

# 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.11.PRG - 93.067-Global AIDS - UW

***Procedure Step:*** A-B. Activities Allowed/Cost Principles - Controls  
***Prepared By:*** RKM, 12/16/2022  
***Reviewed By:*** ACS, 4/26/2023

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:**

Marlo Anderson, Director of Finance (I-TECH)

Maya Beal, Assistant Director (I-TECH)

## **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) 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.

- There are several I-Tech international Offices with spending. The Country Finance Manager must submit monthly reimbursements for expenditures incurred. The supporting documents must be attached to demonstrate the purpose of the expenditures and how it is allowable for the

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grant. However, given the culture at many of the Countries overseas, it might be difficult to obtain receipts and adequate documentation. Therefore, there is a risk that federal funds could be used for unallowable purposes or are not properly supported by documentation.

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.

PART 7 - Guidance For Auditing Programs Not Included In This Compliance Supplement:

- **Activities Allowed or Unallowed:** Almost always applies to federal programs. The auditor should look at the program requirements and federal award documents for what constitutes allowable or unallowable activities.
- **Allowable Costs/Cost Principles:** Almost always applies since most federal programs have charges for goods or services. However, if a program only involves benefits to eligible recipients, with no administrative costs, purchases of goods or services (including salaries and overhead), or allocated costs, then allowable costs may not apply.

Award Information (NU2GGH002116 and other awards): The agency will conduct normal oversight and monitoring activities to effectuate program performance. Unallowable costs:

- Lobbying
- All unallowable costs cited in CDC-RFA-GH18-1836 remain in effect, unless specifically amended in this guidance, in accordance with 45 CFR Part 75 – Uniform Administrative Requirements, Cost Principles, And Audit Requirements for HHS Awards.

We also performed an expenditure analysis [[FY22 Expenditure Analysis](#)]. We identified the following as quantitatively material (more than 5%):

- Salaries and Wages
- Personal Service Contracts and Other Purchased Services
- Other Contractual Services (Sub-Recipients)
- Indirect Costs
  - The agency has recovered indirect costs via a fixed indirect cost rate.

## **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 [Overall COSO Evaluation].

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.

### Understanding of Controls:

We gained an understanding of controls over activities allowed and cost principles with Marlo Anderson, Director of Finance (I-TECH), and Maya Beal, Assistant Director (I-TECH), on November 29, 2022.

### I-Tech Seattle Generated Purchases (Non-International):

Purchase requests are approved by the senior program managers. All invoices to be paid are sent to the I-TECH AP email: [itechap@uw.edu](mailto:itechap@uw.edu) which is monitored by the AP Manager. When the invoice is received, it is signed by the Budget Manager after confirming that the items have been received. The Budget Manager reviews the invoice for allowability and compliance, the invoice is submitted in ARIBA and processed for payment (**Key Control 1 - Control Activities [Non-International Purchases]**). The invoice is then transferred to the finance team and entered into ARIBA. After the Senior Global Financial Analyst has reviewed the invoice for allowability and compliance, the invoice is submitted in ARIBA and processed for payment.

For any travel requests, instead of submitting an invoice to the I-TECH AP email, the traveler will submit travel information through the ARIBA system. When a request is submitted, it is reviewed by the AP Manager, and then submitted to the Budget Manager or Team Lead for review and approval. Budget Managers or Team Leads will ensure that travel expenditures are charged to the correct budget number/project code and are allowable. The traveler will also submit receipts to the AP Manager. We are planning to test travel expenditures with non-international purchases. During testing, if a travel expenditure is selected we will keep in mind the different supporting documents.

In summary, the process is:

1. Purchase requests are approved by the senior program manager.
2. Invoice is received and signed by budget manager confirming the items have been received.
3. Invoice is transferred to finance team and entered into ARIBA.
4. Senior Global Financial Analyst reviews invoice for allowability and compliance.
5. Documents submitted in ARIBA and processed for payment.

### Subrecipient Purchases:

For subrecipients, once invoices are received from the budget manager, program staff review them for allowability and timing. Principal Investigators review and approve progress billing invoices after review by budget managers for reasonableness, allowability, and timing (**Key Control 2 - Control Activities [Subrecipients]**). Either subrecipients directly upload, or staff separate from the reviewers upload it into ARIBA for payment. Domestic subcontractors can upload into the system directly. International Subrecipients cannot and therefore this step is performed by I-TECH. Staff advised us the budget approvals can be seen at I-TECH showing the review by the program staff, but it won't show the document.



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## I-TECH Country Offices Purchases (International):

I-TECH has several country offices that will incur expenditures as part of daily operations to meet the objectives of the program. However, countries are not reimbursed until actual expenditures have been incurred and have been submitted to the Seattle I-TECH headquarters office in which they are reviewed and approved.

On a monthly basis, the AP Manager will generate a "Budget Activity Report" (BAR) for each country by budget number from QuickBooks. Each budget manager is emailed by budget number their BAR report for review and approval. Each Budget Manager will reply back to the email indicating they have reviewed the expenses for accuracy, appropriateness, and reasonableness. In the event the Budget Manager cannot review the BAR (ie. traveling), each Country is assigned a Team Lead or Technical Officer Program Manager (TOPM) and will be given the authority for approving the BAR. On a monthly basis, Budget Managers review and certify the monthly Budget Activity Report (BARS) to ensure charges on the grant are for allowable activities, comply with cost principles, correctly coded to the budget number, and within the period of performance (**Key Control 3 - Control Activities [International/Non-International Purchases]**).

On a monthly basis, the Country Office staff prepare an invoice which is sent to HQ along with a Quickbooks spreadsheet detailing the transactions. This invoice is approved by Country Office staff and again by HQ to ensure expenditures are for allowable activities, comply with cost principles, and within the period of performance (**Key Control 4 - Control Activities [International Purchases]**).

Any discrepancies will be researched by either the Finance Manager or AP Manager, and the results will be emailed back to the Budget Managers. If a revision has to be made, then the AP Manager will initial the BARS where the correction was made and she will input the change through a correcting transaction via. MyFD. All BAR reports are saved on the I-Tech server.

In summary, the process is the same as above but also includes:

1. Monthly, AP Manager generates BAR for each country.
2. Budget managers receive their BAR report for review and approval by email.
3. And discrepancies are followed up by the AP manager, who will initial the BAR where the correction was made.

For international purchases there is on-site audit work performed periodically (i.e. when a grant closes out). See review instructions here: [\[PBC - Review Instructions\]](#). The annual Procurement and Finance Review is designed to review Operations, Procurement and Finance systems and the accuracy of complying with policies and procedures in I-TECH country offices. The comprehensive review examines procurement systems, staff, processes, and transactions on a periodic basis. One of the steps during this review is selecting transactions and confirming approval to pay invoice is given at the appropriate level.

## Reimbursement Designations:

There is only one type of reimbursement which is, electronic revolver (eRev).

eRev designation is a designation that I-Tech is a transition to for most countries. The countries designated eRev country will complete the "unbilled summary report" summarizing all expenditures in the reimbursement request plus the supporting documents for each transaction (i.e invoices, which are scanned and sometimes mailed to HQ). The support is then numbered to correspond to the order it is listed on the summary report. However, if a country is a TD designation,

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then the "unbilled cost report" is the only document that is required to be submitted to ITECH HQ for reimbursements. The country still retains supporting documents such as invoices, travel itinerary, emails, etc. Reimbursement requests are submitted bi-monthly and are divided into payroll and non-payroll transactions.

However, instead of UW wiring the reimbursement to the country in US currency, reimbursements will now be wired in the local currency. This will help to reduce exchange rate gains and losses after the local country bank has received the wire transfer.

### Unbilled Cost Report/Reimbursement:

On a bi-monthly basis the Budget Manager/Team Lead will submit an "Unbilled Cost Report" of all costs they are seeking for reimbursement to the I-TECH headquarters in Seattle. This report contains: the receipt number, vendor name, business purpose, UW account code charged, total transaction amount per country's currency, exchange rate used, and converted US dollar amount. At the bottom of the report are three signatures and dates: who prepared the report (Accountant), who reviewed the report (Country Finance Director), and who approved the report (Country Program Director). The Budget Manager/Team Lead will email an excel and PDF copy with original signatures to I-Tech HQ.

When the unbilled cost report is received at HQ, a Financial Analyst will record the total into a spreadsheet kept on the I-TECH server. The spreadsheet workbook is kept for each budget period and contains tabs by country. Within the spreadsheet are the following columns: date received, report code set up by I-Tech, budget number, local currency, USD amount, local currency sent to UW, USD currency sent to UW, date sent to UW, days to process, local currency amount wired, USD currency amount wired, date wired, date posted to My FD, journal voucher number, and notes. The Financial Analyst will then prepare a journal voucher by project code. After the voucher has been prepared, it is sent to the Finance Director for final approval. Then it is sent to UW Banking Accounting Operations for processing.

Reimbursement requests are submitted monthly and are divided into payroll and non-payroll transactions. The countries must submit all expenditures and invoices plus the supporting documents for each transaction (i.e. invoices, which are scanned and sometimes mailed to HQ) to I-TECH HQ for reimbursements. The supported documents are then numbered to correspond to the order and listed on the summary report. The country still retains supporting documents such as invoices, travel itinerary, emails, etc.

### Salaries and Benefits (AB Payroll):

The process starts by getting the budget number which is set up by the Grants and Contract Accounting (GCA) department. The budget is set up when the award information is obtained and the department staff work with the Principle Investigator (PI) to ensure that the appropriate budget amounts are set up according to the award's budget proposal. The PI is also responsible for determining and setting up who will work on the research project and how much they will receive in compensation, whether it is by salary or stipend.

On a monthly basis, non-faculty personnel must submit certifications of time and effort for the amount of time spent on work for the grant. For non-faculty, they will submit "grant contract certification reports" (GCCR). The Principal Investigator (PI) has delegated authority to the budget manager to review and approve GCCRs. After the GCCR has been reviewed by the delegated budget manager, it is sent to the Principle Investigator for authorization. On a bi-annual basis (every six months), faculty personnel must submit "faculty effort certifications" (FECs). FECs are not reviewed by budget managers or PIs, however, they are certified by the employee who submitted the FECs. Time and effort certifications (FECs or GCCRs) are certified by either the employee (FEC) or Budget

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Manager and Principle Investigator (GCCR) (**Key Control 5 - Control Activities**).

## Indirect Costs:

We gained an understanding of controls over indirect costs with Carol Rhodes, Director (Office of Sponsored Programs (OSP)), and Peter Harris, Senior Auditor, on November 23, 2022.

After OSP accepts an award, they send a Funding Action (FA) to Grant and Contract Accounting (GCA). A staff member from GCA then uses the information to set up the budget. The FA identifies the indirect cost rate to be used and this is input to FAS during budget set up. On a daily basis, the financial system calculates the indirect cost rate automatically based on the indirect cost rate input in FAS for the federal award (**Key Control 6 - Automated Control - Control Activities**).

## Key Controls:

**Key Control 1 (Control Activities [Non-International Purchases]):** When the invoice is received, it is signed by the Budget Manager after confirming that the items have been received. The Budget Manager reviews the invoice for allowability and compliance, the invoice is submitted in ARIBA and processed for payment.

**Key Control 2 (Control Activities [Subrecipients]):** Principal Investigators review and approve progress billing invoices after review by budget managers for reasonableness, allowability, and timing.

**Key Control 3 (Control Activities [International/Non-International Purchases]):** On a monthly basis, Budget Managers review and certify the monthly Budget Activity Report (BAR) to ensure charges on the grant are for allowable activities, comply with cost principles, correctly coded to the budget number, and within the period of performance.

**Key Control 4 (Control Activities [International Purchases]):** Invoices are approved by Country Office staff and again by HQ to ensure expenditures are for allowable activities, comply with cost principles, and within the period of performance.

**Key Control 5 (Control Activities [Payroll]):** Time and effort certifications (FECs or GCCRs) are certified by either the employee (FEC) and Budget Manager or Principal Investigator (GCCR).

**Key Control 6 (Control Activities [Indirect Costs - Automated]):** On a daily basis, the financial system calculates the indirect cost rate automatically based on the indirect cost rate input in FAS for the federal award.

**Evaluation of Results:** We identified **no** 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.11.PR.G - 93.067-Global AIDS - UW

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**Procedure Step:** C. Cash Management - Controls

**Prepared By:** KMR, 12/22/2022

**Reviewed By:** ACS, 2/6/2023

## 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:

Lori Hobson, Associate Director, UW Grant and Contract Accounting

### 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

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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

### 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

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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.

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- (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) 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

#### Not subject to the CMIA Agreement

We reviewed the CMIA agreement and did not find this program listed. We confirmed with Lori Hobson, Associate Director, UW Grant and Contract Accounting, the program is not subject to the CMIA. 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 Cash Management. We found that this Assistance Listing (CFDA) was not listed in the compliance supplement and therefore had no program specific guidance. We utilized the description of the grant, grant award documentation and expenditures as a guide to determine our scope.

Review of the grant agreement found no specific guidance on cash management requirements. We will focus the scope of the audit on standard uniform guidance.

#### Awards to Subrecipients

We found the agency made awards to subrecipients. We will document our understanding and key controls at [\[M. Subrecipient Monitoring - Controls\]](#).

## Understanding of Internal Controls

### Step 3

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

We spoke with Lori Hobson, Associate Director, UW Grant and Contract Accounting (known as "GCA"), on 11/28/2022 to obtain an understanding of the controls for cash management. She explained the Departments and schools awarded funding will pay for associated expenditures with UW funds. Periodically, depending on the grant terms, UW will seek reimbursement for these expenditures from the appropriate federal agency. Expenditures are performed at the budget level in myFD, which in turn is tied to a grant award number. Depending on the sponsored agreement, costs are reimbursable as incurred. Typically the reimbursement requests are done once per month. Some agreements have milestone pay where goals have to be achieved prior to getting paid.

#### Form of Payment (FOP)

Staff must complete a form in myFD called the Form of Payment (FOP), which is tied to the budget number. At this time the revenue code is also designated, and lets Accounting know it can be drawn upon from the Financial Accounting System (FIN/FAS). The Form of Payment ties to the agency which ties to the GL. In the case of federal agency HHS, the GL number is 59-01. Julie advised us a Letter of credit (LOC) was set up for this grant.

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## UMBERS/LOC

In May 2019, the University developed an in-house draw system, called UMBERS, which links directly with both the federal sponsor systems and the University's bank account. UMBERS is used to track all federal awards that have an LOC (Letter of Credit). The LOC is an electronic process the University uses to submit their reimbursement request to the sponsor. For example, if the University had several grants from the National Institute of Health, they would submit only one request for the aggregate amount due on all grants from the sponsor.

The grant information (such as budget number, award number, individual draws, cumulative draws, program income, etc.) are all tracked in UMBERS. UMBERS automatically pulls in the form of payment from the federal sponsor system, and GCA matches the budget in FAS. Furthermore, the budget numbers in myFD are interfaced with budget numbers in UMBERS. These budget numbers are grouped into funding agency group (i.e., FOP 01 = DHHS) and account codes that start with 59-xx. Each budget number gets its own 59- account code series (i.e., 59-01, 59-02, etc.). The 59- account code is an account receivable account for expenditures that have been paid. On a daily basis, UMBERS will upload AR amounts for each budget number from myFD.

The majority of sponsor activity is drawn weekly; however, some agencies are drawn less frequently based on activity. The University typically draws funds once the GL is greater than \$100,000 or at least every two weeks with payroll if the balance is less than the \$100,000 threshold. Draws are performed at the general ledger level, with the largest sponsors assigned their own GL.

Each morning, a Financial Analyst logs into UMBERS to review the drawable balances in each A/R GL, which includes only costs that have been incurred and paid; this information is then used to prepare the draws. During the draw preparation, the analyst reviews a series of checks to ensure all grants that are drawable are drawn (expenditures have been incurred and paid) and review any outstanding issues, such as delays in carryforward activity.

Once the draws are initiated by the Financial Analyst, the Research and Cash Accounting Manager or Associate Director review the draw request and supporting documentation to ensure the requests are accurate, complete, and include only expenditures that have been incurred and paid.

## Cash Draw Request Process

To perform the drawdown, two LOC Analysts will access the switchboard view in UMBERS and produce a "daily Cash Balance Report." This report shows the amounts of the cumulative AR 59-xx accounts by FOP for its entire life. The cumulative AR amount is then adjusted for: cash received/JV in progress, program income and deficit balances, unposted disbursements, and draws in transit. The adjusted balance becomes the total cash draw request amount for the particular FOP.

The LOC analyst will then access MyFD to obtain the amount showing as a receivable (AR account #59-xx) for the FOP on that week. For I-TECH, they are assigned to account #5901 and within account #5901 are the separate funds. The LOC analyst will review the summary expenditures by fund number within MyFD for reasonability and will reconcile the GL balance shown on the daily Cash Balance report with the amounts showing in MyFD. This is to ensure that the amounts imported from MyFD are accurate and that the amount of the cash draw will not exceed the amount of actual expenditures.

Once the summary information has been gathered and the drawdown request has been completed, the LOC Analyst will upload it into the agency payment system electronically or by manual data entry. Both the Daily Cash Balance form and Draw Sheet are electronically signed.

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The confirmation from the Federal Payment system is saved as .pdf and added to a folder with the rest of the grant documentation. The cash draw request and confirmation is then submitted to the Cash Manager for review to ensure the drawdown request amount being requested matches the amount in the system as accounts receivable. **(Key Control #1: Reimbursement requests prepared by the LOC Analysts are reviewed and approved within UMBERS by the Cash Manager to ensure the amount being requested has been incurred and paid. [Control Activity, Information and Communication])** They additionally review to ensure it includes required credits and that the amount submitted to the agency reconciles with the cash draw request amount and also that the amount requested does not exceed reported expenditures. At the end of the draw, a report is generated showing cumulative expenditures prior to this draw (by budget number) and the current draw. This verifies that the system is set up so that no draw can occur unless it's linked to expenditure account code in the general ledger.

### Key Controls Identified:

**Key Control #1: Reimbursement requests prepared by the LOC Analysts are reviewed and approved within UMBERS by the Cash Manager to ensure the amount being requested has been incurred and paid. (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.11.PRG - 93.067-Global AIDS - UW

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

**Prepared By:** RKM, 3/1/2023

**Reviewed By:** ACS, 3/2/2023

Purpose/Conclusion.*
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## **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:**

Marlo Anderson, Director of Finance (I-TECH)

Maya Beal, Assistant Director (I-TECH)

## **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 services, contracts and subawards made, and similar transactions during a given period that require payment by the non-Federal entity during the

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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.
(e)Public utility services.	When the State or subgrantee receives

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	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.

- There are several I-Tech international Offices with international spending. The Country Finance Manager must submit monthly reimbursements for expenditures incurred. The supporting documents must be attached to demonstrate the purpose of the expenditures and how it is allowable for the grant. However, given the culture at many of the Countries overseas, it might be difficult to obtain receipts and adequate documentation. Therefore, there is a risk that federal funds are used for unallowable purposes or are not properly supported.

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.

PART 7 - Guidance For Auditing Programs Not Included In This Compliance Supplement:



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- **Period of Performance:** Almost always applies to federal programs. The federal award often indicates the period during which the funds are available for obligation under the program. The auditor should also look for program requirements regarding carry-over of unused funds to future funding periods, and whether pre-award costs are allowable, to what extent, and under what circumstances.

Award Information (NU2GGH002116 and other awards):

The budget period for the Global AIDS is September 30th of the current year to September 29th of the following year. There is a 90-day grace period after the end of the budget year. The actual project period (period of performance) for the grant is detailed in each grant agreement, and could last over 2-5 years.

## 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 [[Overall COSO Evaluation](#)].

We gained an understanding of controls over period of performance with Marlo Anderson, Director of Finance (I-TECH), and Maya Beal, Assistant Director (I-TECH), on November 29, 2022.

Here is a link to UW's budget setup process: [Budget Setup | Grant & Contract Accounting \(uw.edu\)](#). All budget must be open and in status for approval of reimbursements to occur. This prevents reimbursements prior to the start of the award. The budget period for the Global Aids is September 30th of the current year to September 29th of the following year. We reviewed the grant agreement and found Global Aids allows a 90-day grace period after the end of the budget year. In order to meet the requirements, I-TECH has informed subrecipients and countries offices, that the final invoice voucher is due no later than 60 days from the end of the agreement. This also allows UW central processing 30 days to process the invoices and remain within the 90 day grace period.

About 45 days before the end of the budget period, the Global Fiscal Analyst and/or Specialist will send all the country Budget managers a "Memorandum for Closing the Fiscal Year". The memo breaks down all the tasks that must be completed by the Budget manager for budget closeout. There is also an internal "Grant Closeout Checklist - I-TECH HQ" used by the staff involved in the closeout process at I-TECH headquarters in Seattle (**Key Control 1 - Control Activities**). See the closeout checklist template at: [[LOC Report - Closing Checklist Template](#)]. The Global Fiscal Analysts will ensure each country has turned in their reimbursement reports. As it relates to subrecipients, the UW's Office of Sponsored Programs also have language in their subrecipient contracts that states all invoice vouchers are due no later than 60 days from the end of the agreement to assure that the program has time to record the expenses within the period of availability grace period (**Key Control 2 - Control Activities**).

During the different stages of review, the Country Fiscal Lead, Team Lead, and Finance Manager are checking whether there are enough funds available in the budget, if the purchase is allowable per the program objectives, is the purchase coded correctly, and properly approved by those with the Programmatic reviewer, in the country, if applicable (not all countries have a UW office there). As it gets closer to the end of the budget period, individuals are also reviewing whether the charges are accrued to the correct budget period based on when the expenditures were incurred. Global Fiscal Analysts ensure each country has submitted their reimbursement reports.

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In addition, at the end of the month, a "Budget Activity Report" (BAR) for each country by budget number is generated in Quickbooks by the subrecipient in country and submitted to the Budget Manager. The Budget Manager reviews each BAR to ensure all expenditures reported are during the current period of performance (**Key Control 3 - Control Activity**). *Note: This is also a key control over activities allowed.*

Any discrepancies will be researched by either the Finance Director or AP Manager and results will be emailed back to the Budget Managers. If a revision has to be made, then the Finance Director will initial the BARS where the correction was made and she will input the change through a correcting transaction via MyFD.

### **Key Controls Identified:**

**Key Control 1 (Control Activity):** There is an internal "Grant Closeout Checklist - I-TECH HQ" used by the staff involved in the closeout process at I-TECH headquarters in Seattle.

**Key Control 2 (Control Activity):** As it relates to subrecipients, the UW's Office of Sponsored Programs have language in their subrecipient contracts that states all invoice vouchers are due no later than 60 days from the end of the agreement to assure that the program has time to record the expenses within the period of availability grace period.

**Key Control 3 (Control Activity):** On a monthly basis, Budget Managers are required to review and certify the monthly Budget Activity Report (BAR) to ensure charges on the grant are allowable, correctly coded to the budget number, and within the period of performance.

**Evaluation of Results:** We identified **no** 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.11.PR.G - 93.067-Global AIDS - UW**

***Procedure Step:*** I. Suspension and Debarment - Controls

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

***Reviewed By:*** ACS, 12/19/2022

Purpose/Conclusion.

### **Purpose:**

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

Carol Rhodes, Director (OSP)

## **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.*

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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:

(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.***

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).

### 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 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

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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.

(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

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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.
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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 Suspension and Debarment.

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 government wide 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.

PART 7 - Guidance For Auditing Programs Not Included In This Compliance Supplement: Suspension and debarment applies to certain procurements (\$25,000 or more) and to all subawards.



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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 [Overall COSO Evaluation].

There were not written policies and procedures related to the compliance area. We determined it was sufficient to meet with the University staff to determine the key controls.

#### Understanding of Controls:

We gained an understanding of controls over suspension and debarment with Carol Rhodes, Director (Office of Sponsored Programs (OSP)), on November 23, 2022.

This program does not have any vendor contracts, however it does have subcontracts. Each time OSP creates a subcontract with the subrecipient, it uses a subaward agreement template that includes a Suspension and Debarment clause. This is also included in the Fedreal Demonstration Partnership (FDP) template that they use for FDP member subrecipients (**Key Control 1 - Information and Communication, Control Activity**). This control activity is not effective by design, however we included it as a key control because key controls 2 and 3 are effective by design.

The subrecipient self-certifies that it is not suspended or debarred and evidences this with a signature on the agreement. This must be reviewed by a Subaward Administrator at OSP before any services can be rendered or goods provided. The review is indicated by a signature (**Key Control 2 - Control Activity**).

The Subaward Administrator also uses SAM.gov to check both the organization and the Subrecipient PI for exclusions. This is at the time of issuance a new agreement and again with substantive modifications (**Key Control 3 - Control Activity, Monitoring**). The evidence of the check is kept in internal electronic records on a restricted shared drive, by subrecipient name.

#### **Key Controls Identified:**

**Key Control 1:** Each time OSP creates a subcontract with the subrecipient, it uses a subaward agreement template that includes a Suspension and Debarment clause. This is also included in the Fedreal Demonstration Partnership (FDP) template that they use for FDP member subrecipients.

- This control activity is not effective by design, however we included it as a key control because key controls 2 and 3 are effective by design.

**Key Control 2:** Subrecipients self-certify that they are not suspended or debarred and this is evidenced by a signature. This must be reviewed by a Subaward Administrator at OSP before any services can be rendered or goods provided. The review is indicated by a signature.

**Key Control 3:** The Subaward Administrator uses SAM.gov to check both the organization and the Subrecipient PI for exclusions. This is at the time of issuance a new agreement and again with substantive modifications.

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**Evaluation of Results:** We identified **no** 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.11.PRG - 93.067-Global AIDS - UW**

**Procedure Step:** L. Reporting - Controls (FINANCIAL REPORTS)

**Prepared By:** KMR, 2/7/2023

**Reviewed By:** ACS, 2/8/2023

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.

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

### **Source:**

Juan Lepez, Associate Director (GCA)

### **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

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*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 major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement,**

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**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 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).

## SMALL POPULATION – SELECTION SIZE

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

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

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

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24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

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

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. We determined the following reports are required:

- SF-425, Federal Financial Report
- Performance Progress and Monitoring Report
- Foreign Tax Report (*note: we determined this report is not direct and material to the program*)
- Special Reporting Required Under 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.

Based on review of the Notice of Award, we determined ITECH is responsible for the following reports:

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- SF-425, Federal Financial Report (Due 1/30)
- Performance Progress and Monitoring Report (Due 12/31)
- Foreign Tax Report - We noted there was only one Office (Kenya) required to submit this report. We reviewed the report [[Kenya VAT/Foreign Tax Report](#)], noting the total value added tax is \$49,485 and determined it is not quantitatively material.
- Special Reporting Required Under Federal Funding Accountability and Transparency Act (FFATA)

Reporting is performed at two departments. UW I-TECH, the department that receives the federal funds is responsible for submitting performance reports to the fund agency. This includes the country's annual progress report. UW Grant Contract and Accounting (GCA) is responsible for preparing and submitting the federal financial report.

### **SF-425, Federal Financial Report - Prepared by GCA**

On November 30, 2022 we met with Juan Lepez, Associate Director (GCA), to gain an understanding of the reporting process for SF-425 for the Global Aids grant.

In order to establish a new budget number for each grant year, the Office of Sponsored Programs (OSP) submits an Electronic Funding Action (EFA) form to GCA in order to create a new budget number in My Financial Desktop (MyFD), an interface to UW's accounting system (FAS). OSP documents the SF-425 reporting requirement in the EFA and informs the GCAs. GCA has a web based system called the "Grant Tracker" to track the reporting requirements for all grants at UW. The Grant Tracker includes the report format type, frequency, due date, date completed etc. Prior to the due date of the report, a GCA employee accesses the grant tracker online, which has the parent budget and the sub budgets (if applicable) along with the locations and indirect costs associated with the grant.

The employee gathers all the required documents for the federal financial reports on myFD and the grant tracker. They generate an expenditure report from myFD and then perform a pre-reconciliation of the report to the budget folder (electronic file), which contains award documents and budgets. They complete the "Pre-Reconciliation Checklist" as they go through this process, which is submitted with the report packet for management review before submission. Juan explained the manager reviews the pre-reconciliation check list until there is good confidence that the employee has the knowledge to complete the checklist without error themselves. Juan further explained the pre-reconciliation is just one part of the checklist. The manager always reconciles the budget folder to the SF-425.

The employee inputs the data from the expenditure report into the first excel file in the report package for each budget code which will carry forward to the SF-425 template in the same spreadsheet. Input data includes award amount, total expenditures, carry overs, total indirect costs by percentage, income associated etc. Information entered on the spreadsheet is reconciled and balanced to ensure it agrees with the award documents and expenditure reports. If there is a variance, it appears in a variance box and is flagged for follow-up by staff to resolve the difference before moving forward with report preparation. They complete the "Prep & Analysis Checklist" as they go through the process, which will be submitted with the report packet for management review before submission. **Key Control #1 (Control Activities): GCA employees complete a checklist as they prepare the SF-425 federal financial report to ensure it includes all required supporting documentation, all activity of the reporting period, is accurate and completed by the due date.**

When completed, the report package (including supporting documentation) is submitted to management (manager, budget analyst or fiscal lead) to ensure it is

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complete and accurate. Any discrepancies noted by management are sent out to staff for correction. This review is designated by a completed "Manager Review checklist". **Key Control #2 (Monitoring): GCA management utilizes a checklist to review the report and supporting documentation before submission to ensure reports are completed timely and include all required element and those elements are accurate and supported.** Once corrections are made, if applicable, the report is submitted to the funding agency (either online or via mail). A confirmation from the Agency is sent to GCA and retained in the budget folder.

### KEY CONTROLS IDENTIFIED:

**Key Control #1 (Control Activities): GCA employees complete a checklist as they prepare the SF-425 federal financial report to ensure it includes all required supporting documentation, all activity of the reporting period, is accurate and completed by the due date.**

**Key Control #2 (Monitoring): GCA management utilizes a checklist to review the report and supporting documentation before submission to ensure reports are completed timely and include all required element and those elements are accurate and supported.**

**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.11.PRG - 93.067-Global AIDS - UW

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

**Prepared By:** KMR, 2/7/2023

**Reviewed By:** ACS, 3/10/2023

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



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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:**

Carol Rhodes, OSP Director

## **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) 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

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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. We determined the following reports are required:

- SF-425, Federal Financial Report
- Performance Progress and Monitoring Report
- Foreign Tax Report (*note: we determined this report is not direct and material to the program*)
- Special Reporting Required Under 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.

Reporting is performed at two departments. UW I-TECH, the department that receives the federal funds is responsible for submitting performance reports to the fund agency. This includes the country's annual progress report. UW Grant Contract and Accounting (GCA) is responsible for preparing and submitting the federal financial report.

### **Special Reporting for Federal Funding Accountability and Transparency Act (FFATA)**

On November 23, 2022 we met with Carol Rhodes, OSP Director, in order to gain an understanding of controls over FFATA reporting. Carol explained the FFATA is required to be submitted when a subaward over \$30k has been issued. Once a subaward over 30k has been issued, the FFATA report is due at the end of the following month.

Carol explained OSP utilizes the Spark/Sage program in order to track grant funding and subaward documentation.

Throughout the year, the Subaward Administrator notifies Adel Castro, Program Coordinator, of a subaward action where FFATA applies via an email with a copy of the executed agreement or modification attached. This is part of the administrator's process for handling new subawards and modifications. Adel enters all eligible subawards for the reporting month in the FFATA reporting worksheet located on the Grants page in the Finance Department's SharePoint site. The FFATA reporting date is the date the contract was sent to the subrecipient by the program assistant. Adel Castro, Program Coordinator, creates the FFATA report by utilizing information within the subaward documents stored in Spark/Sage to ensure the report includes all required elements and those elements are accurate and supported (**Key Control 1 - Control Activities**). The report is created and submitted on the FSRS website. The information Adel refers to in the subaward for entry into the FFATA report has been provided by the campus requestor, reviewed and entered into the subaward documents by the subaward administrator, and reviewed by the subrecipient prior to the FFATA being submitted.

### **Key Controls Identified:**

**Key Control 1 (Control Activities): Adel Castro, Program Coordinator, creates the FFATA report by utilizing information within the subaward documents stored in Spark/Sage to ensure the report includes all required elements and those elements are accurate and supported.**

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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.

## **C.11.PRG - 93.067-Global AIDS - UW**

***Procedure Step:*** M. Subrecipient Monitoring - Controls

***Prepared By:*** KMR, 2/14/2023

***Reviewed By:*** ACS, 3/27/2023

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:**

Carol Rhodes, OSP Director

### **Conclusion:**

Based on our understanding of internal controls over Subrecipient Monitoring, we assessed preliminary control risk at LOW. ***However, we noted UW is not performing fiscal monitoring activities of subrecipient expenditures. We will report a control deficiency at [2022-028 The University of Washington did not establish adequate internal controls to ensure payments to contractors and subrecipients for the Global AIDS program were allowable, properly supported and***

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within the period of performance./.

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:

### **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.

- Monitoring is performed by two different units, OSP unit for entity-level monitoring, and I-TECH for program-level monitoring. The risk is that a lack of communication could cause some required monitoring to not take place or work effectively to ensure compliance.

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 Subrecipient Monitoring. We found that this Assistance Listing (CFDA) was not listed in the compliance supplement and therefore had no program specific guidance. We utilized the description of the grant, grant award documentation and expenditures as a guide to determine our scope.

Our review of the grant agreements indicated the following requirements:

- Prime recipient shall insert the following provision in subawards or subcontracts: *“None of the funds made available under this agreement may be used to promote or advocate the legalization or practice of prostitution or sex trafficking. Nothing in the preceding sentence shall be construed to preclude the provision to individuals of palliative care, treatment, or post exposure pharmaceutical prophylaxis, and necessary pharmaceuticals and commodities, including test kits, condoms, and, when proven effective, microbicides.”*
- Prime recipients shall insert the following provision in subawards or subcontracts subject to Section 7631(f) (i.e., those to non-U.S. nongovernmental organizations): *“By accepting this award, the subawardee/ subcontractor agrees that it is opposed to the practices of prostitution and sex trafficking because of the psychological and physical risks they pose for women, men, and children.”*
- Audit requirements for Subrecipients to whom 45 CFR 75 Subpart F applies: The grantee must ensure that the subrecipients receiving CDC funds also meet these requirements. The grantee must also ensure to take appropriate corrective action within six months after receipt of the subrecipient audit report in instances of non-compliance with applicable Federal law and regulations (45 CFR 75 Subpart F and HHS Grants Policy Statement). The grantee may consider whether subrecipient audits necessitate adjustment of the grantee's own accounting records. If a subrecipient is not required to have a program-specific audit, the grantee is still required to perform adequate monitoring of subrecipient activities. The grantee shall require each subrecipient to permit the independent auditor access to the subrecipient's records and financial statements. The grantee must include this requirement in all subrecipient contracts.

**(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) –
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 in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports).

**(b) Risk Evaluations**: PTEs must perform a risk assessment for every subrecipient to determine and support their level of monitoring.

**(c) Monitoring Activities**: Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with

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the terms and conditions of the subaward, and achieves performance goals. 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, 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).

Case-by-case Information:

- A. For-Profit Subrecipients
- B. PTE Agreed-Upon Procedure Engagements
- C. Fixed-amount Subaward

## 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 Carol Rhodes, OSP Director, on November 23, 2022 in order to gain an understanding of the internal control process and identified 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).*

Carol explained in order for UW to do business with another entity, they require a certain amount of documentation. Subrecipients must fill out the Subrecipient Entity Certification Form prior to receiving funding, see [[Subrecipient Entity Certification Form](#)]. The Subrecipient Entity Cert Form can also be found on the UW website at: <https://www.washington.edu/research/forms-and-templates/new-subrecipient-entity-certification-form/>.

The federal information is in the forms or application. The Form identifies who the potential subrecipient is, the CFDA (ALN) number, federal program, the amounts, and the dates for the award. UW has different templates for different purposes so they know the template they are using is current and contains everything necessary for that purpose. The University is part of the Federal Demonstration Program (FDP) whose job it is to update these forms. Staff advised us it's a continuous process to keep them updated. The FDP sends out guidance annually, usually via listserv. Carol stated that 130 universities have agreed to use a common template and clearinghouse where they post all member info and other guidance to accurately identify grant requirements (**Key Control 1 - Control Activities/Information and Communication**): **OSP utilizes a template which is reviewed by an OSP Subaward Team Member to ensure all required information is included in the subrecipient contract**). Cathy also advised us all the flow down program requirements are given to the sub at the time they are

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given the grant award documentation.

**(b) Risk Assessments:** *The auditee performs a risk assessment of each subrecipient to determine the appropriate level of monitoring.*

We met with Carol Rhodes, Director, who described their process for risk assessments. Carol also provided us with UW's policy regarding Sub-award Management, see [[Subaward Management Policy](#)]. Carol explained OSP issues a questionnaire for every subrecipient, depending on the amount of the subrecipient contract. During the sub-award setup process, and after the initial questionnaire is issued, an OSP Subaward Team Member performs the initial needs assessment based on the response provided from the subrecipient. An OSP Subaward Team Member reviews the questionnaire and assesses the risk based on responses and the rating system per the questionnaire. Sometimes additional information is required, and staff must travel (very rare) to the subrecipient to determine additional needs. ) The rating system and process typically involves looking at the application, and assessing the subrecipient as **high-medium-low**. The Subawards Team Manager reviews medium and high risk assessments to ensure they are appropriately assessed. **(Key Control 2 - Control Activity: OSP Subaward Team members perform a risk assessment of each subrecipient based on responses received in the subrecipient questionnaire form. The OSP Subaward Manager reviews medium and high risk assessments to ensure they were appropriately assessed.)** In the case of a repeat subrecipient, OSP typically rates them lower risk unless there are previously identified issues with compliance. The risk template (see [[UW Sub Risk Assessment Form](#)]) contains the information which has the criteria they use to rate the entity. When higher risk subrecipients are identified, OSP typically will update the requirements to require the entity to report more often, and add more clarification and additional data in the reports. (OSP works with the PI to determine what additional info is needed) They may also require more progress reports, and for the subrecipient to invoice more frequently. OSP maintains a copy of the risk assessment on site which can be furnished upon request.

**(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.*

*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).*

*Case-by-case Information:*

- A. For-Profit Subrecipients*
- B. PTE Agreed-Upon Procedure Engagements*
- C. Fixed-amount Subaward*

There is a Principal Investigator (PI) at I-TECH UW who, depending on the grant requirements and the program, calls the subrecipients to obtain required reports, and reviews all invoices related to the program.

On a monthly basis, subrecipients send their Budget Manager all invoices related to grant expenditures for the month via email. Once invoices are received from the budget manager, program staff review them for allowability and timing. Principal Investigators review and approve invoices after review by budget managers for reasonableness, allowability, and timing. Either subrecipients directly upload, or staff separate from the reviewers upload it into ARIBA for payment. If there

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is a deficiency, OSP will write it into the subaward that the issue is addressed. PI's perform desk audits or on-site reviews if an issue is flagged and/or the subrecipient is under a monitoring plan. For subrecipients deemed high risk, PI's perform onsite/desk reviews of all grant related invoices to ensure activities were allowable (**Key Control 3 - Control Activities [Subrecipients]**). **Auditor Comment: We would expect UW to be performing monitoring activities over at least 95% of subrecipient expenditures. See recommendation at: [2022-028 The University of Washington did not establish adequate internal controls to ensure payments to contractors and subrecipients for the Global AIDS program were allowable, properly supported and within the period of performance.]**.

**(Key Control 3 - Control Activity: During onsite/desk reviews of high risk subrecipients, subrecipients submit grant related invoices to the Principal Investigators for review. Principal Investigators review the invoices to ensure the transactions are reasonable and allowable.)**

There are no for-profit subrecipients in this grant. Based on discussion with staff and review of the grant agreements, there are no agreed upon procedures beyond the normal scope of the normal Uniform Guidance requirements. There are no fixed amount subawards for this program.

***(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.*

Carol described that language is in the template that covers the audit requirement of over the \$750,000 amount. If a finding is issued, their team will look to see if it affects the relationship with the subrecipient. If it doesn't affect them, then no action is taken. None of Carol's team could recall when a management decision was issued that required follow up and no subrecipient has been unwilling to have a required audit. We requested and received a copy of the subrecipients attached to the grants and budget numbers selected for our scope.

Per the above, OSP would initially notify subrecipients to obtain an single audit through audit terms and conditions contained within the subcontract. UW identifies all subrecipients using the subcontract. Using the subrecipient certification form that is submitted for new subrecipients with no prior relationship to UW, the University will determine whether the subrecipient is subject to an audit. To determine whether the subrecipients have any findings related to the grant, UW will use two sources: the Federal Demonstration Partnership (FDP) Clearinghouse and Harvester (Federal Audit Clearinghouse). OSP staff will review the report. UW may require the subrecipient to provide its most recent audit report or statement on compliance and on internal controls prepared by an independent accounting or public auditing firm.

If it is determined that the subrecipient is high risk and that the subrecipient's audit resulted in a finding, OSP will communicate this to the Department that the subrecipient is working with. Then, they will issue a plan to monitor the subrecipient and verify that corrective action plans were implemented by the subrecipient where necessary. OSP may also request that the subrecipient submit more frequent financial and progress reports. If it is determined that the subrecipient is low risk and no issues identified, the level of risk will not be communicated to the Department that the subrecipient is working with. Department level responsibilities for monitoring the subrecipient were already communicated to them through UW policy.

The Subawards Team Lead reviews subrecipient responses to know when audits will be due. The Subawards Team Lead uses a tracking spreadsheet to verify



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which entities are subject to a single audit, whether there were any findings noted, and, if applicable, any management decisions made. This spreadsheet includes the subcontractor name, type, latest period end date, start and end date for the most recent fiscal year, the entity status, whether it is subject to a single audit, and whether it is a FDP Clearinghouse member. **(Key Control 4- Monitoring: The Subawards Team Lead uses a tracking spreadsheet to verify which entities are subject to a single audit, whether there were any findings noted, and, if applicable, any management decisions made. )** The Subawards Team Manager is the delegated authority responsible for issuing written management decisions on all subrecipient audit findings.

### **Identified Key Controls:**

**Key Control 1 - Control Activities/Information and Communication:** OSP utilizes a template which is reviewed by an OSP Subaward Team Member to ensure all required information is included in the subrecipient contract)

**Key Control 2 - Control Activity:** OSP Subaward Team members perform a risk assessment of each subrecipient based on responses received in the subrecipient questionnaire form. The OSP Subaward Manager reviews medium and high risk assessments to ensure they were appropriately assessed.

**Key Control 3 - Control Activity:** During onsite/desk reviews of high risk subrecipients, subrecipients submit grant related invoices to the Principal Investigators for review. Principal Investigators review the invoices to ensure the transactions are reasonable and allowable. *(Control Weakness)*

**Key Control 4- Monitoring:** The Subawards Team Lead uses a tracking spreadsheet to verify which entities are subject to a single audit, whether there were any findings noted, and, if applicable, any management decisions made.

**Evaluation of Results:** We identified a control weakness based on the design of the internal controls.

The University did not perform adequate fiscal monitoring of subrecipient activities, including reimbursements of expenditures. The University relies on approval of invoices for payment from Principal Investigators and management does not solicit or review supporting documentation for payment to determine whether disbursements to subrecipients are allowable and supported by adequate documentation. Therefore, without performing additional fiscal monitoring of subrecipient payments, the University does not have adequate assurance of subrecipient compliance. As such, we will report a control deficiency at 2022-028 The University of Washington did not establish adequate internal controls to ensure payments to contractors and subrecipients for the Global AIDS program were allowable, properly supported and within the period of performance.

### **Preliminary Control Risk Assessment**

#### **Step 4**

For the following areas of subrecipient monitoring, we assess control risk at LOW and will plan to test the key internal controls:

**Key Control 1 - Control Activities/Information and Communication:** OSP utilizes a template which is reviewed by an OSP Subaward Team Member to ensure all required information is included in the subrecipient contract)

**Key Control 2 - Control Activity:** OSP Subaward Team members perform a risk assessment of each subrecipient based on responses received in the subrecipient questionnaire form. The OSP Subaward Manager reviews medium and high risk assessments to ensure they were appropriately assessed.

**Key Control 4- Monitoring:** The Subawards Team Lead uses a tracking spreadsheet to verify which entities are subject to a single audit, whether there were any findings noted, and, if applicable, any management decisions made.

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.

For **fiscal monitoring** of subrecipients, we determined the University did not perform any fiscal monitoring, including desk reviews, on-site visits, or other activities to ensure compliance with allowable costs/cost principles. We will report a control deficiency at 2022-028 The University of Washington did not establish adequate internal controls to ensure payments to contractors and subrecipients for the Global AIDS program were allowable, properly supported and within the period of performance.and assess preliminary control risk at HIGH.

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).