

- The Coronavirus State and Local Fiscal Recovery Fund (CSLFRF) is considered a "higher risk" program in the 2022 Compliance Supplement.
- CSLFRF is a new program launched on March 3, 2021.
- Treasury guidance was initially released in March 2021 and last updated in January 2022.

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

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:

#### I. Procurement and Suspension and Debarment

1. Procurement - During planning, Commerce identified a total of \$16,639,683 in total procurement contracts or 1.45% of CSLFRF expenditures during SFY22. We determined that procurement is **not** direct and material to the program. ***Not applicable.***
2. Suspension and Debarment - Prior to entering into subawards and contracts with award funds, recipients must verify that such contractors and subrecipients are not suspended, debarred, or otherwise excluded pursuant to 31 CFR section 19.300.

### 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.

Kathryn Dodge, Treasury Rent Assistance Program Manager, provided the following:

- Internal Controls Response: Internal Control request letter - Suspension & Debarment
- ERAP 2.0 Contract Template (Interagency Agreement - Local Government): ERAP 2.0 Contract Template (Interagency Agreement - Local Government)
- ERAP 2.0 Contract Template (Grant Agreement - Nongovernmental): ERAP 2.0 Contract Template (Grant Agreement - Nongovernmental)

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- ERAP 2.0 Amendment Template: [ERAP 2.0 Contract Amendment Template](#)

We met with Kathryn Dodge and Gena Allen, Internal Control Officer, on February 9, 2023 to gain an understanding of internal controls over suspension and debarment.

Kathryn explained that the Eviction Rent Assistance Program 2.0 (ERAP 2.0) follows a procedure to verify a subrecipient's suspension and debarment status. Grant Coordinators search grantees by legal name or UEI on SAM.gov to ensure the entity is not suspended or debarred (**Key Control #1 - Control Activities**). The search results are captured as a PDF and saved in the program's records. All verification occurs prior to executing contracts with ERAP 2.0 grantees.

Kathryn added that all ERAP 2.0 contracts include suspension and debarment language in the general terms and conditions. Grantees certify that they are not presently suspended or debarred when they sign a contract with the Department that also includes provisions that the grantee will not enter into covered transactions with lower tier entities that are suspended or debarred (**Key Control #2 - Control Activities**).

Gena added that, in the future, the Department intends to eliminate the first key control of verifying entities' S&D status in SAM.gov because federal regulations only require one verification to be performed. She stated that the contract terms and conditions alone provide a reasonable level of assurance to prevent noncompliance.

Based on our understanding and feedback from the Department [[Internal Control request letter - Suspension & Debarment](#)], we identified the following key internal controls:

## **Summary of Key Internal Controls:**

**Key Control #1** - Prior to executing a contract, Grant Coordinators search the grantee's suspension and debarment status on SAM.gov and retain a PDF copy of the search results to ensure the entity is not presently suspended or debarred (Control Activities).

**Key Control #2** - Grantees certify that they are not presently suspended or debarred when they sign a contract with the Department that also includes provisions that the grantee will not enter into covered transactions with lower tier entities that are suspended or debarred (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 to determine if we can place reliance on the controls.

# State of Washington

## E.6.PR.G - 21.027-Coronavirus State and Local Fiscal Recovery Funds - COM

**Procedure Step:** M. Subrecipient Monitoring - Controls

**Prepared By:** TF, 4/13/2023

**Reviewed By:** ACS, 4/17/2023

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 key internal controls the agency has established to prevent or detect noncompliance with subrecipient monitoring requirements. To provide a preliminary control risk assessment based upon our understanding of the internal controls.

**Source:**

Gena Allen, Internal Control Officer  
Kathryn Dodge, Rental Assistance Program Manager

**Conclusion:**

Federal Award Identification

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.

Risk Assessments

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.

Monitoring Activities

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). See: 2022-019 The Department of Commerce did not have adequate internal controls over and did not comply with requirements for monitoring subrecipients to ensure payments were allowable, properly supported, and met period of performance requirements for the Co

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## Subrecipient Single Audits

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.

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 200.332(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

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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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 200.332(a)(1).

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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>**.
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).

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 200.331, .332, 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):

| <i>Subaward Contract Checklist</i>  |   |
|---|---|
| Element   | Element   |
| (i) Subrecipient name (which must match the name associated with its unique entity identifier); | (viii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current |

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|   |   |
|---|---|
|   | obligation;   |
| (ii) Subrecipient's unique entity identifier;   | (ix) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;  |
| (iii) Federal Award Identification Number (FAIN);   | (x) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);   |
| (iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency; | (xi) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;  |
| (v) Subaward Period of Performance Start and End Date;  | (xii) Assistance Listings number and Title; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement; |
| (vi) Subaward Budget Period Start and End Date;   | (xiii) Identification of whether the award is R&D; and  |
| (vii) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;    | (xiv) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).   |

### 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?



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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 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 risks when designing our tests of compliance.

- The Coronavirus State and Local Fiscal Recovery Fund (CSLFRF) is considered a "higher risk" program in the 2022 Compliance Supplement.
- CSLFRF is a new program launched on March 3, 2021.
- Treasury guidance was initially released in March 2021 and last updated in January 2022.

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

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## 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 which activities and costs are allowed or unallowed. We identified the following:

### M. Subrecipient Monitoring

From the Compliance Supplement: The subrecipient or beneficiary designation is an important distinction as funding provided to beneficiaries is not subject to audit pursuant to the Single Audit Act and 2 CFR Part 200, Subpart F, but funding provided to subrecipients is subject to those audit requirements. When recipients of CSLFRF provide award funds to entities to respond to the negative economic impacts of COVID-19 as end users, and not for the purpose of carrying out program requirements, the entities receiving such funding are beneficiaries of CSLFRF. Alternatively, when recipients of CSLFRF provide award funds to an entity to carry out a program on behalf of the CSLFRF recipient, the entities receiving such funding are subrecipients.

Requirements for PTE's are identified in [2 CFR 200.332](#) of the Uniform Guidance including 14 required elements for federal award identification:

- (i) Subrecipient name (which must match the name associated with its unique entity identifier);
- (ii) Subrecipient's unique entity identifier (UEID);
- (iii) Federal Award Identification Number (FAIN);
- (iv) Federal Award Date (see the definition of *Federal award date* in [§ 200.1 of this part](#)) of award to the recipient by the Federal agency;
- (v) Subaward Period of Performance Start and End Date;
- (vi) Subaward Budget Period Start and End Date;
- (vii) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;
- (viii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current financial obligation;
- (ix) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
- (x) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- (xi) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;
- (xii) Assistance Listings number and Title; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement;
- (xiii) Identification of whether the award is R&D; and
- (xiv) Indirect cost rate for the Federal award (including if the de minimis rate is charged) per [§ 200.414](#).

A pass-through entity (PTE) must:

- *Identify the Award and Applicable Requirements* – Clearly identify to the subrecipient:
  - (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.332(a)(1);
  - (2) all requirements imposed by the PTE on the subrecipient so that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.332(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the federal award (e.g., financial, performance, and special reports) (2 CFR section 200.332(a)(3)).
- *Evaluate Risk* – Evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.332(b)). This evaluation of risk may include consideration of such factors as the following:

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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 single audit in accordance with 2 CFR Part 200, Subpart F, and the extent to which the same or similar subaward has been audited as a major program;
  3. Whether the subrecipient has new personnel or new or substantially changed systems; and
  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).
- *Monitor* – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.332(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:
    1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
    2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
    3. Issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.
  - *Ensure Accountability of For-Profit Subrecipients* – **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.

Kathryn Dodge, Program Manager for the Eviction Rent Assistance Program 2.0 provided the following policies and procedures:

- Internal Control Letter Response: Internal Control request letter - Subrecipient Monitoring
- Community Services and Housing Division (CASHD) Monitoring Procedure: CASHD Monitoring Procedures
- CASHD Monitoring Definitions: CASHD Monitoring Definitions
- ERAP 2.0 Monitoring Plan: ERAP 2.0 Monitoring Plan
- ERAP 2.0 Client File Monitoring Form: ERAP 2.0 Client File Monitoring Form
- ERAP 2.0 Policy and Fiscal Review Monitoring Form: ERAP 2.0 Policy and Fiscal Review Monitoring Form
- ERAP 2.0 Monitoring Report Letter: ERAP 2.0 Monitoring Report Letter
- ERAP 2.0 Program Guidelines: ERAP 2.0 Program Guidelines V3 updated August 2022
- Federal Award Elements Guidance: 14 Subaward Elements Guidance for ERAP 2.0 Contracts
- Risk Assessment Procedures: HAU Risk Assessment Procedures Sept 2022
- Risk Assessment Template: OFAH Risk Assessment Template Jan 2022
- ERAP 2.0 Monitoring Tracking Spreadsheet: ERAP 2.0 Subrecipient Monitoring Tracking Spreadsheet

We met with Kathryn Dodge, Treasury Rent Assistance Program Manager, on February 15, 2023 to gain an understanding over the process and internal controls

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for subrecipient monitoring. Kathryn stated that ERAP 2.0 has 36 subrecipients (grantees) of which four did not expend CSLFRF during the audit period. She confirmed that 24 of 32 subrecipients with program expenditures were transferred from the Treasury Rental Assistance Program (TRAP) (ALN 21.023) program during FY22. One entity, Opportunity Council, serves two counties, San Juan and Whatcom, under different subawards (contracts).

During our review, we determined the Department did not have adequate controls to properly identify the subrecipient population, subawards, subaward amounts, and applicable requirements for the FY22 audit period (**Control Weakness #1**). After multiple emails with Kathryn regarding errors in the subrecipient and subaward population, the Department provided us with a final list of 48 subrecipients. After further examination, we identified 11 of 48 subrecipients (or 22.9%) that did not have contracts or contract amendments executed during FY22 and should not have been included in the FY22 subrecipient population. One of the 11 subrecipients was an ERAP 2.0 subrecipient with a FY23 contract. The remaining 10 subrecipients were FY22 Emergency Rental Assistance TRAP 2.0 (21.023) grantees but did not become SLFRF ERAP 2.0 (21.027) subrecipients until FY23, which is after the audit period. We also determined that total subaward amounts reported for FY22 SLFRF subrecipients also included amounts awarded during FY23 causing the subaward totals to be overreported for the FY22 audit period.

### ***Federal Award Identification***

Kathryn explained that the contracts office is responsible for maintaining and updating contract templates used for federal awards across the Department. During the summer of 2021, Commerce began replacing the DUNS number for all grantees with UEIs and amended all of its contracts with grantees to come into compliance with the federal requirements. The Department's centralized contract office uses standardized templates to ensure all federal awards include required information in Department contracts (**Key Control #1 - Control Activities/Information & Communication**).

The ERAP 2.0 program requires grantees to fill out an application form to collect required subrecipient information, including the UEI number, that is entered on contract facesheets and in the Contract Management System (CMS). Once a contract is prepared, it is first reviewed by Kathryn, then reviewed and signed by Kathy Kinard, Office of Family and Adult Homelessness (OFAH) Manager, before going to the grantee for signature. The Assistant Director of the Housing Division, reviews and signs the final contract to ensure that the federal award elements are included and properly identified to the subrecipient (**Key Control #2 - Control Activities**). All signatures are documented electronically in DocuSign.

### ***Risk Assessment***

Kathryn stated that the Department uses a standardized risk assessment template for all federal awards and noted that many programs use the same template for state programs as well. Within the template [[OFAH Risk Assessment Template Jan 2022](#)], a tab is created for each federal program which is completed by the Program Manager. The template includes standard questions to assess risk, including the grantee's experience with federal awards, managing subgrantees, staff turnover, past budget issues, and performance challenges. Additional questions are tailored to the specific program. Any prior Department experience working with the subrecipient is also taken into consideration. Department policy and housing division policy requires risk assessments to be completed within 90 days of contract execution. Grant Coordinators conduct risk assessments and determine scores through an organizational review and questionnaire process for each grantee. Kathryn noted that risk assessments for most ERAP 2.0 grantees began in the fall of 2021 and were concluded by January 2022.

At the time of contract execution, Kathryn meets with and sets deadlines for Grant Coordinators to complete risk assessments within 90 days. Grant Coordinators notify Kathryn by email, Teams message, 1-on-1 meetings, or team meetings that assessments are completed and ready for review and approval. Ongoing

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monitoring and planning occur in weekly team meetings and other team communications. Kathryn stated that the program does not maintain any formal tracking documentation to monitor the risk assessment process from start to finish. In an email response on February 16, 2023, she explained that evidence of the risk assessment process through team communication is saved electronically. The Program Manager reviews and approves completed risk assessments to ensure each grantee receives the appropriate level of monitoring (**Key Control #3 - Control Activities**). We requested a sample risk assessment, see [\[Sample OFAH Risk Assessment \(Grant County\) Jan 2022\]](#). We noted that the program does not have well-defined procedures for the risk assessment process.

### *Monitoring Activities*

Kathryn stated that all ERAP 2.0 grantee receives program and fiscal monitoring. This monitoring consists of three components: client file review, Ineligible Use of Funds policy and procedure review, and fiscal back up documentation review.

Program monitoring was done in FY22 through a phased approach that began prior to ERAP 2.0 during the implementation of TRAP 2.0. ERAP 2.0 relies on program monitoring to ensure grantees use program funds for allowable expenses, including rent and utilities, verify household eligibility, verify program paperwork is complete, and review any potential fraud or ineligible uses of program funds. This monitoring includes randomly selecting 5 to 10 household files and collecting every document contained within the client (household) files for review; however, we noted on the ERAP 2.0 monitoring tracking sheet a footnote indicating that about a dozen grantees only had one client file examined. Grantees are also required to have a policy and procedure for preventing and addressing potential ineligible use of funds, that in part, addresses how to prevent funding of fraudulent applications. This policy is also examined during monitoring. Commerce provided us with their fraud policy guidance for grantees [\[Ineligible Use of Funds and Fraud Policy updated 7.6.22\]](#).

Grant Coordinators work with the Program Manager to identify grantees for monitoring and a tracking sheet is maintained, see [\[ERAP 2.0 Subrecipient Monitoring Tracking Spreadsheet\]](#). Grantees with high risk assessment scores are prioritized. Typically two to three organizations are monitored at a time by each Grant Coordinator with at least two being identified as high risk, and the third as lower risk. An email is sent to the grantee requesting all documentation with a 30 day deadline to respond. Some grantees request an extension. Once documentation is received, the Grant Coordinator conducts the review using the program's Monitoring Form [\[ERAP 2.0 Client File Monitoring Form\]](#), which takes about a month.

Grant Coordinators conduct program monitoring to review all household and program documentation in client files to ensure that only allowable rent and utility expenses were utilized for eligible households (**Key Control #4 - Monitoring**).

Monitoring results are reviewed and approved by the Program Manager prior to being communicated via an emailed Monitoring Letter [\[ERAP 2.0 Monitoring Report Letter\]](#) that summarizes results by findings, discrepancies, recommendations, strengths, and a corrective action plan, if needed. Monitoring findings that require the grantee to pay back funds are reviewed by the HAU Managing Director before the monitoring results are sent. Common discrepancies are missing household identifiers across paperwork and fair market rent values being rounded up when they must be recorded exactly. Application and eligibility documentation provided by households to grantees is also reviewed to check that it is not in excess of program requirements to ensure that equity requirements are met and an undue burden was not placed on the applicant, except to prevent fraud or ineligible use of funds. Grantees are required to respond to corrective action plans within two weeks.

Fiscal monitoring is also conducted as part of each grantee's program monitoring. Grant Coordinators request complete fiscal back up documentation with rent and utility expenses for a specific invoice. Once documentation is received, the Grant Coordinator conducts the review using the program's Monitoring Form

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[[ERAP 2.0 Policy and Fiscal Review Monitoring Form](#)]. Source documentation, including a copy of the payment check, and program forms must match and support the expenses listed on the the grantee's general ledger. Payment Forms must be accurately filled out and reflect allowable expenses. Grant Coordinators conduct fiscal monitoring on an invoice sample and review all back up documentation for rent and utility expenses to ensure the expenditures were allowable (**Key Control #5 - Monitoring**). Upon completion, the results are reviewed with Kathryn before being communicated to the grantee via email and cc'ed to the Program Manager.

Kathryn noted that some monitoring takes up to four months from start to finish. During FY22, the Department initiated monitoring for 22 grantees; however, it completed monitoring for 13 grantees. We determined one of the 13 grantees, Thurston County, was not an ERAP 2.0 subrecipient and did not have SLFRF expenditures during the audit period. (*see also Control Weakness #1 regarding Department problems identifying FY22 subrecipients*). Therefore, we determined that the Department did not complete monitoring of 20 of 32 ERAP 2.0 grantees (or 62.5%) during FY22 to ensure funds totaling \$67,865,271.53 (or 63.7% of total grant expenditures) were used for allowable activities. (**Control Weakness #2**). Several grantees began a second round of monitoring in FY23. Grant Coordinators are also responsible for monitoring requirements for programs other than ERAP 2.0 contributing to capacity issues and delays. During the audit period, the program as a whole typically had three to four Grant Coordinators on staff, although this fluctuated between about two to six. Staffing turnover and training has also contributed to delays. As noted in our understanding for activities allowed, the Department does not require grantees to submit supporting details when requesting reimbursement and instead relies on fiscal monitoring, see [A-B. Activities Allowed/Cost Principles - Controls](#).

### ***Subrecipient Single Audits***

We received a detailed response to our internal control request letter on January 27, 2023 from Gena Allen, Internal Control Officer, regarding single audit requirements and the Department-wide process that includes ERAP 2.0 and all other rental assistance programs. Gena starts by running an ad hoc report in CMS to identify subrecipients and contractors with active expenditures of federal funds in the last two years. The Budget Team reviews any vendors that can't be tied to a specific federal award to determine if they should be included on the list of federal recipients.

Starting with entities receiving federal monies in FY21, Gena searched the Federal Audit Clearinghouse (FAC) to verify that the subrecipient completed a single audit, if required. All entities are tracked in a Management Decision spreadsheet, all audit reports are kept in a FAC verification folder, and those entities with Commerce-related findings include "FINDING" in the document title. The single audit information documented includes the FAC filing date, subrecipient fiscal year, verification date by Gena, the amount awarded, the finding (if applicable), and certification form status. If the subrecipient received a finding, she contacts the staff responsible for resolving the finding to check on progress and documents the call. Gena issues a Management Decision letter for any subrecipients with Commerce-related findings that is reviewed and approved by the Chief Financial Officer. For subrecipients that have not or are late filing with with FAC, she verifies certification submission status with the entity or SAO. All late filers are documented and forwarded to the associated program at Commerce for inclusion in their risk assessment process. All cities and counties receiving federal monies are reviewed even if they do not meet the \$750,000 single audit threshold. She then requests a list of vendors from all programs, including ERAP 2.0, to verify her list is complete.

The Internal Control Officer (Gena Allen) uses a centralized Management Decision spreadsheet to track which subrecipients require a single audit and monitor the resolution of those entities that receive single audit findings (**Key Control #6 - Monitoring**).

Based on our understanding and feedback from the Department [[Internal Control request letter - Subrecipient Monitoring](#)], we identified the following key internal controls:

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## **Summary of Key Internal Controls:**

**Key Control #1:** The Department's centralized contract office uses standardized templates to ensure all federal awards include required information in Department contracts. (Control Activities/Information & Communication)

**Key Control #2:** The Assistant Director of the Housing Division reviews and signs the final contract to ensure that the federal award elements are included and properly identified to the subrecipient. (Control Activities)

**Key Control #3:** The Program Manager (Kathryn Dodge) reviews and approves completed risk assessments to ensure each grantee receives the appropriate level of monitoring. (Control Activities)

**Key Control #4:** Grant Coordinators conduct program monitoring to review all household and program documentation in client files to ensure that only allowable rent and utility expenses were utilized for eligible households. (Monitoring)

**Key Control #5:** Grant Coordinators conduct fiscal monitoring on an invoice sample and review all back up documentation for rent and utility expenses to ensure the expenditures were allowable. (Monitoring)

**Key Control #6:** The Internal Control Officer (Gena Allen) uses a centralized Management Decision spreadsheet to track subrecipients requiring a single audit and monitor the resolution of those entities that receive single audit findings. (Monitoring)

## **Summary of Control Weaknesses:**

**Control Weakness #1:** We determined the Department did not have adequate controls to ensure it could properly identify subrecipients with subawards, including award amounts, during the FY22 audit period. We determined that 11 of 48 subrecipients (or 22.9%) identified by the Department were outside the scope of our audit.

**Control Weakness #2:** We determined that the Department did not complete monitoring of 20 of 32 ERAP 2.0 grantees (or 62.5%) during FY22 to ensure funds totaling \$67,865,271.53 (or 63.7% of total grant expenditures) were used for allowable activities.

**Evaluation of Results:** We identified control deficiencies.

### Federal Award Identification

No control deficiencies.

### Risk Assessments

No control deficiencies.

### Monitoring Activities

1. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of

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noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.

2. We determined that the Department did not complete monitoring of 20 of 32 ERAP 2.0 grantees (or 62.5%) totaling \$67,865,271.53 (or 63.7% of total grant expenditures) to ensure that expenditures incurred during FY22 were allowable. See: 2022-019 The Department of Commerce did not have adequate internal controls over and did not comply with requirements for monitoring subrecipients to ensure payments were allowable, properly supported, and met period of performance requirements for the Co

### Subrecipient Single Audits

No control deficiencies.

### Preliminary Control Risk Assessment

#### **Step 4**

#### Federal Award Identification

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.

#### Risk Assessments

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.

#### Monitoring Activities

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). See: 2022-019 The Department of Commerce did not have adequate internal controls over and did not comply with requirements for monitoring subrecipients to ensure payments were allowable, properly supported, and met period of performance requirements for the Co

### Subrecipient Single Audits

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.

## E.7.PR.G - 21.027-Coronavirus State and Local Fiscal Recovery Funds - ESD

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

**Prepared By:** ACS, 5/5/2023

**Reviewed By:** MKH, 5/18/2023



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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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

**Source:**

Denice Craig, Employer Services Manager (ESD)

Jay Summers, External Audit Manager (ESD)

Rayanna Evans, Budget Advisor (OFM)

**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)

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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.

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)

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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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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)

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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.

**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

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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;

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;

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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 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.

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## **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;
- (g) §200.332 Fixed amount subawards;
- (h) §200.413 Direct costs, paragraph (c);
- (i) §200.430 Compensation—personal services, paragraph (h);

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- (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.

#### **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



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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)<br/>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                              |

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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 <b>types</b> 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 <b>only</b> 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.

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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.

**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.

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**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.
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

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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.:

#### **Note: New provisions that have been added to UG:**

2CFR 200.215 – Never contract with the enemy (effective November 12, 2020)

2CFR 200.216 - Prohibition on certain telecommunications and video surveillance services or equipment (Effective August 13, 2020)

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## **Inherent Risk of Noncompliance**

### **Step 1**

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 risks when designing our tests of compliance.

- The Coronavirus State and Local Fiscal Recovery Fund program (21.027) is designated as "higher-risk" by the federal government (OMB and Treasury). Compliance with spending requirements depends upon states' interpretations of requirements listed in the FAQ and Treasury Final Rule issued in 2021.

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**

Recipients may use CSLFRF payments for any eligible expenses subject to the restrictions set forth in sections 602 and 603 of the Social Security Act as added by section 9901 of the American Rescue Plan Act of 2021 (codified as 42 USC 802 and 42 USC 803 respectively), Treasury's Interim Final Rule and Final Rule at 31 CFR sections 35.7 and 35.8, and FAQs at (<https://home.treasury.gov/system/files/136/SLFRPFAQ.pdf>).

The following activities are not permitted under CSLFRF:

- Offset a reduction in net tax revenue (applicable to states and territories)
- Deposits into pension funds (applicable to all recipients except Tribes)
- Debt service or replenishing financial reserves (e.g., "rainy day funds") (applicable to all recipients)

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- Satisfaction of settlements and judgements (applicable to all recipients)
- Programs, services, or capital expenditures that include a term or condition that undermines efforts to stop the spread of COVID-19 (applicable to all recipients)

Recipients may use payments from CSLFRF to:

- Support public health expenditures, by funding COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff;
- Address negative economic impacts caused by the public health emergency, including economic harms to workers, households, small businesses, impacted industries, and the public sector;
- Replace lost public sector revenue to provide government services; recipients may use this funding to provide government services to the extent of the reduction in revenue experienced due to the pandemic.
- Provide premium pay for essential workers, offering additional support to those who have borne and will bear the greatest health risks because of their service in critical infrastructure sectors; and
- Invest in water, sewer, and broadband infrastructure, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure, and to expand access to broadband internet.

Under the Final Rule, recipients can elect a one-time “standard allowance” of \$10 million (not to exceed the recipient’s award amount) to spend on the “provision of government services” during the period of performance. Alternatively, recipients can calculate lost revenue based on the formula provided in the Final Rule to determine the limit for the amount of CSLFRF funds that can be used for the “provision of government services.” Recipients should provide auditors with evidence that they meet the requirements to elect the standard allowance or provide auditors with evidence supporting their revenue loss calculation.

The dollar amount of the revenue loss determines the limit for the amount of CSLFRF funds that can be used to “provide government services” (which is one of four eligible uses of CSLFRF funds). For SEFA reporting purposes, the aggregate expenditures for all four eligible use categories are reported on the SEFA and not the result of the revenue loss calculation or standard allowance. See the IV, “Other Information” section below for guidance on the related Schedule of Expenditures of Federal Award reporting.

### Indirect Costs

There were no indirect costs charged to this program by ESD. We confirmed this through our review of AFRS expenditure activity in reconciling to the SEFA.

### Material Expenditures

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

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- Subobject MB - Interfund Operating Transfer Out (\$499,969,715)

### 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 2/13/2023, we met with Denice Craig, and Jay Summers, External Audit Manager at ESD to discuss the Department's use of SLFRF funds for Unemployment Insurance (UI) premium forgiveness. The Department worked with Rayanna Evans, [Budget Advisor] at OFM to request and approve the use of SLFRF funding for Unemployment premium forgiveness for employers unable to cover UI premium payments for the CY2021 (tax year 2020). Denice explained that the Department received approval from OFM (through funding appropriated by the Legislature) to apply up to \$500,000,000 of SLFRF funding to the Unemployment Insurance Trust Account for forgiveness of UI premiums due from employers of varying sizes for the year 2021 that were determined to be at risk of economic hardship if required to pay in full.

We met with Rayanna Evans to gain an understanding of the approval to use SLFRF funding for UI premium forgiveness for employers. Rayanna explained that per SB5478, passed on May 12, 2021 that the Department was to be allocated \$500 million through the State Legislature to fund employer UI premium contributions, and that this decision was entered into with OFM's approval of legal counsel. The federal government provided guidance to states on using American Rescue Plan Act (ARPA) funds for replenishing unemployment trusts, wherein the states could *"use ARPA funds to make a deposit to the State UI trust fund equal to the net drawdown of the UI trust fund that occurred between the period of January 20, 2020 and May 17, 2021"* (see [link](#)). The guidance further outlined in Treasury's Final Rule indicates that states must initiate any transfers by April 1, 2022 to maintain the flexibility of managing UI program benefits. **Through the legislative budget appropriation process, OFM approved the allocation of \$500 million to ESD for UI premium forgiveness. This was done through a Journal Voucher. (Key Control #1 - Control Activities)** The unemployment insurance relief account was created through SB5478 by which the ESD commissioner may authorize disbursements from the UI Relief Account for unemployment compensation forgiven benefits.

To determine how much could be utilized, ESD's data integrity unit ran reports from the Next Generation Tax (NGTS) system to identify employers experiencing employment turnover/layoffs as a result of the pandemic. In the SB5478, ESD was instructed to determine the amount of forgiven benefits for employers of varying magnitudes which included:

**Category 1** - A UI contribution-paying employer with 20 or fewer employees in Q4 CY2020, with an experience rating that increased by 3 or more rate classes in tax rate year 2022, and belongs under any of the following NAICS codes: (323, 331, 448, 451, 453, 481, 485, 487, 512, 711, 712, 713, 721, 722, 812 or 814) for tax year 2021.

**Category 2** - A UI contribution-paying employer (not from category 1) with an experience rating that increased by 3 or more rate classes in tax rate year 2022, and belongs under any of the following NAICS codes: (323, 331, 448, 451, 453, 481, 485, 487, 512, 711, 712, 713, 721, 722, 812 or 814) for tax year 2021.

**Category 3** - A UI contribution-paying employer with 20 or fewer employees in Q4 CY2020, with an experience rating that increased by 4 or more rate classes in tax rate year 2022, and does not fall under Category 1 or 2.

**Category 4** - A UI contribution-paying employer with between 21 and 5,000 employees in Q4 CY2020, with an experience rating that increased by 4 or more



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rate classes in tax rate year 2022, and does not meet the requirements of Categories 1, 2 or 3.

Funding awarded to each Category of employers is as follows:

- \$100 million to Category 1
- \$175 million to Category 2
- \$75 million to Category 3
- \$150 million to Category 4

If all qualified employers received forgiveness under their respective eligible category, and unspent funding from the allocations above exists, the Department is permitted to carry-over that funding into additional underserved Categories.

Under the [SB5478](#), any remaining funding available from the UI Relief Account after forgiveness of benefits to category 1, 2, 3 and 4 employers by December 31, 2021 must be used for funding additional UI premium forgiveness beginning with category 1 and following the same methodology as above. ESD is also required to assess by September 1st annually, which employers did not enter into a deferred payment contract and provide technical assistance as needed to enter into a department-approved payment deferment contract. UI premium relief expires July 30, 2022.

Denice Craig, Employer Services Manager oversaw the NGTS reporting process to determine based on CY2020 tax data which employers with UI premium contributions in tax year 2021 qualified for forgiveness. The report is located at [SB5478-ProductionResults-v2](#). The report was given to the Legislature in February 2021 as part of the budgeting process.

ESD applied credit to employer accounts in accordance with the manner in this report, which is designed to follow the requirements of WA Senate Bill 5478 and the Treasury Final Rule.

From our understanding of the internal controls we identified the following key controls:

**Key Control #1:** Through the legislative budget appropriation process, OFM approved the allocation of \$500 million to ESD for UI premium forgiveness. This was done through a Journal Voucher. (Key Control #1 - Control Activities)

**Evaluation of Results:** Did you identify any control deficiencies? No

## **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.

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## E.7.PR.G - 21.027-Coronavirus State and Local Fiscal Recovery Funds - ESD

**Procedure Step:** H. Period of Performance - Controls

**Prepared By:** ACS, 5/16/2023

**Reviewed By:** MKH, 5/18/2023

### 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 key internal controls the agency has established to prevent or detect noncompliance with period of performance requirements.

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

#### **Source:**

Denice Craig, Employer Services Manager (ESD)

Jay Summers, External Audit Manager (ESD)

Rayanna Evans, Budget Advisor (OFM)

#### **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)

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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**

*\*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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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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.**

Guidance/Criteria:

## INTERNAL CONTROL UNDERSTANDING

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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).

| IF AN OBLIGATION IS FOR --         | THE OBLIGATION IS MADE --  |
|------------------------------------|--|
| (a)Acquisition of real or personal | On the date on which the State or subgrantee makes a binding written |

## State of Washington

|   |   |
|---|---|
| property.   | 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 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 risks when designing our tests of compliance.

- The Coronavirus State and Local Fiscal Recovery Fund program (21.027) is designated as "higher-risk" by the federal government (OMB and Treasury). Compliance with spending requirements depends upon states' interpretations of requirements listed in the FAQ and Treasury Final Rule issued in 2021.

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.

# State of Washington

## **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**

The period of performance for the award under CSLFRF begins on the date the awards are issued (i.e., the date funds are disbursed to recipients) and ends on December 31, 2026, pursuant to the Financial Assistance Agreement.

Recipients may only use funds to cover costs incurred during the period beginning on March 3, 2021 and ending on December 31, 2024, per section 602(g)(1) of the Social Security Act as added by section 9901 of the American Rescue Plan Act of 2021, Pub. L. No. 117-2 and Treasury's Interim Final Rule and Final Rule at 31 CFR section 35.5(a). Recipients must liquidate all obligations incurred by December 31, 2024 under the award no later than December 31, 2026, which is the end of the period of performance. As such, auditors should test that recipients only used award funds to cover costs incurred from the period beginning on March 3, 2021 and ending on December 31, 2024. Auditors should also test that recipients did not incur and apply to their award any new costs during the period beginning December 31, 2024 and ending on December 31, 2026. During this two-year period, recipients are only permitted to liquidate all obligations they incurred by December 31, 2024.

## **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 2/13/2023, we met with Denice Craig, and Jay Summers, External Audit Manager at ESD to discuss the Department's use of SLFRF funds for Unemployment Insurance (UI) premium forgiveness. The Department worked with Rayanna Evans, [Budget Advisor] at OFM to request and approve the use of SLFRF funding for Unemployment premium forgiveness for employers unable to cover UI premium payments for the CY2021 (tax year 2020). Denice explained that the Department received approval from OFM (through funding appropriated by the Legislature) to apply up to \$500,000,000 of SLFRF funding to the Unemployment Insurance Trust Account for forgiveness of UI premiums due from employers of varying sizes for the year 2021 that were determined to be at risk of economic hardship if required to pay in full.

We met with Rayanna Evans to gain an understanding of the approval to use SLFRF funding for UI premium forgiveness for employers. Rayanna explained that per SB5478, passed on May 12, 2021 that the Department was to be allocated \$500 million through the State Legislature to fund employer UI premium contributions, and that this decision was entered into with OFM's approval of legal counsel. The federal government provided guidance to states on using American Rescue Plan Act (ARPA) funds for replenishing unemployment trusts, wherein the states could "use ARPA funds to make a deposit to the State UI trust

## State of Washington

*fund equal to the net drawdown of the UI trust fund that occurred between the period of January 20, 2020 and May 17, 2021"* (see [link](#)). The guidance further outlined in Treasury's Final Rule indicates that states must initiate any transfers by April 1, 2022 to maintain the flexibility of managing UI program benefits. **Through the legislative budget appropriation process, OFM approved the allocation of \$500 million to ESD for UI premium forgiveness. This was done through a Journal Voucher. (Key Control #1 - Control Activities)** The JV was created in response to the NGTS reports run by ESD to determine CY 2021 UI premiums owed to the State (as of 12/31/2021) to transfer funding to the UI Premium Relief Account (25B). The unemployment insurance relief account was created through SB5478 by which the ESD commissioner may authorize disbursements from the UI Relief Account for unemployment compensation forgiven benefits. The transfer was required to occur prior to July 30, 2022 when UI premium forgiveness was set to expire.

### **Key Controls identified:**

**Through the legislative budget appropriation process, OFM approved the allocation of \$500 million to ESD for UI premium forgiveness. This was done through a Journal Voucher. (Key Control #1 - Control Activities)**

**Evaluation of Results:** Did you identify any control deficiencies? No

### **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.

### **E.8.PR.G - 21.027-Coronavirus State and Local Fiscal Recovery Funds - OFM Reporting Only**

**Procedure Step:** L. Reporting - Controls

**Prepared By:** TF, 3/7/2023

**Reviewed By:** ACS, 3/8/2023

|                      |
|----------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.



# State of Washington

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

## **Source:**

Sara Rupe, Senior Staff Consultant  
Evelyn Kover, Grants and Budget Coordinator  
Rayanna Evans, Federal Funds Coordinator  
Marina Yee, Lead Statewide Accounting Consultant  
Jamie Langford, Chief Financial Officer  
Stacie Boyd, State Financial Consultant

## **Conclusion:**

*Project and Expenditure Reporting:* Based on our understanding of internal controls over Reporting (Project and Expenditure Reports), we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess **preliminary control risk as high and will report a finding for a material weakness**. No internal control testing is necessary in this instance. See: 2022-020 The Office of Financial Management did not have adequate internal controls over and did not comply with reporting requirements for the Coronavirus State and Local Fiscal Recovery Funds.

*Recovery Plan Performance Reporting:* Based on our understanding of internal controls over Reporting (Recovery Plan Performance Report), 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:

## State of Washington

*(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.*

**AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

**Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

*(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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## 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

**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***

## State of Washington

*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)<br/>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 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 risks when designing our tests of compliance.

- The Coronavirus State and Local Fiscal Recovery Fund (CSLFRF) is considered a "higher risk" program by the U.S. Department of the Treasury as communicated in the 2022 Compliance Supplement, and is a new federal program launched on March 3, 2021.
- Treasury released reporting guidance through FAQ's, interim final rule, and training after reports were already released and/or due from states. This increases the risk of states' noncompliance with reporting requirements. Treasury's final rule was not published until January 2022, which may have an effect on compliance prior to that date.
- System access and related conflicts arose nationwide that hindered some states' abilities to submit the required report information timely and accurately.

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**

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:

## **L. Reporting**

### **3. Special Reporting**

a. There are three types of reporting requirements for the CSLFRF program:

1. Interim Report: Provide initial overview of status and uses of funding. The interim report will include a recipient's expenditures through July 31, 2021 by category and at the summary level. The reporting requirements vary by type of recipient, the total allocation amount, and the date which the recipient first received its allocation. This is a one-time report. ***Not applicable.***

2. Project and Expenditure Report: Report on financial data, projects funded, expenditures, and contracts and subawards over \$50,000, and other information. Project and Expenditure Reports are due on a regular, recurring basis after the Interim Reports. The reporting frequency and deadlines vary by type of recipient and total allocation amount.

3. Recovery Plan Performance Report: The Recovery Plan Performance Report (the "Recovery Plan") will provide information on the projects that large recipients are undertaking with program funding and how they plan to ensure program outcomes are achieved in an effective, efficient, and equitable manner. It will include key performance indicators identified by the recipient and some mandatory indicators identified by Treasury. The Recovery Plan will be posted on the website of the recipient as well as provided to Treasury.

The reporting threshold is based on the total allocation expected under the SLFRF program, not the funds received by the recipient as of the time of reporting. Treasury may extend reporting deadlines.

Reporting requirements include which reports a recipient must file, the frequency at which the recipient must report, the covered period of reporting, and the report deadlines. Reporting requirements for each type and size of recipient can be found in Part 2, Section B of the Compliance and Reporting Guidance.

b. NEUs are recipients under CSLFRF and are required to report their award expenditures on their SEFA and data collection form. The states that distributed award funds to the NEUs must not report the amounts provided to the NEUs on their SEFA.

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c. Key Line Items – The following line items contain critical information for the Interim Report:

1. Obligations and Expenditures
  - Current period obligation
  - Cumulative obligation
  - Current period expenditure
  - Cumulative expenditure

d. Key Line Items – The following line items contain critical information for the Project and Expenditure Report:

1. Obligations and Expenditures
  - Current period obligation
  - Cumulative obligation
  - Current period expenditure
  - Cumulative expenditure

2. Subawards

3. Detailed information on any loans issued; contracts and grants awarded; transfers made to other government entities; and direct payments made by the recipient that are greater than \$50,000. For amounts less than \$50,000, the recipient must report in the aggregate for these same categories of loans issued; contracts and grants awarded; transfers made to other government entities; and direct payments made by the recipient.

e. Key Line Items – The following line items contain critical information for the Recovery Plan Performance Report:

1. Public Disclosure Link

- The URL is publicly accessible.
- The URL is prominently displayed on the main page or the main COVID response page of the recipient's website

Please see Treasury's Compliance and Reporting Guidance at (<https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-localand-tribal-governments/state-and-local-fiscal-recovery-funds/recipientcompliance-and-reporting-responsibilities>) for more information.

### **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 Sara Rupe, Senior Staff Consultant, Evelyn Kover, Budget and Grant Coordinator, and Toni Smith, State Financial Consultant at OFM on September 27, 2022 to discuss the Office's internal controls over the special reports required for the Coronavirus State and Local Fiscal Recovery Funds. Sara explained to us that OFM is responsible for preparation and submission of the reports to the U.S. Department of Treasury on behalf of the state agencies expending CSLFRF award funds. OFM allocated funding to each agency with eligible projects and uses of CSLFRF by issuing obligation letters to each Director, Secretary, or other agency head informing them of their allocation. OFM established Expenditure Authority Index codes for each agency to record CSLFRF expenses in AFRS. Evelyn utilizes this coding to monitor agency spending and estimate agency expenditures for reports OFM filed on behalf of the state.

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We held a follow-up meeting with Jamie Langford-Herbig, Chief Financial Officer, Marina Yee, Lead Statewide Accounting Consultant, Stacie Boyd, State Financial Consultant, and Evelyn Kover, Budget and Grant Coordinator on November 8, 2022 to gain additional understanding over the Office's internal controls, the staff responsible for report preparation and submission, and supporting documentation utilized for each of the three reporting cycles for the Project and Expenditure Report.

### Interim Reports

OFM filed an interim report in August 2021 that we tested in the prior audit year, SFY21. No additional interim reports were due or submitted. ***Not applicable.***

### Project and Expenditure Reports - Overview

Sara informed us that by the end of SFY22, OFM transitioned primary responsibility for project and expenditure reporting from the Budget Division to the Statewide Accounting Division and hired a Budget and Grants Coordinator (Evelyn Kover) with experience in federal reporting to oversee the reporting process. A total of three Project and Expenditure Reports were submitted during SFY22 with the first report due by January 31, 2022 and covering the period from March 3, 2021 through December 31, 2021. Subsequent reports are quarterly and due 30 days after the end of each quarter. Sara noted that staffing changes, as well as changes to systems and requirements, complicated the reporting process. We identified the following staff that prepared and submitted each report during the audit period including the transition:

| <b>Project and Expenditure Report</b> | <b>Preparer</b> | <b>Submitter</b>                                   | <b>Deadline</b>  |
|---------------------------------------|-----------------|--|------------------|
| #1 (03/03/21 - 12/31/21)              | Jamie Langford  | Jamie Langford<br>(via email due to system issues) | January 31, 2022 |
| #2 (01/01/22 - 03/31/22)              | Marina Yee      | Sara Rupe  | April 30, 2022   |
| #3 (04/01/22 - 06/30/22)              | Evelyn Kover    | Sara Rupe  | July 31, 2022    |

### Project and Expenditure Report #1 (March 3, 2021 - December 31, 2021)

Jamie Langford-Herbig, Chief Financial Officer, was primarily responsible for all aspects of preparation and submission of the first report, although her memory is incomplete because it happened so long ago. Jamie began report preparation by emailing agencies requesting that they submit their expenditure data for the reporting period which was then collated into a template prepared by Rayanna Evans, Federal Funds Coordinator. Jamie noted that not all agencies provided AFRS supporting documentation and that when she ran her own expenditure report for Fund 706, she was unable to breakdown expenditures by project and verify the amounts, therefore the report was not completely supported (**Control Weakness - Incomplete Supporting Documentation**). When submitting the report, the template would not successfully upload and she also encountered repeated glitches and flaws with Treasury's new reporting system. Although she attempted to submit timely on January 31, 2021, she was not able to successfully certify the report until February 14, 2021. Jamie has a record of her emails to Treasury regarding reporting system problems. Jamie prepared, reviewed, and certified the report in the Treasury Portal (**Control Weakness - Segregation of Duties**).

### Project and Expenditure Report #2 (January 1, 2022 - March 31, 2022)

## State of Washington

After the first report, responsibility was transferred to the Statewide Accounting Division. Marina Yee, Lead Statewide Accounting Consultant was responsible for preparation of the report and Sara Rupe reviewed and certified the report in the Treasury Portal. Stacie Boyd, State Financial Consultant, assisted Marina by verifying all of the reporting data against supporting documentation that was obtained from the agencies or that she ran independently. Marina and Stacie made improvements to the upload template following the first reporting cycle. Marina attempted to submit the report timely on April 30, 2022 but also ran into system problems that she reported to Treasury by email and attaching spreadsheets with the reporting data. Sara Rupe reviewed and certified the report successfully on May 6, 2022.

### Project and Expenditure Report #3 (April 1, 2022 - June 30, 2022)

Evelyn begins the process by running quarterly expenditures for Fund 706 and sends each agency a template to fill out with all of the required information and supporting documentation for the quarter being reported. We requested and received a copy of the template (see [OFM Project and Expenditure Report Template](#)). Once all of the agency information is collected, Evelyn fills out the report online in the Treasury Portal, resolves any issues or warnings in the portal that prevent submission, then forwards the report with supporting documentation to Sara for review. Evelyn maintains a backup file with complete agency, report, and submission documentation. **The Budget and Grant Coordinator (Evelyn Kover) prepares the report using source data collected from each agency or from AFRS to ensure the data is accurate for reporting purposes (Key Control #1 - Monitoring/Control Activities).** Sara then reviews and certifies the report in the Treasury Portal. Sara maintains evidence that the certified report was submitted either through an email received from the portal or screen capture, which she forwards to Evelyn for record retention. Sara has experienced some problems with the portal not properly recording the certification. **The Senior Staff Consultant (Sara Rupe) reviews the supporting documentation and certifies submission in the Treasury Portal to ensure the report is submitted completely, accurately, and timely. (Key Control #2 - Control Activities)**

### Recovery Plan Performance Report

We met with Rayanna Evans, Federal Funds Coordinator, Sara Rupe, Evelyn Kover, and Jamie Langford, Chief Financial Officer at OFM to discuss the Office's internal controls for preparing and submitting the Recovery Plan Performance Report.

Rayanna explained to us that the first step in the process was to review and track any legislative and budgetary changes to allocations of CSLFRF funds from the prior year. For example, she stated that funding for broadband projects was halved and some line item funds were reallocated for new or enhanced purposes. Rayanna then sent information requests to agencies to gather project evaluations and data for ongoing projects started during SFY21 and to gather any available information for new projects started during SFY22. As the agency reports were obtained, Rayanna began compiling the report with assistance from the OFM communications team. All of the report content was reviewed and approved throughout the process by Nona Snell, Assistant Director for Budget and administrative assistants (budget directors), in OFM's Budget Division. Rayanna maintained a record of the email chains regarding these reviews and approvals. **The Assistant Director for Budget (Nona Snell) reviews and approves preparation of the report, in coordination with the Federal Funds Coordinator (Rayanna Evans), budget division, and communications staff, to ensure the report is complete and accurate (Key Control #3 - Monitoring/Control Activities).**

Once complete, Rayanna uploaded and certified the report in GrantSolutions and published it to OFM's website prior to the July 31, 2022 deadline. She noted that if any errors were identified after initial publication, they were corrected and an updated report published. OFM has made the report publically accessible at: [Federal COVID-19 response funding distributed through state government | Office of Financial Management \(wa.gov\)](#). **The Federal Funds Coordinator (Rayanna Evans) uploads and certifies the report in GrantSolutions to ensure the report is publically available and submitted timely. (Key Control #4 -**



# State of Washington

## Control Activities).

From our understanding of the internal controls and the feedback (Internal Control request letter - Reporting Response) from the Department we identified the following key controls:

### Project and Expenditure Reports

**Key Control #1:** The Budget and Grant Coordinator (Evelyn Kover) prepares the report using source data collected from each agency or from AFRS to ensure the data is accurate for reporting purposes (Monitoring/Control Activities).

**Key Control #2:** The Senior Staff Consultant (Sara Rupe) reviews the supporting documentation and certifies submission in the Treasury Portal to ensure the report is submitted completely, accurately, and timely. (Control Activities)

### Recovery Plan Performance Report

**Key Control #3:** The Assistant Director for Budget (Nona Snell) reviews and approves preparation of the report, in coordination with the Federal Funds Coordinator (Rayanna Evans), budget division, and communications staff, to ensure the report is complete and accurate (Monitoring/Control Activities).

**Key Control #4:** The Federal Funds Coordinator (Rayanna Evans) uploads and certifies the report in GrantSolutions to ensure the report is publically available and submitted timely. (Control Activities).

### Control Weaknesses (Project and Expenditure Reports)

**Control Weakness #1:** The Office did not receive AFRS supporting documentation from all agencies reporting SLFRF obligations, expenditures, projects, and subawards.

**Control Weakness #2:** When the Office ran expenditure reports independently to verify reported amounts from agencies, they were not always able to breakdown expenditures by project and therefore could not verify the amounts.

**Control Weakness #3:** For the first submitted project and expenditure report, there was no segregation of duties and the same person (Chief Financial Officer) prepared, reviewed, and submitted the report.

### **Evaluation of Results:** We identified control deficiencies.

1. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.
2. During our control understanding, we determined that the Office did not have supporting documentation for some agencies and was unable to verify all amounts reported by agencies with AFRS expenditure reports. In addition, for the Project and Expenditure Report #1, all work was completed by the Chief Financial Officer without any secondary review. Beginning with Report #2, the Department improved its controls with each reporting cycle, transitioned responsibility for reporting from the budget to accounting division, and hired a budget and grant coordinator.

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## Preliminary Control Risk Assessment

### **Step 4**

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). See: 2022-020 The Office of Financial Management did not have adequate internal controls over and did not comply with reporting requirements for the Coronavirus State and Local Fiscal Recovery Funds.

## E.9.PR.G - 84.425-Education Stabilization Fund - OSPI

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

**Prepared By:** TF, 10/14/2022

**Reviewed By:** MKH, 10/19/2022

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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

### **Source:**

Amy Harris, Director of Federal Fiscal Policy and Grants Management

Debra Crawford, Lead Federal Compliance Specialist

Jason Miller, Executive Director of Federal Accountability (Consolidate Program Review oversight)

Samantha Diamond, Data Consultant (Consolidated Program Review analyst)

### **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**

# State of Washington

## 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

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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.

### 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)<br/>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 <b>types</b> 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 <b>only</b> 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:

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

See Part 3, Section A, "Activities Allowed or Unallowed" for a general description of the compliance requirements, the related audit objectives, and suggested audit procedures. Governors and SEAs must demonstrate that costs incurred by governors, SEAs, and subrecipients are allowable under the relevant statutory and regulatory provisions, assurances, and Certification and Agreement, and consistent with the purpose of the ESF, which is "to prevent, prepare for, and respond to COVID-19."

##### *CRRSA EANS and ARP EANS Funds*

The CRRSA Act, Pub. L. No. 116-260 (December 27, 2020) authorizes the CRRSA EANS program. A non-public school may apply to receive services and

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assistance from the SEA to address educational disruptions resulting from COVID-19 for:

1. Supplies to sanitize, disinfect, and clean school facilities;
2. Personal protective equipment (PPE);
3. Improving ventilation systems, including windows or portable air purification systems;
4. Training and professional development for staff on sanitization, the use of PPE, and minimizing the spread of infectious diseases;
5. Physical barriers to facilitate social distancing;
6. Other materials, supplies, or equipment to implement public health protocols, including guidelines and recommendations from the Centers for Disease Control for reopening and operation of school facilities to effectively maintain health and safety of students, educators, and other staff;
7. Expanding capacity to administer coronavirus testing to effectively monitor and suppress the virus, to conduct surveillance and contact tracing activities, and to support other activities related to coronavirus testing for students, teachers, and staff;
8. Educational technology (including hardware, software, connectivity, assistive technology, and adaptive equipment) to assist students, educators, and other staff with remote or hybrid learning;
9. Redeveloping instructional plans, including curriculum development, for remote or hybrid learning or to address learning loss;
10. Leasing sites or spaces to ensure safe social distancing;
11. Reasonable transportation costs;
12. Initiating and maintaining education and support services or assistance for remote or hybrid learning or to address learning loss; or
13. Reimbursement for the expenses of any services or assistance described above that a non-public school incurred on or after March 13, 2020, except for the following:
  - Improvements to ventilation systems (including windows), except for portable air purification systems, which may be reimbursed.
  - Any expenses reimbursed through a loan guaranteed under the Paycheck Protection Program (15 USC 636(a)) prior to December 27, 2020.
  - Staff training and professional development on sanitization, the use of PPE, and minimizing the spread of COVID-19.
  - Developing instructional plans, including curriculum development, for remote or hybrid learning or to address learning loss.
  - Initiating and maintaining education and support services or assistance for remote or hybrid learning or to address learning loss.

An SEA may provide these services or assistance directly to a nonpublic school or through a contract with an individual, association, agency, or organization.

Control of funds for services or assistance provided to a non-public school under the CRRSA EANS program and title to materials, equipment, and property purchased with CRRSA EANS funds, must be in a public agency, and a public agency must administer such funds, services, assistance, materials, equipment, and property. In addition, all services or assistance provided under the CRRSA EANS program must be secular, neutral, and non-ideological.

The above requirements also apply to the ARP EANS program except that under section 2002(b) of the ARP Act an SEA may not use ARP EANS funds to provide reimbursements to a non-public school for costs the school incurred to address the impact of COVID-19.

### *ESSER Funds*

LEAs may use ESSER funds for a wide range of activities to address needs arising from the coronavirus pandemic. Section 18003(d) of the CARES Act provides a list of allowable LEA ESSER I activities. Section 313(3) of the CRRSA Act includes “additional” LEA allowable uses of funds under ESSER II, in particular



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addressing learning loss; preparing schools for reopening; and testing, repairing, and upgrading projects to improve air quality in school buildings; however, all of these uses already are permitted under the CARES Act even though not explicitly listed. Section 2001(e) of the ARP Act further expands LEA allowable uses of funds under ARP ESSER to include providing mental health supports, including through the implementation of evidence-based full-service community schools; and developing strategies and implementing public health protocols including, to the greatest extent practicable, policies in line with guidance from the Centers for Disease Control and Prevention (CDC) on reopening and operating schools to effectively maintain the health and safety of students, educators, and other staff. ED has clarified that SEAs, LEAs and schools may use funding under ESSER I, ESSER II, and ARP ESSER to support a very wide range of activities, including activities indirectly linked to the impact of COVID-19, as outlined in the ED Volume 2 COVID Handbook, available at <https://www2.ed.gov/documents/coronavirus/reopening-2.pdf>, provided such uses are consistent with statutory requirements and the Uniform Guidance in 2 CFR Part 200.

LEAs may use ESSER funds to support:

1. Any activity authorized by the ESEA of 1965, including the Native Hawaiian Education Act and the Alaska Native Educational Equity, Support, and Assistance Act (20 USC 6301 et seq.), the Individuals with Disabilities Education Act (20 USC 1400 et seq.) (“IDEA”), the Adult Education and Family Literacy Act (20 USC 1400 et seq.), the Carl D. Perkins Career and Technical Education Act of 2006 (20 USC 2301 et seq.) (“the Perkins Act”), or subtitle B of title VII of the McKinney-Vento Homeless Assistance Act (42 USC 11431 et seq.).
2. Coordination of preparedness and response efforts of LEAs with state, local, tribal, and territorial public health departments, and other relevant agencies to improve coordinated responses among such entities to prevent, prepare for, and respond to coronavirus.
3. Providing principals and others school leaders with the resources necessary to address the needs of their individual schools.
4. Activities to address the unique needs of low-income children or students, children with disabilities, English learners, racial and ethnic minorities, students experiencing homelessness, and foster care youth, including how outreach and service delivery will meet the needs of each population.
5. Developing and implementing procedures and systems to improve the preparedness and response efforts of LEAs.
6. Training and professional development for staff of the LEA on sanitation and minimizing the spread of infectious diseases.
7. Purchasing supplies to sanitize and clean the facilities of an LEA, including buildings operated by such agency.
8. Planning for and coordinating during long-term closures, including for how to provide meals to eligible students, how to provide technology for online learning to all students, how to provide guidance for carrying out requirements under the IDEA (20 USC 1401 et seq.), and how to ensure other educational services can continue to be provided consistent with all federal, state, and local requirements.
9. Purchasing educational technology (including hardware, software, and connectivity) for students who are served by the LEA that aids in regular and substantive educational interaction between students and their classroom instructors, including low-income students and students with disabilities, which may include assistive technology or adaptive equipment.
10. Providing mental health services and supports.
11. Planning and implementing activities related to summer learning and supplemental afterschool programs, including providing classroom instruction or online learning during the summer months and addressing the needs of low-income students, students with disabilities, English learners, migrant students, students experiencing homelessness, and children in foster care.
12. Addressing learning loss among students, including low-income students, children with disabilities, English learners, racial and ethnic minorities, students experiencing homelessness, and children and youth in foster care, of the local educational agency, including by—

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1. Administering and using high-quality assessments that are valid and reliable, to accurately assess students' academic progress and assist educators in meeting students' academic needs, including through differentiating instruction.
  2. Implementing evidence-based activities to meet the comprehensive needs of students.
  3. Providing information and assistance to parents and families on how they can effectively support students, including in a distance learning environment.
  4. Tracking student attendance and improving student engagement in distance education.
13. School facility repairs and improvements to enable operation of schools to reduce risk of virus transmission and exposure to environmental health hazards, and to support student health needs.
14. Inspection, testing, maintenance, repair, replacement, and upgrade projects to improve the indoor air quality in school facilities, including mechanical and non-mechanical heating, ventilation, and air conditioning systems, filtering, purification and other air cleaning, fans, control systems, and window and door repair and replacement.
15. Developing strategies and implementing public health protocols including, to the greatest extent practicable, policies in line with guidance from the Centers for Disease Control and Prevention for the reopening and operation of school facilities to effectively maintain the health and safety of students, educators, and other staff.
16. Other activities that are necessary to maintain the operation of and continuity of services in LEAs and continuing to employ existing staff of the LEA.

Note: For comprehensive information about allowable uses of funds under ESSER and GEER, please see Frequently Asked Questions Elementary and Secondary School Emergency Relief (ESSER) Programs Governor's Emergency Education Relief (GEER) available at [https://oese.ed.gov/files/2021/05/ESSER.GEER\\_FAQs\\_5.26.21\\_745AM\\_FINALb0cd6833f6f46e03ba2d97d30aff953260028045f9ef3b18ea602db4b32b1d99.pdf](https://oese.ed.gov/files/2021/05/ESSER.GEER_FAQs_5.26.21_745AM_FINALb0cd6833f6f46e03ba2d97d30aff953260028045f9ef3b18ea602db4b32b1d99.pdf).

Note: An LEA that receives ESSER I funds under the CARES Act (Section 18005) must provide equitable services to students and teachers in the same manner as provided under section 1117 of Title I, Part A of the ESEA. ESSER II and ARP ESSER are not subject to the equitable services requirement; rather the CRRSA Act and ARP Act include the separate EANS programs to address the needs of non-public school students and teachers. For more information about the major similarities and differences between ESSER I and ESSER II, see the Fact Sheet for ESSER II, available at [https://oese.ed.gov/files/2021/01/Final\\_ESSERII\\_Factsheet\\_1.5.21.pdf](https://oese.ed.gov/files/2021/01/Final_ESSERII_Factsheet_1.5.21.pdf) and differences among ESSER I, ESSERII and ARP ESSER available at: [https://oese.ed.gov/files/2021/03/FINAL\\_ARP-ESSER-FACT-SHEET.pdf](https://oese.ed.gov/files/2021/03/FINAL_ARP-ESSER-FACT-SHEET.pdf).

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

See Part 3, Section B, "Allowable Costs/Cost Principles" for a general description of the compliance requirements, the related audit objectives, and suggested audit procedures.

1. For ESSER I, ESSER II, ARP ESSER, ESF I-SEA, ESF II-SEA, and ARP OASEA Funds, auditors should refer to the Cost Principles for States, Local Governments, and Indian Tribes.
2. For GEER I, GEER II, ESF I-Governor, and ESF II-Governor Funds - not applicable.

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3. The requirements in the Uniform Guidance apply to expenditures of ESSER, ESF-SEA, and ARP-OA SEA funds, including the requirements related to documenting personnel expenses in 2 CFR section 200.430(i). This would mean, for example, that an LEA maintains the records it generally maintains for salaries and wages, including for employees in leave status as permitted under CARES Act Section 18003(d)(12), except that an LEA must maintain time distribution records (sometimes called “time and effort” reporting) if an individual employee is splitting their time between activities that may be funded under ESSER or GEER and activities that are not allowable under ESSER or GEER. However, there are very few situations when an employee of an LEA would perform multiple activities that are not allowable under ESSER or GEER, and thus would be required to maintain time distribution records, given that an LEA is authorized to use funds on “activities that are necessary to maintain the operation of and continuity of services in [an LEA] and continuing to employ existing staff of the [LEA]” in order to “prevent, prepare for, and respond to” the COVID-19 pandemic (Section 18003(d)(12)).

CARES Act Section 18003(d)(12) and CRRSA Act Section 315 authorize grantees to continue to pay employees and Section 18002(c)(3) of the CARES Act allows LEAs, SEAs, IHEs, and other subrecipients to use funds to protect education-related jobs; the authority includes paying staff who are on leave because schools are closed due to COVID-19. Accordingly, ESSER and GEER funds may be used for that purpose even in the absence of a policy that specifically addresses these circumstances.

### Indirect Costs

The Agency has recovered indirect costs via the attached Indirect Cost Plan: [\[FY 2022 Indirect Cost Plan 2021-117\]](#). Amy Harris, Director of Federal Fiscal Policy and Grants Management informed us that all ESF indirect costs were captured under program index 1AAN1 and 5XAN1. We reviewed the indirect cost document provided and compared it to the revenue and expenditure analysis (see [FINAL Expenditure and Revenue Analysis](#)), which was then sent to Amy Harris who verified the report was accurate and complete. She also confirmed that ESF indirect costs were captured under program index 1AAN1 which had zero expenditures and 5XAN1 that totaled \$23,721 out of \$897,497,388 total grant expenditures (negligible). **We determined indirect costs are not material to the program.**

### Material Expenditures

We identified the following expenditure activities, see ([PRELIMINARY Expenditure-Revenue Analysis 08.11.2022](#)) that are directly charged to the program and are quantitatively material (more than 5%):

- Subobject NZ (Other Grants and Benefits) with total expenditures of \$870,500,340.66 or 96.84% of total grant expenditures.

### 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.

### Activities Allowed/Unallowed – Cost Principles

We met with the following staff on June 29, 2022 in order to gain an understanding of controls over activities allowed/cost principles:

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- Amy Harris, Director of Federal Fiscal Policy and Grants Management
- Debra Crawford, Lead Federal Compliance Specialist
- Jason Miller, Executive Director of Federal Accountability (Consolidate Program Review oversight)
- Samantha Diamond, Data Consultant (Consolidated Program Review analyst)

Amy confirmed that there were no changes to the policies, procedures, and key internal controls from the prior year audit and we requested copies of relevant documentation. Amy provided the form packages for each grant on July 1, 2022:

- CV20 (ESSER 1) - Form Package 975
- CV21 (ESSER 2) - Form Package 120
- RP22 (ARP-ESSER) - Form Package 159 (80 percent)
- RP22 (ARP-ESSER) - Form Package 153 (20% set-aside for learning loss)
- PV21 (CRRSA EANS) - Form Package 121

There are minor differences between Title I, Part A and ESSER related to Activities Allowed and Cost Principles with the primary difference being that the ESSER allocation methodology is based on one-time pass-through funds. ESSER I was awarded to Local Education Agencies (LEAs) based on the 2019-2020 school year Title I, Part A allocation methodology and ESSER II was based on the 2020-2021 school year Title I, Part A allocation methodology. For 2021-2022, there is no carryover of funds and LEAs are allowed to continue to use and access grant funds in 2022. These are one-time awards with no preliminary amount and LEAs must complete an annual general assurance process. Like Title I, budgets may be revised with a maximum cap of 10 percent of the total allocation spread among all the budget areas.

As part of the ESSER II grant award conditions, SEAs must allocate no less than 90 percent of grant funds to LEAs and are allowed to use the remaining funds for emergency needs as determined by the SEA to address issues related to COVID-19. Reserve funds were set aside by OSPI (totaling less than 10 percent) as allowed by the compliance requirements; however, direction on how these funds could be expended was mandated by the State legislature. We requested documentation from OSPI regarding the legislative requirements.

For the 2021-2022 school year, ESSER I used the same process with Title I, Part A. Subrecipients (LEAs) are given pass-through funds on a reimbursement basis throughout the school year. A subrecipient can submit a claim at any time and does so electronically through the Grants Claim System, one of the applications accessible within the Education Data System (EDS). Within the grants claim system, the subrecipient will input where they spent the funds into an expenditure matrix based on the budget they submitted as part of the application approval process for that year. The system will automatically check what the subrecipient has input against their budget information and will not let them submit the claim *unless* there were funds originally budgeted in those line items in the original application, and, they still have funding available. **(Key Control #1 - Control Activity)**. Funds are not automatically distributed after the subrecipient submits the claim and Michelle processes reimbursement claims for apportionment at the end of each month. Unless a subrecipient has been determined to be high risk, no additional review is performed or support requested for expenditures from the district prior to the reimbursement being processed and paid.

Within iGrants, each subrecipient must complete both the general assurances and specific ESSER I and II assurances, e-sign, and submit them as part of their application, which are then reviewed and approved by program staff prior to subrecipients receiving their preliminary awards **(Key Control #2 - Control**

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**Activity).** After receiving their preliminary awards, subrecipients must submit their budgets with expected activity expenditures by expense category. Program staff review the proposed budget requests to ensure that the identified expense categories are allowable per grant regulations and that they appear reasonable. A supervisor will then approve the budget request.

As districts complete their application and budget and the program staff approve them, this allows the budget to be exported to the claims system. Subrecipients are then able to claim expenditures through subobject coding within the Grants Claim System. They cannot submit a request or receive reimbursement until the application and budget are approved and the budget has been exported. Expenditure claims in any given budget category can be revised by up to 10 percent of the total subaward without further approval; however, this 10 percent change must be accounted for through revisions in other budget categories to keep the total subaward amount unchanged. We confirmed this budget revision process according to OSPI Bulletin B065-21 ([Bulletin 065-21](#)) on Grants Management:

*BUDGET REVISIONS (2 CFR Part 200.308) - Unless prohibited by federal or state statute(s) governing a particular grant program, a subgrantee is authorized to increase or decrease expenditures for any budgeted activity total or object total by an amount of up to 10 percent of the total "Budgeted Direct Expenditures" for that grant award **without submitting a budget revision.***

If the amount claimed for any expenditure category varies more than 10% of the total sub award, the subrecipient must initiate a budget revision in iGrants. Once approved by the OSPI program staff, the new budget will be exported to claims to allow the subrecipient to claim the funds. If a subrecipient attempts to exceed their subaward, iGrants would reject the reimbursement request and report an error code (see Bulletin B065-21 above).

The Grants Claim System is directly linked to iGrants. According to Michelle, it is not possible for a subrecipient to submit a reimbursement request unless an approved budget has first been established in iGrants.

Staff from OSPI's consolidated program review division, periodically review ESSER I and II expenditures at selected LEAs to ensure costs charged to the grant were allowable and met applicable cost principles. (**Key Control #3 - Monitoring Activities**) As a pass through agency, OSPI does not require supporting documentation for cost reimbursements from LEAs. OSPI instead defers supporting documentation review to subrecipient monitoring to be covered by the as part of the Consolidated Program Review (CPR) each year. We have determined that OSPI did perform fiscal monitoring of ESSER funds during the audit period and this understanding is further documented at [M. Subrecipient Monitoring - Controls](#).

From our understanding of the internal controls and feedback from the Department we identified the following key controls:

**Key Control #1:** Hard edits in the Grants Claim System prevent LEAs from claiming reimbursement in unapproved budget categories and also prevent LEAs from claiming reimbursements in excess of approved budgets (Control Activity).

**Key Control #2:** Prior to issuing a subgrant to an LEA, program staff review and approve applications and budgets to ensure they only include allowable activities and costs (Control Activity).

**Key Control #3:** Staff from OSPI's consolidated program review division, periodically review ESSER I and II expenditures at selected LEAs to ensure costs charged to the grant were allowable and met applicable cost principles. (Monitoring Activities)

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

## **FY21 Finding Follow-Up**

In SFY21, we reported finding 2021-025: The Office of Superintendent of Public Instruction did not have adequate internal controls over and did not comply with requirements to ensure it monitored Education Stabilization Fund program subrecipients and that payments to them were allowable and adequately supported.

We reviewed the CAP OSPI submitted to OFM in response to the SFY21 finding 2021-025 (see: [\[2021-025 CAP\]](#)) and noted the following corrective actions from OSPI:

- In response to the audit recommendations, the Office included the Elementary and Secondary School Emergency Relief (ESSER) programs in the fiscal subrecipient monitoring plan for the current cycle. The reviews were performed in the 2021-22 school year and included a review of 2019- 20 and 2020-21 school year expenditures for these programs.
- The Office will continue to include new and existing federal awards for the ESSER programs in future fiscal subrecipient monitoring plans, through the end of the respective grant periods.

## **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.

## **E.9.PRG - 84.425-Education Stabilization Fund - OSPI**

***Procedure Step:*** G. Level of Effort - Controls

***Prepared By:*** BAB, 12/6/2022

***Reviewed By:*** MKH, 2/15/2023

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 key internal controls the agency has established to prevent or detect noncompliance with level of effort requirements.

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

## **Source:**

Amy Harris, Director of Federal Policy and Grants Management

TJ Kelly, Chief Financial Officer

Michelle Sartain, Grants Management Supervisor

Amy Kollar, Director of Agency Financial Services

Val Terre, Budget Assistant to the Governor, K-12 Education

## **Conclusion:**

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

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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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***



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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 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:

## **RESPONSIBILITY TAKEN ON BY OFM - Federal waiver requested to Department of Education**

### **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

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noncompliance at HIGH.

## **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 Level of Effort.

### ***ESSER II, EANS, and ARP ESSER***

Under section 317 of the CRRSA Act, for FY 2022, a state that receives ESSER II, GEER II, or EANS funds under the CRRSA Act must:

- Maintain State support for elementary and secondary education in FY 2022 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 2017, 2018, and 2019.

Under section 2004(a) of the ARP Act, a state that receives ARP ESSER funds must meet the above MOE requirement in each of FYs 2022 and 2023.

The CRRSA and ARP Acts have the following MOE baseline applicable to the audit:

- Elementary and secondary education baseline, which averages the percentages of total state spending that are used to support elementary and secondary education over the three baseline years (FYs 2017, 2018, and 2019).

Under the CRRSA Act: A state demonstrates MOE for FY 2022 by:

- Comparing the percentage of total state spending used to support elementary and secondary education in FY 2022 to the baseline percentage.

Under the ARP Act: A state demonstrates the above comparisons for both FY 2022 and FY 2023 relative to the baseline percentages.

Auditors should separately corroborate the amounts reported for state support for elementary and secondary education for FY 2022 and FY 2023 with data representing either actual state expenditure data or data representing final appropriated or allocated amounts. A state may rely on either set of data to meet this requirement. Similarly, auditors should corroborate the amounts reported for state support for higher education for FY 2022 and separately for FY 2023 with data representing either actual state expenditure data or data representing final appropriated or allocated amounts. A state may rely on either set of data to meet this requirement. A state must use data on actual state expenditures to demonstrate overall spending, consistent with the statutory reference to "overall state spending."

For more information on how each state complies with the MOE requirements, including which funding sources a state must exclude when determining whether it has maintained effort, see Guidance on Maintenance of Effort Requirements and Waiver Requests under the Elementary and Secondary School Emergency Relief (ESSER) Fund ([https://oese.ed.gov/files/2021/04/MOE-Chart\\_with-waiverFAQs\\_FINAL\\_4.21.21Update.pdf](https://oese.ed.gov/files/2021/04/MOE-Chart_with-waiverFAQs_FINAL_4.21.21Update.pdf)).

## **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 met with the following OSPI staff on June 29, 2022 to gain an understanding over the level of effort requirements:

- Amy Harris, Director of Federal Policy and Grants Management
- TJ Kelly, Chief Financial Officer
- Michelle Sartain, Grants Management Supervisor
- Amy Kollar, Director of Agency Financial Services

TJ informed us that OSPI is relying on the Office of Financial Management (OFM) to make the calculations to determine that the level of effort requirements were met. Mike Woods, Director of Fiscal Services, was responsible for this process at OSPI, but left the Office midway through the process. Mike was responsible for collecting all of the required elementary and secondary school education spending data from AFRS and forwarding it to Val Terre, Budget Assistant to the Governor (K-12 Education) at OFM. TJ and Amy Kollar reviewed the expenditure data before it was sent to OFM.

OFM was then responsible for calculating all state level expenditures and comparing it to the MOE baseline requirements. TJ received an email from OFM affirming that the OSPI submission was timely and complete. We requested the email correspondence between the Office and OFM detailing the process for calculating and meeting the level of effort requirements (see [MOE OSPI/OFM Email Correspondence \(Aug-Sep 2022\)](#)).

We obtained and reviewed the Washington state request for a waiver from the maintenance of effort requirements sent by OFM to ED on December 17, 2021 (see [MOE OFM Waiver Request to ED Dec 2021](#)). In the letter, OFM management states that it "did not meet the federal maintenance of effort requirement to maintain the proportion of K-12 and higher education funding overall in state fiscal years 2022 and 2023." (**Control Weakness #1**) OFM's waiver request is still pending and we will follow-up with OFM and ED to determine when and if the waiver will be granted in a manner timely to our audit. See [G. Level of Effort - Compliance](#).

We followed up with OFM on 11/7/2022 for more information about the waiver request and the data reported on. OFM informed us that the MOE requirements were not met for the program and that they were still waiting for the waiver to be approved/denied by ED.

**Evaluation of Results:** Did you identify any control deficiencies? Yes.

1. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.

2. OFM stated that the MOE requirements were not met for FY22, and notified us that a waiver was pending with the Department of Education for the compliance requirement.

**Summary of Key Controls:**

# State of Washington

**Key Control weakness #1** - Washington's enacted 2021–23 operating budget protected and increased K-12 and higher education state funds; however, it did not meet the federal maintenance of effort requirement to maintain the proportion of K-12 and higher education funding overall in state fiscal years 2022 and 2023.

**Evaluation of Results:** Control weaknesses identified.

## Preliminary Control Risk Assessment

### **Step 4**

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). 2022-027 The Office of Financial Management did not have adequate internal controls over and did not comply with federal level of effort requirements for the Education Stabilization Fund program.

## E.9.PRG - 84.425-Education Stabilization Fund - OSPI

**Procedure Step:** G. Earmarking - Controls

**Prepared By:** TF, 9/6/2022

**Reviewed By:** MKH, 9/7/2022

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.

# State of Washington

To identify key internal controls the agency has established to prevent or detect noncompliance with earmarking requirements.  
To provide a preliminary control risk assessment based upon our understanding of the internal controls.

## **Source:**

Amy Harris, Director of Federal Policy and Grants Management  
TJ Kelly, Chief Financial Officer  
Michelle Sartain, Grants Management Supervisor  
Amy Kollar, Director of Agency Financial Services

## **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**

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.*

# State of Washington

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 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**

# State of Washington

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 program guidelines to determine specific requirements for Earmarking.

### ***ESSER***

An SEA must allocate at least 90 percent of ESSER funds to LEAs using the statutorily prescribed formula. Under ESSER I and ESSER II, an SEA may, but is not required to, reserve up to 10 percent of its funds for emergency needs as determined by the SEA.

### ***ARP ESSER***

For ARP ESSER, under section 2001(f) of the ARP Act, each SEA must reserve: (1) at least 5 percent of ARP ESSER funds for evidence-based interventions that address the academic impact of lost instructional time (i.e., learning loss); (2) at least 1 percent of ARP ESSER funds for evidence-based summer enrichment programs; and (3) at least 1 percent of ARP ESSER funds for evidence-based comprehensive after school programs. The interventions that are implemented with the reserved funds must respond to students' social, emotional, mental health, and academic needs and address the disproportionate impact of COVID-19 on students from low-income families, students of color, English learners, children with disabilities, students experiencing homelessness, children and youth in foster care, and migratory students and consistent with states' approved ARP ESSER state plans.

The remainder, if any, of ARP ESSER funds not allocated to LEAs or reserved for mandatory set-asides or administrative costs (up to 3 percent, depending on the amount otherwise reserved) may be used for emergency needs as determined by the SEA to address issues responding to COVID-19.

Allowances for Administrative Costs:

## State of Washington

- Under section 18001(e) of the CARES Act and section 313(e) of the CRRSA Act, an SEA may reserve up to half of one percent of its total ESSER I and ESSER II allocations for administrative costs, including both direct and indirect administrative costs. This reservation must come from the portion of funds that the SEA reserves and not the funds that must be allocated to LEAs.
- Under section 2001(f)(4) of the ARP Act, an SEA may reserve not more than half of one percent of the state's total ARP ESSER award may be reserved for administrative costs, including both direct and indirect administrative costs. This reservation must come from the portion of funds that the SEA reserves for emergency needs and not the funds that must be allocated to LEAs or that must be reserved for specific purposes (i.e., learning loss, summer learning, and afterschool programming).
- Under section 312(d)(5) of the CRRSA Act, an SEA may reserve up to half of 1 percent of its total allocation or up to \$200,000, whichever is greater, to administer the EANS program. This allowance applies to both the CRRSA EANS and ARP EANS programs.

### 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 the following OSPI staff on June 29, 2022 to gain an understanding over the earmarking requirements:

- Amy Harris, Director of Federal Policy and Grants Management
- TJ Kelly, Chief Financial Officer
- Michelle Sartain, Grants Management Supervisor
- Amy Kollar, Director of Agency Financial Services

TJ explained to us that OSPI first reviewed the grant award notifications for each award to determine the necessary amounts to be set aside to meet the earmarking requirements. Calculating the federal set-asides was straightforward; however, the state legislature established authority and provided legislative guidance to OSPI on how the set-asides should be budgeted and expended. This oversight required the Office to take extra steps to ensure that the federal and state requirements were both maintained and monitored. Final legislative direction took approximately 6 to 8 months for OSPI to receive and they now have full authority to expend ESSER fund set-asides. A primary focus for these funds is learning loss. According to TJ, OSPI did not create written policies and procedures specific to the earmarking requirements.

Amy Kollar was responsible for maintaining spreadsheets with the different allocations for each award. The purpose of the spreadsheet was to give an overview of all state level set-asides for ESSER funds. **(Key Control #1: Monitoring)**

A small team at OSPI, including management and one dedicated staff person (Eileen) who retired at the end of 2021, was responsible for reviewing the set-asides which went through several layers of review. Becky McLean, Enrollment Supervisor, also participated in the process. There was no final approval; however there are emails and calendar events to track the earmarking process. **(Key Control #2: Control Activities)**



# State of Washington

Based on our understanding, we identified the following key controls:

**Key Control #1: The Director of Agency Financial Services (Amy Kollar) maintained a spreadsheet for each grant award's state level allocation to ensure that minimum amounts were set-aside and monitored. (Monitoring)**

**Key Control #2: A management team at OSPI, led by the Chief Financial Officer (TJ Kelly) periodically reviewed the state level set-asides to ensure that they met both federal and state requirements and to track funding levels and expenditures. (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 to determine if we can place reliance on the controls.

## E.9.PR.G - 84.425-Education Stabilization Fund - OSPI

***Procedure Step:*** L. Reporting - Controls

***Prepared By:*** TF, 9/30/2022

***Reviewed By:*** MKH, 10/14/2022

|                      |
|----------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

# State of Washington

## Source:

Amy Harris, Director of Federal Policy and Grants Management  
TJ Kelly, Chief Financial Officer

## 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.*

#### **AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

##### **Federal Funding Accountability and Transparency Act (FFATA)**

##### **Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282)**

**(Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

## State of Washington

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (referring to the Transparency Act) using the guidance in this section (referring to 3-L of the 2020 Compliance Supplement Addendum) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 Compliance Supplement when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

**(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).

### **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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

# State of Washington

**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.*

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**

## State of Washington

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)<br/>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**

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.

*Annual Reporting – SEA/Governor*

ESSER, GEER, and EANS grantees must submit an annual performance report (OMB No. 1810-0749 for ESSER; 1810-0748 for GEER; and 1810-0765 for EANS) with data on expenditures, planned expenditures, subrecipients, and uses of funds, including for mandatory reservations.

# State of Washington

The CARES Act requires ESSER and GEER grantees to submit quarterly reports. This reporting requirement is satisfied through grantees' submission of the required monthly FFATA data through FSRS.gov. This monthly subaward data reported by States, along with data on awards to States, are pulled into the ESF Transparency Portal.

Depending on the time the audit is conducted, auditors should examine the annual report and reconcile that reported data with underlying documentation and the public quarterly reporting amounts to ensure accuracy.

## **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 June 29, 2022, we met with the following OSPI staff to discuss the Reporting requirements for ESSER and EANS funds:

- Amy Harris, Director of Federal Fiscal Policy and Grants Management
- TJ Kelly, Chief Financial Officer
- Michelle Sartain, Grants Management Supervisor
- Amy Kollar, Director of Agency Financial Services

Note: Quarterly reporting requirements are met through submission of the monthly FFATA reports and our understanding of controls and testing will be performed here - [L. Reporting - FFATA Controls](#).

TJ informed us that OSPI submits two annual performance reports; one for ESSER and one for EANS. The deadline for submitting the reports is July 1, 2022. TJ has uploaded all of the necessary reporting data and is currently working to resolve some errors in reconciling totals. He confirmed that the controls are unchanged from the prior year audit. TJ noted that ED periodically changes or updates the reporting process which has led to additional work.

TJ informed us that Department of Education had several types of data that they wanted reported for the ESSER grant and that the annual report required for ESSER was a fairly extensive report with a large number of required fields. This data included information such as subrecipients, subaward amounts, DUNS number, and reporting year. Additionally, the annual report required detailed information detailing subrecipient expenditures for the reporting year. These expenditure details were broken down into total expenditures as well as more detailed fund expenditures including fields such as Funds for Education Technology, Funds to Assist Disadvantaged, Funds for Mental Health, Funds for Sanitization, Funds For Summer and Afterschool, and Funds for Other among other categories pertaining to online class participation and FTE position in 2019, 2020, and 2021.

LEAs submit reimbursement requests to OSPI within iGrants to request funds for grant expenditures, usually on a monthly basis. OSPI required a Smart Sheet to be included whenever an LEA submitted a reimbursement request. This Smart Sheet included the expenditure details required in the annual report seen in the

## State of Washington

WA ESSER Upload Template. After data is submitted to iGrants through reimbursement requests and the Smart Sheets, OSPI captures the data and was then able to upload the data for the Annual Report. OSPI had the ability to establish users within the Education Stabilization Fund Public Transparency Portal as either an editor or a submitter. The OSPI state director was responsible for contacting the USDE help desk to obtain user names and passwords for adjusting access levels and helping establish user access. OSPI established three total logins to the reporting portal. OSPI created two users with editor permission and TJ Kelly, Chief Financial Officer, with submitter permissions in order ensure that the report was being reviewed for completeness. The users with editor permission were responsible for compiling and entering all of the required fields into the annual report. These two users were the only OSPI staff members that could enter information into the report. **TJ Kelly communicated with OSPI staff to ensure that the annual report was being prepared in a timely manner. (Key Control #1 - Information and Communication)** Once the information was compiled by OSPI Staff, the file was forwarded to TJ for final review and submission. **TJ Kelly reviewed the file for completeness and uploaded the annual report to the reporting portal. (Key Control #2 - Control Activity)**

From our understanding of the internal controls and the feedback [[Internal Control request letter - Reporting](#)] from the Department we identified the following key controls:

### **Summary of Key Controls:**

**Key Control #1 - The Chief Financial Officer (TJ Kelly) communicated with OSPI staff to ensure that the annual report was being prepared in a timely manner. (Information and Communication)**

**Key Control #2 - The Chief Financial Officer (TJ Kelly) reviewed the file for completeness and uploaded the annual report to the reporting portal. (Control Activity)**

**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 to determine if we can place reliance on the controls.

### **E.9.PR.G - 84.425-Education Stabilization Fund - OSPI**

# State of Washington

**Procedure Step:** L. Reporting - FFATA Controls

**Prepared By:** BAB, 7/22/2022

**Reviewed By:** MKH, 10/5/2022

## 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 key internal controls the agency has established to prevent or detect noncompliance with reporting requirements.

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

### **Source:**

Amy Harris, Director of Federal Policy and Grants Management

Michelle Sartain, Grants Management Supervisor

### **Conclusion:**

Based on our understanding of internal controls over Reporting, 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.



# State of Washington

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.

No specific requirements were identified in Part 4 and we will rely on Part 3.L for audit guidance.

## **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 June 29, 2022, we met with Grants Management Supervisor, Michelle Sartain, and Audit Liaison, Amy Harris to discuss the FFATA reporting requirements.

Michelle Sartain informed us that OSPI does FFATA reporting as they are a pass-through agency and allocate the majority of ESSER and EANS funds directly to Local Education Agencies (LEAs). Michelle is the one that performs the FFATA reporting for all OSPI programs every month. OSPI maintains a procedure document for their FFATA reporting process ([FFATA Reporting Process](#)). Michelle identified the following form packages used for each grant:

- ESSER I (CV20) - #975
- ESSER II (CV21) - #120
- CRSSA EANS (PV21) - #121
- ARP ESSER (RP22) - #153 (80%) and #159 (20% set-aside for learning loss and student recovery)

Every month, Michelle will use a list of all federal grants applicable to OSPI that could have subawards greater than the minimum FFATA threshold (\$25,000 for subawards before 11/12/2020, \$30,000 for subawards granted on or after 11/12/2020) to identify form packages where FFATA reporting will be applicable. Once this list is utilized, and all applicable form packages are identified, Michelle will begin creating a raw data file from within iGrants. Using a reporting tool within iGrants, Michelle will identify the correct fiscal period, change the report type to "Budget," and enter the form package number. New awards will be checked in iGrants by date for the previous month, and if any exist, Michelle will export the raw data from iGrants into an Excel spreadsheet. Awards are searched for in the prior month, due to FFATA requirements stating that all subawards must be reported on by the final day of the month following the award. The Excel file will be manipulated by deleting awards not applicable based on date (any awards not from the month prior to the current month in which the report is being submitted) and any amounts that are below the FFATA reporting threshold. The columns of the file are also deleted to reduce the data to only Organization Code, Org.

## State of Washington

Name, Grant Number, Category, Verified, and Budget Total fields. Columns will be added for the DUNS Number, City, and ZIP code of each subawardee. **The Grants Management Supervisor utilizes the iGrants Report Tool that automatically generates reports used to identify FFATA eligible transactions. (Key Control #1 - Automated Control) (Control Activities, Information and Communication)** A VLOOKUP formula will be applied to these added columns pulling information from a master file of school district addresses and DUNS numbers. Once this step is completed, the file is saved and is ready to be entered for upload into FSRS.

To upload the edited data file into FSRS, a previous FSRS Toolbox upload file will be used as a template. The month column on the template will be updated and old data in the DUNS Number, Sub City, Sub Zip, Sub Amount, Subaward Date, and Subaward Columns will be deleted. The manipulated raw data will then be copied and pasted into the blank fields within the FSRS Toolbox in order to prepare for upload. Once all of the information is transposed into the toolbox and additional dates are added, Michelle will log into the FSRS website and the Toolbox will be uploaded. If everything has been formatted correctly, an "Upload Successful" message will be displayed. If any errors are detected during upload, the error log will be saved, the errored sub-awards will be deleted, the file will be saved again, and re-uploaded into FSRS. This will upload the FSRS Toolbox and Michelle will then go into the report and manually re-add the sub-awards that were deleted due to causing upload errors. **The Grants Management Supervisor (Michelle), performs this entire upload process on the 5th of every month and has a recurring calendar notice set to ensure that it is being done timely. (Key Control 2 - Control Activities)**

Additionally, OSPI has a cross-check process implemented for verifying FFATA reporting uploads. To perform the cross-check of FFATA reporting, a person from Michelle's staff will begin by opening a list of federally funded form packages kept in a shared drive folder titled "FFATA" within the OSPI intranet. The staff member will then obtain a list of the current month's data in order to view which programs were submitted during the month and will be compared to the list of federally funded form packages in order to determine which form packages will need to be looked up in iGrants. After logging into iGrants, the staff member will run a report and check for any new awards granted above the FFATA reporting threshold. A random sample of any three new awards that meet the threshold will be selected and added to a cross-check file also located in the OSPI FFATA shared drive. The CFDA number will be added to this file from iGrants and the process will be repeated until there are nine total records selected. After the samples are selected and added to the cross-check log, the staff member will go to [usaspending.gov](https://usaspending.gov) to check for the sampled FFATA report submissions. **This FFATA upload process is documented on a cross-check log detailing who performed the cross-check, what information was checked, and the date that the cross-check occurred. (Key Control #3 - Monitoring).** The cross-check is always performed by the end of the month in which any FFATA submission was made.

We also navigated to the FSRS website and obtained a copy of the FSRS Awardee User Guide ([FSRS Awardee User Guide](#)), updated March 8, 2022 outlining the process and requirements to report FFATA. Located on page 56, the process for uploaded batches for FFATA can also be seen.

Based on our understanding of the FFATA reporting requirements, we identified the following key controls:

**Key Control #1 - The Grants Management Supervisor utilizes the iGrants Report Tool that automatically generates reports used to identify FFATA eligible transactions. (Automated Control) (Control Activities, Information and Communication)**

**Key Control #2 - The Grants Management Supervisor (Michelle) performs this entire upload process on the 5th of every month and has a recurring calendar notice set to ensure that it is being done timely. (Control Activities)**

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**Key Control #3 - This FFATA upload process is documented on a cross-check log detailing who performed the cross-check, what information was checked, and the date that the cross-check occurred. (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 to determine if we can place reliance on the controls.

## **E.9.PR.G - 84.425-Education Stabilization Fund - OSPI**

***Procedure Step:*** M. Subrecipient Monitoring - Controls

***Prepared By:*** TF, 10/4/2022

***Reviewed By:*** MKH, 10/14/2022

|                      |
|----------------------|
| 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 key internal controls the agency has established to prevent or detect noncompliance with subrecipient monitoring requirements.

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

### **Source:**

Amy Harris, Director of Federal Fiscal Policy and Grants Management and External Audit Liaison

Jason Miller, Executive Director of Federal Accountability

Debra Crawford, Lead Federal Compliance Specialist

Samantha Diamond, Data Analyst

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## **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 200.332(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

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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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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 200.332(a)(1).

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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>**.
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).

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 200.331, .332, 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):

| <i>Subaward Contract Checklist</i>  |   |
|---|---|
| Element   | Element   |
| (i) Subrecipient name (which must match the name associated with its unique entity identifier); | (viii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current |

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|   |   |
|---|---|
|   | obligation;   |
| (ii) Subrecipient's unique entity identifier;   | (ix) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;  |
| (iii) Federal Award Identification Number (FAIN);   | (x) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);   |
| (iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency; | (xi) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;  |
| (v) Subaward Period of Performance Start and End Date;  | (xii) Assistance Listings number and Title; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement; |
| (vi) Subaward Budget Period Start and End Date;   | (xiii) Identification of whether the award is R&D; and  |
| (vii) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;    | (xiv) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).   |

### 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?



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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 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 Part 3 of the 2022 Compliance Supplement and noted that U.S. Department of Education (ED)

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provided no special guidance for subrecipient monitoring in part 4.

According to Part 3 of the Compliance Supplement, the pass-through entity (PTE) must:

- *Identify the Award and Applicable Requirements* – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).
- *Evaluate Risk* – Evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.332(b)). This evaluation of risk may include consideration of such factors as the following:
  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 single audit in accordance with 2 CFR Part 200, Subpart F, and the extent to which the same or similar subaward has been audited as a major program;
  3. Whether the subrecipient has new personnel or new or substantially changed systems; and
  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).
- *Monitor* – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.332(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:
  1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
  2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
  3. Issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

Requirements for PTE's are identified in [2 CFR 200.332](#) of the Uniform Guidance including 14 required elements for federal award identification:

- (i) Subrecipient name (which must match the name associated with its unique entity identifier);
- (ii) Subrecipient's unique entity identifier (UEID);
- (iii) Federal Award Identification Number (FAIN);
- (iv) Federal Award Date (see the definition of *Federal award date* in [§ 200.1 of this part](#)) of award to the recipient by the Federal agency;
- (v) Subaward Period of Performance Start and End Date;
- (vi) Subaward Budget Period Start and End Date;
- (vii) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;

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- (viii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current financial obligation;
- (ix) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
- (x) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- (xi) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;
- (xii) Assistance Listings number and Title; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement;
- (xiii) Identification of whether the award is R&D; and
- (xiv) Indirect cost rate for the Federal award (including if the de minimis rate is charged) per [§ 200.414](#).

### 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 June 29, 2022, we met with the following OSPI staff to gain an understanding over how the Office performs subrecipient monitoring:

- Amy Harris, Director of Federal Fiscal Policy and Grants Management and External Audit Liaison
- Jason Miller, Executive Director of Federal Accountability
- Debra Crawford, Lead Federal Compliance Specialist
- Samantha Diamond, Data Analyst

### *Federal Award Identification*

OSPI uses iGrants to communicate federal identification elements and other required federal award information to be passed on to the subrecipients (LEAs). Mercedes Ekroth and Kim Hoss are the iGrants Administrators within OSPI who develop the form package profile pages for each federal program. Each program office is responsible for submitting an iGrants detail survey that includes form package information and a Word document with what they want to be included in the application pages. The program contact and director of the program office is responsible for reviewing each profile and application page before it is launched in a given year to ensure that it is up to date and contains all required information. **(Key Control #1: Control Activities/Information and Communication)** These approvals are tracked on a form package master list detailing the program name, program contact, approval to launch, and launch date. The program offices are responsible for staying up to date on any compliance changes for their programs.

In addition to the form package profile, OSPI informs the LEAs of additional federal requirements within iGrants through the General Assurances page. The General Assurances page contains information such as suspension and debarment requirements, single audit requirements, and any additional information that OSPI wants to pass through to each individual LEA. Before continuing with the iGrants application, each LEA is required to certify they understand and agree with all applicable assurances and requirements by e-signing and dating those assurances in iGrants. **(Key Control #2: Control Activities/Information and**

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**Communication)** The signatures of an authorized representative for the LEA and the CEO/Superintendent of the school district must be provided along with the DUNS number, and without filling out these fields, the LEAs are not able to create budgets and finish applying for grant funds.

### ***Risk Assessments***

The OSPI Consolidated Program Review (CPR) team performs a risk assessment for each LEA in the state on an annual basis. This process begins in June with data collection and concludes in August. In FY22, the CPR team completed risk assessments and scored LEAs based on their proportion of state and federal funding, and then reassessed the impact of ESSER funds on each LEA. We requested documentation on this reassessment process (see [OSPI CPR Final Risk Matrix 2021-22](#)).

The review uses 12 performance data elements (consisting of 29 possible points) that may have a significant impact on an LEA's compliance with federal programs and receipt of federal funding. All data points are given a score, and the total score determines the given risk for that year. Based on this initial risk assessment, all program staff are able to identify if they have seen a pattern of non-compliance with a school district which may warrant being designated as a high risk in the program area. Jason Miller noted that some changes in the scoring criteria occurred due to COVID-related impacts. The CPR team uses the information gathered from risk assessment as well as feedback from various program specialists at OSPI to inform the monitoring schedule for the upcoming academic year. We requested the 2021-2022 risk assessment checklist (see [OSPI CPR Risk Assessment Scoring Process 2021-2022](#)) that included the criteria for the year's risk assessment scores. To ensure LEAs in the state receives a risk assessment on an annual basis, the CPR team uses this checklist when assigning risk scores for LEAs in the state. The CPR team maintains a spreadsheet on which all LEAs in the state are listed to ensure all LEAs in the state receive a risk assessment on an annual basis. **(Key Control #3: Control Activities)**

### ***Monitoring Activities***

CPR monitors LEAs for program compliance, fiscal, and A-133 compliance. CPR performs two types of reviews, on-site reviews and desk audits, with the LEA's risk assessment score informing which type of review they will perform. On-site reviews are reserved for those LEAs that score higher on the risk assessment or require more flexibility than a desk audit can provide. CPR uses the same review-criteria for either type. Based on risk assessments performed for FY22, the Office selected 14 LEAs, including the big four school districts, for monitoring activities. We requested documentation on fiscal monitoring (see [OSPI Fiscal Monitoring Template](#)).

After CPR has finalized the monitoring list, they notify the LEAs and schedule a time to provide training to each LEA to prepare them for the upcoming review. A formal letter is then sent to each LEA between late September and early October with timelines and deadlines for submitting the information and documentation the CPR team needs to do the review and its scheduled review date. The CPR team allows six weeks for the LEA to provide the requested documentation.

The CPR team works with program specialists at OSPI to monitor for program-specific requirements. The program specialists uses a program specific monitoring checklist to ensure the LEA is in compliance with program requirements. Each program has a monitoring checklist that is tailored to that program and is updated each year.

CPR works with OSPI's Fiscal Review Team (Team), led by Debbie Crawford, to monitor each LEA to ensure the expenditures it made with federal funds were allowable and meet cost principles. To do this, the Team-monitor uses a basic procedure. This includes, but is not limited to, obtaining an expenditure summary

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from the LEA for a particular federal program and comparing it to what the LEA claimed it spent in iGrants. This expenditure summary is generated from the prior year grant expenditures and requires prior expenditures to conduct a fiscal review by design of the OSPI fiscal monitoring process. The Team-monitor will then make a selection of payroll and other expenditures and examine them to determine whether the costs were allowable, authorized and supported. The CPR teams use a monitoring checklist of program and fiscal requirements to document and determine compliance and any corrective actions required. **(Key Control #4: Monitoring)**

### *Subrecipient Single Audits*

OSPI informs LEAs of the requirement to receive a single audit in the general assurances signed by all sub-recipients and in the boilerplate funding application. It also restates the requirement in the accounting manual that it provides to each LEA. In the fall of each year, the Team obtains a schedule of expenditure of federal awards (SEFA) for each school district and education service district in the State. The Team records the SEFA expenditures on the ART to determine if a single audit is required (\$750,000 or more in total federal expenditures). Team School Programs at SAO perform audits of school districts in accordance with Uniform Guidance each year. The Team monitors SAO's audit publications and updates the ART spreadsheet to ensure each subrecipient that required an audit received one.

If an LEA received a finding for an OSPI program, the Team documents that a resolution is required on the ART spreadsheet. The Team reviews the entity's response and the correction action plan. If the entity concurs with the finding and the corrective action plan is acceptable, they mail a management decision letter. If the entity does not concur with the finding or if the corrective action plan is not acceptable, the Team mails a letter of notification (LON) and requests clarification from the LEA. If the LEA says it does not agree with the finding, the Team will grant the LEA 30 days to submit reasons/evidence for its disagreement. The Team will review the entity's response and documentation. Regardless of the LEAs position, OSPI will issue a management decision letter within 180 days of receiving the audit report.

OSPI uses a centralized Audit Resolution Tracking spreadsheet (ART) to track which LEAs require a single audit and monitor the resolution of those LEAs that receive single audit findings. **(Key Control #5: Monitoring)**

From our understanding of the internal controls and the feedback (see [Internal Control request letter - Subrecipient Monitoring](#)) from the Department we identified the following key controls:

### **Summary of Key Controls**

**Key Control #1:** The program contact and director of the program office is responsible for reviewing each profile and application page before it is launched in a given year to ensure that it is up to date and contains all required information. **(Control Activities/Information and Communication)**

**Key Control #2:** Before continuing with the iGrants application, each LEA is required to certify they understand and agree with all applicable assurances and requirements by e-signing and dating those assurances in iGrants. **(Control Activities/Information and Communication)**

**Key Control #3:** The CPR team maintains a spreadsheet on which all LEAs in the state are listed to ensure all LEAs in the state receive a risk assessment on an annual basis **(Control Activities)**.

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**Key Control #4:** The CPR teams use a monitoring checklist of program and fiscal requirements to document and determine compliance and any corrective actions required. **(Monitoring)**

**Key Control #5:** The Fiscal Review Team uses its centralized Audit Resolution Tracking spreadsheet (ART) to track which LEAs require a single audit and monitor the resolution of those LEAs that receive single audit findings **(Monitoring)**.

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

## **FY21 Finding Follow-Up**

In SFY21, we reported finding 2021-025: The Office of Superintendent of Public Instruction did not have adequate internal controls over and did not comply with requirements to ensure it monitored Education Stabilization Fund program subrecipients and that payments to them were allowable and adequately supported.

We reviewed the CAP OSPI submitted to OFM in response to the SFY21 finding 2021-025 (see: [\[2021-025 CAP\]](#)) and noted the following corrective actions from OSPI:

- In response to the audit recommendations, the Office included the Elementary and Secondary School Emergency Relief (ESSER) programs in the fiscal subrecipient monitoring plan for the current cycle. The reviews were performed in the 2021-22 school year and included a review of 2019-20 and 2020-21 school year expenditures for these programs.
- The Office will continue to include new and existing federal awards for the ESSER programs in future fiscal subrecipient monitoring plans, through the end of the respective grant periods.

In SFY21, we also reported finding 2021-026: The Office of Superintendent of Public Instruction did not have adequate internal controls over and did not comply with requirements to perform risk assessments for subrecipients of the Education Stabilization Fund programs.

We reviewed the CAP OSPI submitted to OFM in response to the SFY21 finding 2021-026 (see: [\[2021-026 CAP\]](#)) and noted the following corrective actions from OSPI:

- Updated the risk assessment to include the Education Stabilization Fund programs.
- Modified the risk assessment process to incorporate new and high risk federal awards for the year they are awarded to determine the appropriate level of monitoring for each subrecipient.
- Improve internal controls to ensure risk assessments are performed for each subaward issued.
- Document the results of each completed risk assessment for management evaluation to demonstrate compliance with federal requirements.

## **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

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can place reliance on the controls.

## E.9.PR.G - 84.425-Education Stabilization Fund - OSPI

**Procedure Step:** N. Special Tests and Provisions - Controls

**Prepared By:** TF, 10/3/2022

**Reviewed By:** MKH, 11/1/2022

### 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 Test and Provision:

- *Identifying Non-Public Schools under ARP EANS that Enroll a Significant Percentage of Students from Low-Income Families and are Most Impacted by the COVID-19 Emergency*

To identify key internal controls the agency has established to prevent or detect noncompliance with Federal requirements related to *Identifying Non-Public Schools under ARP EANS that Enroll a Significant Percentage of Students from Low-Income Families and are Most Impacted by the COVID-19 Emergency*.

To provide a preliminary control risk assessment based upon our understanding of the internal controls for *Identifying Non-Public Schools under ARP EANS that Enroll a Significant Percentage of Students from Low-Income Families and are Most Impacted by the COVID-19 Emergency*.

#### **Source:**

Amy Harris, Director of Federal Fiscal Policy and Grants Management  
TJ Kelly, Chief Financial Officer

#### **Conclusion:**

Based on our understanding of internal controls over *Identifying Non-Public Schools under ARP EANS that Enroll a Significant Percentage of Students from Low-Income Families and are Most Impacted by the COVID-19 Emergency*, we assessed preliminary control risk as low.

### Testing Strategy.\*

## **Special Tests and Provisions - 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 (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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the**



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document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.

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 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

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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 Special Tests and Provisions.

*Identifying Non-Public Schools under ARP EANS that Enroll a Significant Percentage of Students from Low-Income Families and are Most Impacted by the COVID-19 Emergency*

Compliance Requirements - Under section 2002(a) of the ARP Act, services or assistance to nonpublic schools under the ARP EANS program are limited to “non-public schools that enroll a significant percentage of [students from low-income families] and are most impacted by the [COVID–19] emergency.” Related to these requirements, a governor, in his or her application for ARP EANS funds, was required to identify the significant poverty percentage and factors of COVID-19 impact it would use, after approval by the secretary, to determine which non-public schools are eligible to receive services or assistance.

Audit Objectives - Determine whether SEAs have implemented the significant poverty percentage and factors of COVID-19 impact in the governor’s approved application.

Suggested Audit Procedures - Verify that the SEA implemented the relevant criteria to determine whether a nonpublic school enrolled a significant percentage of students from low-income families and was most impacted by COVID-19.

## **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 June 29, 2022, we met with the following OSPI staff to determine the requirements for Special Test #3:

- Amy Harris, Director of Federal Fiscal Policy and Grants Management
- TJ Kelly, Chief Financial Officer

Amy informed us that OSPI has not made any subawards of ARP EANS funds during FY22 and only recently began determining which non-public schools are eligible for pass-through funding. According to the governor's application for Washington, OSPI is implementing a poverty percentage rate of 33.66 percent for non-public school eligibility. We obtained a copy of the Governor's application from the ED website (see [ARP EANS ST3 Significant Poverty Percentage](#)

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Application). In determining the poverty percentage, TJ stated that they relied on data from the Free and Reduced Lunch Program that were obtained for 2019 and 2020 from their nutrition office. To a lesser extent, the Office also considered data from the FCC's E-Rate program, which provides discounted telecommunication services and internet access based on the poverty level of schools.

OSPI is utilizing Class Wallets for budget and reimbursement review instead of iGrants, which was used for EANS pass-through awards in FY21. Non-public schools will be able to upload all of their invoices into Class Wallets for review by OSPI staff. Amy noted that one difference for ARP EANS is that all expenditures for goods and services have to be done under contract with outside providers. OSPI is setting up a Class Wallets training for non-public schools to become familiar with the new system.

OSPI is utilizing SmartSheet for non-public school applications and Amy used the sample template provided by ED for creating the application form to be used by non-public schools (see ARP EANS Non-Public School Application Template). When a school applies for ARP EANS funding in SmartSheet, it is required to sign an assurance self-certifying that they are eligible, including that they meet the 33.66% poverty rate. OSPI has communicated the eligibility requirements to non-public schools through a SmartSheet announcement distributed by email (see ARP EANS Application Now Available Email). Amy explained that almost all of the schools that have applied so far elected to self-certify and, of those, 19 non-public schools have been determined eligible. OSPI confirmed that no ARP EANS funds were distributed in FY22. OSPI staff established and communicated criteria through a SmartSheets email notification to ensure that funding will be distributed to eligible non-public schools and prioritize low-income students according to the significant poverty percentage (**Key Control #1 - Information & Communication/Control Activity**). OSPI staff review and approve applications, including signed assurances, in SmartSheets to ensure that only non-public schools that meet the significant poverty percentage requirements are eligible (**Key Control #2 - Control Activity**). .

Based on our understanding of the requirements for Special Test #3 and the response from the agency [Internal Control request letter - Special Tests and Provisions], we have identified the following key controls:

**Key Control #1** - OSPI staff established and communicated criteria through a SmartSheets email notification to ensure that funding will be distributed to eligible non-public schools and prioritize low-income students according to the significant poverty percentage (**Information & Communication/Control Activity**).

**Key Control #2** - OSPI staff review and approve applications, including signed assurances, in SmartSheets to ensure that only non-public schools that meet the significant poverty percentage requirements are eligible (**Control Activity**).

**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 to determine if we can place reliance on the controls.

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## E.10.PRG - 21.027-Coronavirus State and Local Fiscal Recovery Funds - OSPI

**Procedure Step:** A-B. Activities Allowed/Cost Principles - Controls  
**Prepared By:** ES, 3/1/2023  
**Reviewed By:** MKH, 3/2/2023

### 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 key internal controls the agency has established to prevent or detect noncompliance with Federal award requirements related to allowable activities and cost principles.

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

#### **Source:**

Amy Harris, Director of Federal Fiscal Policy and Grants Management

TJ Kelly, Chief Financial Officer

#### **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

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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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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

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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).

### 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.

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**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)**

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

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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)**

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,

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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.

#### **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

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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**

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 |
|-----------------|---|
|-----------------|---|

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|   | Low                             | Moderate                 | High                            |
|---|---------------------------------|--------------------------|---------------------------------|
| <i>Formula (rounded up)<br/>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 <b>types</b> 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 <b>only</b> 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.

**Note: New provisions that have been added to UG:**

2CFR 200.215 – Never contract with the enemy (effective November 12, 2020)

2CFR 200.216 - Prohibition on certain telecommunications and video surveillance services or equipment (Effective August 13, 2020)

**Inherent Risk of Noncompliance**

**Step 1**

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 risks when designing our tests of compliance.

- The Coronavirus State and Local Fiscal Recovery Fund (CSLFRF) is considered a "higher risk" program in the 2022 Compliance Supplement.
- CSLFRF is a new program launched on March 3, 2021.
- Treasury guidance was initially released in March 2021 and last updated in January 2022.

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**

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**

Recipients may use CSLFRF payments for any eligible expenses subject to the restrictions set forth in sections 602 and 603 of the Social Security Act as added

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by section 9901 of the American Rescue Plan Act of 2021 (codified as 42 USC 802 and 42 USC 803 respectively), Treasury's Interim Final Rule and Final Rule at 31 CFR sections 35.7 and 35.8, and FAQs at (<https://home.treasury.gov/system/files/136/SLFRPFAQ.pdf>).

The following activities are not permitted under CSLFRF:

- Offset a reduction in net tax revenue (applicable to states and territories)
- Deposits into pension funds (applicable to all recipients except Tribes)
- Debt service or replenishing financial reserves (e.g., "rainy day funds") (applicable to all recipients)
- Satisfaction of settlements and judgements (applicable to all recipients)
- Programs, services, or capital expenditures that include a term or condition that undermines efforts to stop the spread of COVID-19 (applicable to all recipients)

Recipients may use payments from CSLFRF to:

- Support public health expenditures, by funding COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff;
- Address negative economic impacts caused by the public health emergency, including economic harms to workers, households, small businesses, impacted industries, and the public sector;
- Replace lost public sector revenue to provide government services; recipients may use this funding to provide government services to the extent of the reduction in revenue experienced due to the pandemic.
- Provide premium pay for essential workers, offering additional support to those who have borne and will bear the greatest health risks because of their service in critical infrastructure sectors; and
- Invest in water, sewer, and broadband infrastructure, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure, and to expand access to broadband internet.

## B. Allowable Cost/Cost Principles

CSLFRF is considered "other financial assistance" per 2 CFR section 200.1 and is administered as direct payments for specified use. The 2 CFR Part 200, Subpart E is applicable to expenditures under CSLFRF unless stated otherwise.

### Indirect Costs

Amy Harris, Director of Federal Fiscal Policy and Grants Management, informed us that the Department does not charge an indirect costs. OSPI paid 100% of the total grant expenditures to LEAs. **We determined that indirect costs are not direct and material to the program.**

### Material Expenditures

We identified the following expenditure activities (see [OSPI SLFRF Expenditure Data 2-14-2023](#)) that are directly charged to the program and are quantitatively material (more than 5%):

- Subobject NZ (Other Grants and Benefits) with total expenditures of \$297,296,582 or 100% of total grant expenditures.

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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 met with the following OSPI Staff on February 14<sup>th</sup>, 2023, to discuss the process and controls in place to ensure compliance is met for Activities Allowed:

Michelle Matakas, Director of School Apportionment and Financial Services

Melissa Jarmon, Associate Director of School Apportionment

Amy Harris, Director of Federal Fiscal Policy and Grants Management

Paul Stone, Supervisor, School District and ESD Accounting

In March of 2022 the Washington State Legislature determined that OSPI must provide Enrollment Stabilization funding by passing SHB 1590 ([HSB 1590-S.SL](#)) Which states that *"If a local education agency's combined state revenue generated in the 2021-22 school year is less than what its combined state revenue would be using 2019-20 annual average enrollment values and formulas in place for the 2021-22 school year, then the superintendent of public instruction must provide an enrollment stabilization amount to the local education agency in the 2021-22 school year. The enrollment stabilization amount shall be equal to 50 percent of the local education agency low enrollment impact."* Low enrollment impact is equal to a local education agency's combined state revenue that would be generated using 2019-20 annual average enrollment values and formulas in place for the 2021-22 school year minus its combined state revenue generated in the 2021-22 school year, if the difference is greater than zero.

Additionally, OSPI is mandated to provide Annual local effort assistance funding as set forth in [RCW 28A.500.015: Annual local effort assistance funding](#).

This RCW states that *"beginning in calendar year 2020 and each calendar year thereafter, the state must provide state local effort assistance funding to supplement school district enrichment levies as provided in this section. For an eligible school district with an actual enrichment levy rate that is less than one dollar and fifty cents per thousand dollars of assessed value in the school district, the annual local effort assistance funding is equal to the school district's maximum local effort assistance multiplied by a fraction equal to the school district's actual enrichment levy rate divided by one dollar and fifty cents per thousand dollars of assessed value in the school district."*

OSPI was tasked to roll out the funding for the payments set forth in the above legislation using SLFRF dollars by the Washington State Legislature.

On a monthly basis, OSPI collects information and demographics on the number of enrolled students and staff for all local education agencies (LEAs) in the state. This data was used to complete the calculations as mandated by HSB1590. Portions of typical state funding are driven by enrollment data. Due to Covid 19, enrollment numbers across the state have decreased. As a result, state funding for LEAs that are based on enrollment data have also decreased compared to their pre-pandemic levels. OSPI utilized the State and Local Fiscal Recovery fund to provide Enrollment Stabilization funding as well as Annual Local Effort Assistance Funding to LEAs. OSPI portions out payments to LEA's on a monthly basis for normal monthly funding through their apportionment process. OSPI utilized the apportionment process to distribute SLFRF payments to LEAs, and included these SLFRF payments in LEAs May apportionment payment. In order to communicate information related to this program OSPI utilizes GovDelivery, which allows OSPI to send emails directly to all Business and Grant Managers at each LEA.

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## Enrollment Stabilization

OSPI set up the apportionment system to calculate the difference between their 2020 funding and 2022 funding automatically based on enrollment values. Per the mandated state formula, the total difference in revenue was halved and that became the final amount of SLFRF dollars that LEA's were entitled too for enrollment stabilization.

## Annual Local Effort Assistance Funding

To calculate Annual Local Effort Assistance Funding, Melissa Jarmon, used an internal spreadsheet that is used to model Levy revenue. This spreadsheet took the enrollment data from February of 2020 and 2021 and determined which one was larger. The spreadsheet then used that data to estimate a baseline of what an LEA may have received from levies for the 2022 school year. It then calculated the difference between the estimated levy funding and the actual funding. This difference was paid to LEAs using SLFRF funds in the May of 2022 apportionment payment.

Prior to the SLFRF apportionments being processed, OSPI staff met several time to review SLFRF related calculation outputs from the apportionment system to ensure it followed the mandated calculations established in HSB1590 (**Key control #1: Control Activities**). After this review, all State and Local Fiscal Recovery Fund apportionments went through to LEA's during the week of may 23rd, 2022. To ensure beneficiaries of the State and Local Fiscal Recovery Fund were made aware of the allowable activities under program guidance, OSPI communicated applicable accounting requirements via GovDelivery (**Key Control #2: Communication and Information**)

## **Summary of Key Internal Controls:**

**Key Control #1:** Prior to the SLFRF apportionments being processed, OSPI staff met several times to review SLFRF related calculation outputs from the apportionment system to ensure it followed the mandated calculations established in HSB1590 (**Control Activities**).

**Key Control #2:** OSPI made beneficiaries of the State and Local Fiscal Recovery Fund aware of the allowable activities under program guidance. OSPI communicated applicable accounting requirements via GovDelivery (**Communication and Information**).

**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 to determine if we can place reliance on the controls.

## E.10.PR.G - 21.027-Coronavirus State and Local Fiscal Recovery Funds - OSPI

*Procedure Step:* H. Period of Performance - Controls

# State of Washington

**Prepared By:** ES, 3/6/2023  
**Reviewed By:** MKH, 3/6/2023

## 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 key internal controls the agency has established to prevent or detect noncompliance with period of performance requirements.

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

### Source:

Michelle Matakas, Director of School Apportionment and Financial Services

Melissa Jarmon, Associate Director of School Apportionment

Amy Harris, Director of Federal Fiscal Policy and Grants Management

Paul Stone, Supervisor, School District and ESD Accounting

### 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.

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## 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 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.*

**Submit an internal control request to the agency liaison using the applicable template(s) from the TeamStore, and document the date you sent the document(s) to the agency. Attach the agency's response (if applicable) in TeamMate.**

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.

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- (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.*

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

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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).

| 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                        | On the date on which the State or  |



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|  |   |
|--|---|
| is not an employee of the State or subgrantee.   | 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 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 risks when designing our tests of compliance.

- The Coronavirus State and Local Fiscal Recovery Fund (CSLFRF) is considered a "higher risk" program in the 2022 Compliance Supplement.
- CSLFRF is a new program launched on March 3, 2021.
- Treasury guidance was initially released in March 2021 and last updated in January 2022.

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**

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:

# State of Washington

## H. Period of Performance

The period of performance for the award under CSLFRF begins on the date the awards are issued (i.e., the date funds are disbursed to recipients) and ends on December 31, 2026, pursuant to the Financial Assistance Agreement.

Recipients may only use funds to cover costs incurred during the period beginning on March 3, 2021 and ending on December 31, 2024, per section 602(g)(1) of the Social Security Act as added by section 9901 of the American Rescue Plan Act of 2021, Pub. L. No. 117-2 and Treasury's Interim Final Rule and Final Rule at 31 CFR section 35.5(a). Recipients must liquidate all obligations incurred by December 31, 2024 under the award no later than December 31, 2026, which is the end of the period of performance. As such, auditors should test that recipients only used award funds to cover costs incurred from the period beginning on March 3, 2021 and ending on December 31, 2024. Auditors should also test that recipients did not incur and apply to their award any new costs during the period beginning December 31, 2024 and ending on December 31, 2026. During this two-year period, recipients are only permitted to liquidate all obligations they incurred by December 31, 2024.

## 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 the following OSPI staff on February 14th, 2023 to gain an understanding of internal controls over period of performance:

Michelle Matakas, Director of School Apportionment and Financial Services

Melissa Jarmon, Associate Director of School Apportionment

Amy Harris, Director of Federal Fiscal Policy and Grants Management

Paul Stone, Supervisor, School District and ESD Accounting

We identified the period of performance as March 3, 2021 through December 31, 2026.

In March of 2022 the Washington State Legislature passed SHB 1590 Which states that *"If a local education agency's combined state revenue generated in the 2021-22 school year is less than what its combined state revenue would be using 2019-20 annual average enrollment values and formulas in place for the 2021-22 school year, then the superintendent of public instruction must provide an enrollment stabilization amount to the local education agency in the 2021-22 school year. The enrollment stabilization amount shall be equal to 50 percent of the local education agency low enrollment impact."*

Additionally, OSPI is mandated to provide Annual local effort assistance funding as set forth in [RCW 28A.500.015: Annual local effort assistance funding](#).

This RCW states that *"beginning in calendar year 2020 and each calendar year thereafter, the state must provide state local effort assistance funding to supplement school district enrichment levies as provided in this section. For an eligible school district with an actual enrichment levy rate that is less than one dollar and fifty cents per thousand dollars of assessed value in the school district, the annual local effort assistance funding is equal to the school district's maximum local effort assistance multiplied by a fraction equal to the school district's actual enrichment levy rate divided by one dollar and fifty cents per thousand dollars of assessed value in the school district."*

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OSPI was tasked to roll out the funding for the payments set forth in the above legislation using SLFRF dollars by the Washington State Legislature and the Office of Financial Management (OFM). Relevant Staff at OSPI and OFM communicated about grant requirements prior to OSPI being authorized to roll out SLFRFs to LEAs. As a result, OSPI was aware of the period of performance requirements based on federal guidance (Federal Register Vol 87 No 18: [2022-01596.pdf \(govinfo.gov\)](#)) and did not pay LEAs these funds until May 2022 (**Key Control #1: Control activities**).

Per the formulas mandated in the above legislation, OSPI may only use the State and Local Fiscal Recovery Fund to replace revenue from the 2021-22 school year. The amount of lost revenue and the payment each local education agency (LEA) received were determined by the following methodologies:

## Enrollment Stabilization

OSPI set up the apportionment system to calculate the difference between their 2020 funding and 2022 funding automatically based on enrollment values. Per the mandated state formula, the total difference in revenue was halved and that became the final amount of SLFRF dollars that LEA's were entitled too for enrollment stabilization.

## Annual Local Effort Assistance Funding

To calculate Annual Local Effort Assistance Funding, Melissa Jarmon, used an internal spreadsheet that is used to model Levy revenue. This spreadsheet took the enrollment data from February of 2020 and 2021 and determined which one was larger. The spreadsheet then used that data to estimate a baseline of what an LEA may have received from levies for the 2022 school year. It then calculated the difference between the estimated levy funding and the actual funding. This difference was what each LEA was entitled to for Annual Local Effort Assistance Funding.

On a monthly basis, LEAs collect information and demographics on the number of enrolled students and staff that they enroll/employ. This information is reported to OSPI on the 4th day of September and the first day of every following month for the remainder of the school year. OSPI retains copies of the monthly student enrollment reports from each LEA to ensure that they can use the correct enrollment information to accurately calculate revenue that was lost during the 2021-22 school year. When performing the mandated calculations as described above, OSPI used the enrollment data as of February of 2022 to ensure that the amount of lost revenue during the 2021-22 school year was accurately determined. OSPI distributed all available State and Local Fiscal Recovery Funds to LEA's in their May apportionment. After the SLFRF apportionments went out to districts, OSPI utilized its GovDelivery system to inform SLFRF beneficiaries of the period of performance requirements under program guidance (**Key Control #2: Communication and Information**).

## **Summary of Key Internal Controls:**

**Key Control #1:** OSPI was aware of the period of performance requirements based on federal guidance (Federal Register Vol 87 No 18: [2022-01596.pdf \(govinfo.gov\)](#)) and did not pay LEAs these funds until May 2022 (**Control activities**).

**Key Control #2:** After the SLFRF apportionments went out to districts, OSPI utilized its GovDelivery system to inform SLFRF beneficiaries of the period of performance requirements under program guidance (**Communication and Information**).

**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 to determine if we can place reliance on the controls.