

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

D.2.PRG - 93.568-Low-Income Energy Assistance Program (LIHEAP) - COM

Procedure Step: C. Cash Management - Controls
Prepared By: BZH, 8/5/2022
Reviewed By: CCM, 8/9/2022

Purpose/Conclusion.

State of Washington

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:

Britni Kennedy, Accounting Program Support Manager

Alisha Meder, Grants and Loans Supervisor

Conclusion:

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

Testing Strategy:

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

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

Cash Management - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

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

Step 2: Gather Information

CMIA Agreement

(a) Determine whether the program is subject to the CMIA (Cash Management Improvement Act) agreement made between the U.S. Treasury and OFM (see

State of Washington

attached pdf file in planning at **B.1.4**). This will typically only apply to larger programs over \$20 million.

(b) If the program is subject to the OFM/Treasury CMIA agreement, obtain an understanding of funding technique prescribed for the program. Review Part 4 of Compliance Supplement for any program-specific requirements.

(c) If the program is not subject to the CMIA, review Part 4 of Compliance Supplement for any program-specific requirements.

Awards to Subrecipients

Determine whether the agency made any awards to subrecipients.

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

Information for all other awards (generally):

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

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

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

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

NOTE: The awarding agency may have regulations and/or guidance in these cases as to the specific amount of time the entity has from receipt of the funds to disburse the funds. For example, OSPI requires 3 days from receipt of funds to disburse. If the awarding agency does not have guidance on this, use 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.

State of Washington

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

Step 3: Gain an Understanding of Internal Controls

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

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

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

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

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

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

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

Cost Reimbursement (incurred but not paid before reimbursed)

- (1) the grantee is disbursing the funding as soon as possible after it is received,
- (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.

State of Washington

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

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

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

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

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

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

Step 4: Assess Preliminary Control Risk (CR)

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

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

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

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

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

Guidance/Criteria.*

State of Washington

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

State of Washington

CMIA Agreement

- Purpose: To determine if the program is required to follow the the CMIA agreement and if so, document the funding technique prescribed.
- Source: OFM Website.
- Conclusion: The program is not subject to the CMIA.

Awards to Subrecipients

The agency has executed awards to subrecipients as well as two inter-local agreements in which awards are issued to subrecipients. One with the Department of Social and Health Services (DSHS) and one with the Office of Civil Legal Aid (OCLA).

Cost Reimbursement

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." highlighted Sentence

Understanding of Internal Controls

Step 3

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

We requested the Department's written policies and procedures related to Cash Management. We were provided the following by Britni Kennedy, Accounting Program Support Manager, on 6/22/2022 via email: [Policies and Procedures for WA State Dept of Commerce, Federal Draw Guidelines]

We met with Britni Kennedy, Accounting Program Support Manager, and Alisha Meder, Grants and Loans Supervisor, on 6/29/2022 to discuss the Department's controls over Cash Management. Cassandra Metzler, Audit Supervisor, and Brandon Hofman, Auditor in Charge, were in attendance of this meeting.

Cost Reimbursement Cash Draw Process

The Department has written procedures that state the draw will occur the day before each pay day (9th and 24th) to minimize the time between fund transfer and disbursement.

The Contract Management System (CMS) is an internal system used by Commerce to account for contracts to which grant funds are allocated. CMS tracks program expenditures by automatically downloading financial data for each project from AFRS every night.How? On the day prior to government payday, the Accounting Team runs a Web Intelligence Report from OFM's system to pull revenue and expenditure information to date and see what awards need money

State of Washington

drawn. On payday, a Fiscal Analyst will compare CMS expenditures to the WebI expenditures to ensure the amounts match. Afterwards, they will calculate the variance between total expenditures and total revenue at the subproject level, as that is what is available to draw for each award. The Fiscal Analyst will prepare a Draw Form entitled "Federal Expenditure/Revenue spreadsheet". **It is an excel spreadsheet used to track and capture expenditures to ensure Commerce capture all draws on day of draw day [see: [FY22 Federal Revenue and Expenditures Tracking Spreadsheet](#)]. (Key Control #1) (Control Activities/Monitoring).**

KC2 Relevance to CM

Area

The Accounting Program Support Manager or Grants and Loans Supervisor reviews and approves the draw form to ensure coding, signatures and amounts are correct and charges are related to the appropriate time period. (Key Control #2) (Control Activities). In the absence of a manager, all fiscal analysts are trained, able, and have delegated authority to approve draw forms so long as they did not prepare it.

Receipting the Federal funds:

When each CMS draw is submitted a respective "due from feds" accrual batch (JV) is automatically recorded by CMS. Once a draw is initiated in CMS, the "due from feds" accrual batch pulls its JV number into CMS, and CMS assigns a batch number. After the JV batch is approved in CMS, it must be uploaded and released into AFRS. **The Due From Feds journal voucher (JV) accrual batch is reviewed and approved by a Fiscal Supervisor, who initials and dates the AFRS Accounting Transaction Batch Header after releasing the batch payment (Key Control #3) (Control activities).**

The reviewer will then save the PDF Header to the electronic Draws file, as well as all related reports. Once the draw is approved, a notice by email indicating the electronic Draws file location is sent to a Fiscal Analyst 2 or higher, to request federal funds through the federal draw system. This Fiscal Analyst will submit the draw amount via the PMS Smartlink system. After completing the draw, a PDF a summary page from PMS showing the completed payment request is printed and attached to the draw packet PDF in the electronic Draws batch file location.

Once the Office of the State Treasury (OST) receives funds from the federal agency, it notifies the Fiscal Analyst of the receipt via email. This analyst opens the email and prints to PDF and saves to the cash receipts batch folder along with the emailed ACH report, which shows the federal funds receipt. The Treasury Management System (TMS) OST created "Cash Receipts Journal Summary" (A-8) is then reconciled with the draw packet expected amount.

The Fiscal Analyst prints to PDF the A-8 and saves to the cash receipts batches folder. This employee will notify by email a Fiscal Analyst 4, or higher, the cash receipt electronic Cash Receipts (CJ) batch file location for review and approval. The reviewer approves the CJ batch; initials and dates the AFRS Accounting Transaction Batch Header (Control Activities). Segregation of duties exists between those responsible for requesting federal draw downs and receiving and reconciling draw downs. (Control Activities).

Summary of key internal controls:

Key Control #1 - The fiscal analyst prepares a Draw Form entitled "Federal Expenditure/Revenue spreadsheet" (Excel template) that includes revenues and expenditures from the Enterprise report and makes sure the calculated draw amount matches the Enterprise report. (Control Activities, Monitoring).

Key Control #2 - The Accounting Program Support Manager or Grants and Loans Supervisor reviews and approves the draw form to ensure coding, signatures and amounts are correct and charges are related to the appropriate time period. (Control Activities).

State of Washington

Key Control #3 - The fiscal supervisor reviews and approves the due from feds journal voucher (JV) accrual batch. The fiscal supervisor will initial and date the AFRS Accounting Transaction Batch Header. (Control Activities).

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

Preliminary Control Risk Assessment

Step 4

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

D.2.PR.G - 93.568-Low-Income Energy Assistance Program (LIHEAP) - COM

Procedure Step: E. Eligibility - Controls

Prepared By: BZH, 10/19/2022

Reviewed By: CCM, 10/19/2022

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that only eligible individuals and organizations receive assistance under Federal award programs, that subawards are made only to eligible subrecipients, and that amounts provided to or on behalf of eligible participants were calculated in accordance with program requirements.

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

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

Source:

Brian Sarensen, LIHEAP Program Manager

Gena Allen, Internal Audit Liaison

Conclusion:

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

State of Washington

Testing Strategy:

Eligibility - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

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

Step 2: Gather Information

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

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

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

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

Step 3: Gain an Understanding of Internal Controls

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

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

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

(1) Participant Eligibility:

State of Washington

- (a) **Status:** recipients receiving services/benefits are eligible for such assistance in accordance with the program/grant contract.
- (b) **Service level:** amounts paid to the recipient have been properly calculated in accordance with program requirements.
- (c) **Discontinued:** services/benefits are discontinued after recipients are deemed ineligible.
- (2) **Quality Control:** Some programs require quality control processes (such as independent double-checks) to obtain assurances about eligibility. If applicable, gain an understanding of controls to ensure the process is completed in accordance with program requirements.
- (3) **Subrecipient Eligibility:** subawards were made only to eligible subrecipients.

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

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

Step 4: Assess Preliminary Control Risk (CR)

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

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

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

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

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

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

State of Washington

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

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

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

Gather Information

Step 2

We reviewed part 4 of the compliance supplement and the grant award terms and conditions and determined the following requirements for eligibility:

Individual Eligibility

Grantees *may* provide assistance to (a) households in which one or more individuals are receiving Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), Supplemental Nutrition Assistance Program (SNAP) benefits, or certain needs-tested veterans' benefits; or (b) households with incomes which do not exceed the greater of 150 percent of the state's established poverty level, or 60 percent of the state median income. Grantees may establish lower income eligibility criteria, but no household may be excluded solely on the basis of income if the household income is less than 110 percent of the state's poverty level (42 USC 8624(b)(2)). Grantees *must* give priority to those households with the highest home energy costs or needs in relation to income and household size (42 USC 8624(b)(5)).

Subrecipient Eligibility

To the extent it is necessary to designate local administrative agencies, the grantee is to give special consideration to local public or private nonprofit agencies (or their successor agencies) which were receiving energy assistance or weatherization funds under the Economic Opportunity Act of 1964 or other laws, provided that the grantee finds that they meet program and fiscal requirements set by the grantee (4622 USC 84(b)(6)).

Understanding of Internal Controls

Step 3

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

On June 16th, 2022, we requested policies and procedures related to Eligibility from the Program Manager. We were provided the following:[[PY22 LIHEAP Policy Manual - February 1, 2022](#) [PY22 LIHEAP Eligibility Guidelines v2](#)see p.6]

Individual Eligibility Process

Commerce does not use categorical (TANF, SSI, SNAP) determination for the LIHEAP program.

Eligibility of individuals is determined by the subrecipient (Community Action Agencies (CAA's)). Commerce contracts out to the 26 CAA's based on their annual allocation model [see: [G. Earmarking - Controls](#)]. Initially a counselor at one of the CAA's determines client eligibility when they process a client

State of Washington

application for assistance. Counselors first check income thresholds and legal status requirements. Individuals are required to provide 1, 3, or 12 months of income below 150% the federal poverty level as well as picture ID, SSD, and a utility bill. A Counselor will interview the individual to find out household information and household demographics. If a client is determined eligible, a counselor inputs their information into the LIHEAP database that is maintained by Commerce; afterwards, the system utilizes a benefit matrix to determine the amount of funds the client will receive. There are generally 3 levels of payment; 50%/70%/90%. There is never an intention to pay 100% of the client's energy need, however, rare instances require a case-by-case analysis. The LIHEAP database determines the amount of funds to provide to each client in a one-time benefit payment. (Control activities)

The payment is generally paid directly to the utility vendor, however sometimes it may be paid directly to the client. (for instance if heat is included with rent or if they live in a rural area without a utility company.) The threshold for household income eligibility is 150 percent of federal poverty level under the guidelines established by the US Department of Health and Human Services.

For Weatherization program services, the threshold is Federal Poverty Guidelines of 200% or 60% of State median income, Support whichever is greater [see: 2021-WA-Low-Income-Eligibility-Guidelines]. Local agencies must follow the income eligibility guidelines for LIHEAP to determine types of eligible income, how to document income, and other eligibility rules. Within LIHEAP guidelines, priority for assistance is given to high energy users, the elderly, persons with disabilities, children, and Native Americans residing on reservations. All of the aforementioned demographic and energy usage data is housed and maintained in the central database; therefore, LIHEAP is able to ascertain which households to give highest priority to with a standard sort function. Subrecipients are required to maintain documentation of eligibility in client files which include a household information form, income documentation, SSN documentation, and residence documentation.

Eligible applicants can receive one benefit amount during a program year (October 1st through June 30th). As part of its control environment, LIHEAP has a data management process in place whereby subrecipients submit client data into Commerce's secure LIHEAP database by direct online entry or through file uploads twice weekly. The LIHEAP database houses personally identifiable documentation such as an individual's SSN, if the system detects a duplicate SSN it will kick the attempted duplicate SSN out; furthermore, there are safeguards built into the database that track the date you received your benefit during the current program year. This allows client status, duplication, eligibility, and benefit calculations etc. to be screened.

CMS tracks award and contracts for the CAAs; LIHEAP database has individual household data for customers.

In order to ensure Subrecipients were disbursing LIHEAP funds to assist eligible households, the LIHEAP database that subrecipients upload financial data to, will automatically reject an individual over 150% the poverty threshold when attempting to enter them into the system. (Key Control #1) (Control Environment). Key Control? LIHEAP performs an annual desk monitoring of all CAA's and has a three-year rotation where several random subrecipients are selected for on-site monitoring. However, through the COVID-19 pandemic, LIHEAP was given permission to perform all monitorings as virtual monitorings. Therefore, instead, all 26 CAA's received a desk monitoring of minimum of 10 files. Of the "on-site" monitorings that were supposed to take place, Program Management took 10% of all files and selected the three highest spending months.

LIHEAP Weatherization has a monitoring plan and monitoring procedures that they follow located here: [2021-Wx-Manual-Oct-1-2021] , 2022 Client File Checklist]. The Weatherization program follows the same LIHEAP income eligibility guidelines.

State of Washington

Subrecipient Monitoring for Proper Eligibility Determination

As part of LIHEAP's on-site monitoring, a Contract Manager pulls a report from the eligibility LIHEAP database that shows a list of clients by service type. Afterwards, **the intake process for determining client eligibility and a sample selection of client files are reviewed by a Contract Manager to verify client eligibility and that the financial assistance provided is allowable and properly determined. (Key Control #2) (Control Activities / Monitoring Activities)**

Subrecipient Eligibility Process

Commerce has recurring contracts with 26 non profit Community Action Agencies (CAAs) that administer the LIHEAP program who were receiving energy assistance under the Economic Opportunity Act of 1964 and other laws. Program Managers ensure that the subrecipients meet the needed program and fiscal requirements with their subrecipient monitoring. Furthermore, annually, CAAs are required to submit an application to Commerce each program year detailing how they will run the program.

The Department confirmed that the same 26 community action agencies apply for the program and there are no additional applicants. Therefore, we determined the requirement to give special consideration to local public or private nonprofit agencies which were receiving energy assistance or weatherization funds under the Economic Opportunity Act of 1964 or other laws is **not** direct and material to our testing. There will be no further review over this requirement.

However, the Department is still required to ensure that subrecipients meet program and fiscal requirements set by the grantee. The Department requires each subrecipient to submit an application annually that details how the program will be run, which includes creating approved program and fiscal expectations for the year. Then, the Department performs annual risk assessments and, during the year, performs desk monitoring and on-site monitoring to ensure the CAAs are meeting LIHEAP program and fiscal requirements.

The Program Manager ensures that each subrecipient submits an application to Commerce annually each program year detailing how they will run the program. The Program Manager reviews the plans to ensure they meet program and fiscal requirements (Key Control #3) (Control Activities).

Summary of Internal Controls:

Key Control #1 - In order to ensure Subrecipients were disbursing LIHEAP funds to assist eligible households, the LIHEAP database that subrecipients upload financial data to, will automatically reject an individual over 150% the poverty threshold when attempting to enter them into the system. (Control Environment)

Key Control #2 - As part of Subrecipient Monitoring, the Contract Manager completes a monitoring checklist that includes selecting a sample and reviewing client eligibility, and supporting documentation to ensure recipients are eligible for LIHEAP funds. (This will be tested as part of Subrecipient Monitoring Key Control #4) (Monitoring/Control Activities)

Key Control #3 - The Program Manager ensures that each subrecipient submits an application to Commerce annually each program year detailing how they will run the program. The Program Manager reviews the plans to ensure they meet program and fiscal requirements, which includes eligibility. (Control Activities)

Evaluation of Results: We did not identify any control deficiencies

Preliminary Control Risk Assessment

Step 4

State of Washington

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

D.2.PR.G - 93.568-Low-Income Energy Assistance Program (LIHEAP) - COM

Procedure Step: G. Earmarking - Controls

Prepared By: BZH, 8/8/2022

Reviewed By: CCM, 8/9/2022

Purpose/Conclusion.:

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Earmarking requirements are met using only allowable funds or costs which are properly calculated and valued.

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

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

Source:

- Brian Sarensen, Program Manager
- Leah Snow, Financial Operations Manager
- Joseph Brown, Contract Manager

Conclusion:

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

Testing Strategy.:

Earmarking - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

See steps to assess risk and risk factor considerations are listed in the **Inherent and Internal Control Risk Guidance** that could apply to the compliance

State of Washington

requirement you are reviewing. For any inherent risks you identify, determine whether the agency has established internal controls to mitigate the risk. Document this analysis in the Record of Work Done.

Step 2: Gather Information

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

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

Step 3: Gain an Understanding of Internal Controls

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

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

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

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

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

Step 4: Assess Preliminary Control Risk (CR)

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

State of Washington

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

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

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

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

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

Source of Governing Requirements

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

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

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

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

Gather Information

Step 2

We reviewed Part 4 of the Compliance Supplement and the grant award terms and conditions and determined the following limitations apply to LIHEAP block grants and leveraging incentive award funds, as noted. Energy emergency contingency funds generally are subject to the requirements applicable to LIHEAP block grant funds, but the contingency grant award letter should be reviewed to see if different requirements were applied. REACH grants are subject to special terms and conditions described in the award.

a. Planning and Administrative Costs

State of Washington

(1) No more than 10 percent of a State's LIHEAP funds for a Federal fiscal year may be used for planning and administrative costs, including both direct and indirect costs. This limitation applies, in the aggregate, to planning and administrative costs at both the State and subrecipient levels.

(2) A tribal or territorial grantee may spend up to 20 percent of the first \$20,000 and 10 percent of the amount above \$20,000 for administration and planning. Not applicable

(3) Although as indicated in III.A.5, leveraging incentive award funds may not be used for planning and administrative costs, they may be added to the base on which the maximum amount allowed for planning and administration is calculated according to the Federal fiscal year in which the leveraging funds are obligated. ***Not applicable*** - There were no leveraging funds allocated by the federal grantor.

b. Weatherization

(1) No more than 15 percent of the greater of the funds allotted or the funds available to the grantee for a Federal fiscal year may be used for low-cost residential weatherization or other energy-related home repairs. The Secretary may grant a waiver beginning April 1st, and the grantee may then spend up to 25 percent for residential weatherization or energy-related home repairs (42 USC 8624(k)). Not Applicable

(2) Leveraging incentive award funds may be used for weatherization without regard to the weatherization maximum in the statute. However, they cannot be added to the base on which the weatherization maximum is calculated. ***Not applicable*** - There were no leveraging funds allocated by the federal grantor.

c. Energy Need Reduction Services

No more than five percent of the LIHEAP funds may be used to provide services that encourage and enable households to reduce their home energy needs and, thereby, the need for energy assistance. Such services may include needs assessments, counseling, and assistance with energy vendors (42 USC 8624(b)(16)). - No funds were used for this category in SFY '22. ***Not Applicable.***

d. Identifying and Developing Leveraging Programs

(1) The greater of 0.08 percent of a State's LIHEAP funds (other than leveraging incentive award funds) or \$35,000 may be spent to identify, develop, and demonstrate leveraging programs, without regard to the limit on planning and administering LIHEAP. Not applicable There were no leveraging funds authorized by the Federal Grantor during SFY '21. Due to this, the program did not attempt to identify, demonstrate, or develop any leveraging programs. This was confirmed by the Managing Director, Cecil Daniels. No further work is necessary.

(2) Indian tribes/tribal organizations and Territories may spend up to the greater of two percent or \$100 on such activities. - No funds were used for this category in SFY '22. ***Not applicable.***

Understanding of Internal Controls

Step 3

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

We requested the Department's written policies and procedures related to earmarking from Brian Sarensen, LIHEAP Program Manager. He provided the following [see: PY22 LIHEAP Policy Manual - February 1, 2022 page 140] via email on 6/21/2022.

On June 15th, 2022 we met with the following staff from Commerce to determine how the program ensures earmarking maximums or minimum are met:

State of Washington

- Brian Sarensen, LIHEAP Program Manager
- Joseph Brown, LIHEAP Contracts Manager
- Leah Snow, LIHEAP Financial Operations Manager.

Cassandra Metzler, Audit Supervisor, and Brandon Hofman, AIC, were in attendance from SAO.

At the start of each award cycle, the program manager takes the federal award and puts the total grant award into a spreadsheet allocation model to set initial allocation budgets for LIHEAP, Planning and Administration, and Weatherization (Key Control #1) (Control Activities). This allocation model contains boilerplate scripted formulas that break out the award funds maximum allowable earmarking amounts. 15% is the maximum allowable for Weatherization for SFY '22, and 10% is the maximum allowable for Planning and Admin. The Program Manager sends the allocation model to the Financial Operations Manager, who reviews and verifies the scripted formula correctly met earmarking requirements when breaking out award funds.

After the Program Manager has verified approval from the Financial Operations Manager, the Program Manager prepares an Obligation Memo and a meeting is scheduled with the Assistant Director to go over the budget plan, **if the Assistant Director approves, they will sign off on the obligation memo as representative of organization (Key Control #2) (Control Activities).** Once signed, the budget plan is moved forward and contracted out. There is an Obligation Memo for each unique award number.

Grant funds are passed through to subrecipients, who request monthly advances or reimbursements using a standardized form (A19). Each subrecipient has budgeted amounts for different cost categories which are set forth in their contract. Subrecipients establish a cost code for each cost category to be tracked in the subrecipients General Ledger. These categories include Administration and Client Services. Client Services is further itemized by Conservation Education, Other Direct Services, and Direct Services. Each category of expenditures are itemized on the monthly A19s. This ensures that proper accounting for the funds is maintained and all appropriate applicable costs to each cost category can be identified by the program.

Each A19 shows the total budget for each cost category and expenditures to date to ensure the subrecipient does not exceed their budget. When contract managers receive monthly A19s, they review each expenditure against the subrecipients spending budget for each cost category to ensure spending targets are being met. Earmarked administrative expenditures are checked against the subrecipients and program budgets. This process ensures that the aggregate of State and subrecipient earmarking limits are not exceeded. Reimbursement requests are subject to the budget totals set forth in the contract. If subrecipients are nearing their budget limit they are contacted by a contract manager. A-19s are received from subrecipients through the Contract Management System (CMS) portal electronically. LIHEAP runs an expenditure report nearly daily that lists all outstanding invoices (A19's) and enters in the requested amounts into the CMS. The status of payment requests is viewable in CMS and shows whether the subrecipient has been reimbursed or if it is still processing/pending. Contract Managers monitor the overall budgets and the allocations through the CMS system on a monthly basis. All invoices are due on the 15th of each month **Once contract managers receive the invoice, they will review and approve to ensure that all expenditures are accurate, within period of performance, and budget allocations are not exceeded. (Key Control #3) (Control Activities, Monitoring).**

CMS will pop up an alert if a line item amount has over expended to inform the contract manager. If a line item has been overspent, the contract manager will review expenditures in an attempt to identify any items that may be allocated to a different line item so long as the entire award isn't overspent. Once contract Managers review the invoice for appropriateness, they will make two copies; one copy is placed in the Community Action Agency's (CAA) folder and one copy

State of Washington

goes to fiscal for processing.

Commerce staff create unique AFRS coding for LIHEAP and Weatherization expenditures at the project and subproject level to track the different earmarking requirements to ensure earmarking requirements are met. (Key Control #4) (Control Activities). The project code specifies which grant year the expenditure is being charged to and the subproject specifies the category of expenditure (administrative, program, information technology IT). For instance, the code 32G0 charges the FFY2021 grant for Commerce administrative expenses and the code 5310 charges the FFY2021 grant for Commerce weatherization administrative expenses.

Leah Snow, Financial Operations Manager, maintains fiscal monitoring spreadsheets for weatherization activities to ensure that weatherization expenditures for administration are within budgeted amounts.

Summary of Key Controls:Key Control Wording

KC#1- At the start of each award cycle, the Program Manager uses an Allocation Spreadsheet to set initial allocation budgets for LIHEAP and Weatherization to ensure maximum earmarking amounts are recorded. (Control Activities)

KC#2- The Assistant Director signs an Obligation Summary memo to ensure the budget is executed in accordance with the budget plan. (Control Activities) (Information and Communication).

KC#3- When contract managers receive an invoice, they review it to ensure that all expenditures are accurate, within period of performance, and budget allocations are not exceeded. (We will test this control in conjunction with Cash Management and Period of Performance) (Control Activities, Monitoring).

KC#4- Commerce staff create unique AFRS coding for LIHEAP and Weatherization expenditures at the project and subproject level to track the different earmarking requirements to ensure earmarking requirements are met. (Control Activities)

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

Preliminary Control Risk Assessment

Step 4

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

D.2.PRГ - 93.568-Low-Income Energy Assistance Program (LIHEAP) - COM

Procedure Step: H. Period of Performance - Controls

Prepared By: BZH, 8/19/2022

Reviewed By: CCM, 8/22/2022

State of Washington

Purpose/Conclusion.*

Purpose:

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

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

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

Source:

Brian Sarensen, Program Manager

Conclusion:

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

Testing Strategy.*

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

Period of Performance - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

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

Step 2: Gather Information

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

Review the grant award notice to determine the period that grant funds are available for expenditure (the official starting and ending dates) and whether there are

State of Washington

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

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

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

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

Step 3: Gain an Understanding of Internal Controls

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

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

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

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

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

State of Washington

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)

State of Washington

When used in connection with a non-Federal entity's utilization of funds under a Federal award, obligations means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period.

§200.309 Period of performance. (requirement)

A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in §200.461 Publication and printing costs) and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity.

§200.343 Closeout.

The Federal awarding agency or pass-through entity will close-out the Federal award when it determines that all applicable administrative actions and all required work of the Federal award have been completed by the non-Federal entity. This section specifies the actions the non-Federal entity and Federal awarding agency or pass-through entity must take to complete this process at the end of the period of performance...

(b) Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award...

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

IF AN OBLIGATION IS FOR --	THE OBLIGATION IS MADE --
(a)Acquisition of real or personal property.	On the date on which the State or subgrantee makes a binding written commitment to acquire the property.
(b)Personal services by an employee of the State or subgrantee.	When the services are performed.
(c)Personal services by a contractor who is not an employee of the State or subgrantee.	On the date on which the State or subgrantee makes a binding written commitment to obtain the services.
(d)Performance of work other than personal services.	On the date on which the State or subgrantee makes a binding written

State of Washington

	commitment to obtain the work.
(e)Public utility services.	When the State or subgrantee receives the services.
(f)Travel.	When the travel is taken.
(g)Rental of real or personal property.	When the State or subgrantee uses the property.
(h)A pre-award cost that was properly approved by the State under the cost principles.	On the first day of the subgrant period.

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

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

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

Gather Information

Step 2

We reviewed part 4 of the Compliance Supplement and the grant terms and conditions and determined the following requirements for Period of Performance. At least 90 percent of the LIHEAP block grant funds payable to the grantee must be obligated in the Federal fiscal year in which they are awarded. Up to 10 percent of the funds payable may be held available (or “carried over”) for obligation no later than the end of the following Federal fiscal year. Funds not obligated by the end of the following fiscal year must be returned to ACF. There are no limits on the time period for expenditure of funds (42 USC 8626).

Leveraging incentive award funds and REACH funds must be obligated in the federal fiscal year in which they are awarded or the following federal fiscal year, without regard to the carryover limit. However, they may not be added to the base on which the carryover limit is calculated (45 CFR sections 96.87(j)(1) and (k)). Funds not obligated within these time periods must be returned to ACF (45 CFR section 96.87(k)).

- Not applicable - There were no leveraging funds allocated by the federal grantor.

LIHEAP emergency contingency funds are generally subject to the same obligation and expenditure requirements applicable to the LIHEAP block grant funds,

State of Washington

but the contingency award letter should be reviewed to see if different requirements were imposed.

- Not applicable - There were no emergency contingency funds allocated by the federal grantor.

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. POP Policy

The Department reserves 10% of the grant funds received for Administration costs, and 15% for Weatherization (up to 25% with a waiver). The remaining funds are passed through to the subrecipients through grant agreements. The execution of a valid contract signifies a binding commitment to obtain the requested services. Therefore, funds passed through to subrecipients are considered obligated at the time of the award. As soon as they receive notification via email of the grant award, the Program Manager, Brian Sarensen, sets up a meeting with the Managing Director, Cecil Daniels, and the program Budget Analysts to determine the proposed initial allocation of funds. Once the allocation has been determined, the Program Manager prepares a memo and schedules a meeting with the Assistant Director to go over the budget plan. The Assistant Director approves the budget plan and signs an Obligation Summary memo to ensure funds are obligated within the FFY in which they are awarded.

To ensure 90% of funds are obligated within the first fiscal year of the grant award, the Program Manager prepares subawards based on the the funds that are allocated as pass-through to subrecipients.(Key Control #1)(Control Activities). Contracts are then executed immediately after the formal award is received from HHS.

Subrecipients are required to retain all receipts and provide them when they submit their monthly A-19 reimbursement requests to contract managers.Detail**When contract managers receive an invoice (A-19), they review it to ensure that all expenditures are accurate, within period of performance, and budget allocations are not exceeded. (Key Control #2) (Control Activities/Monitoring).** Once contract managers review the A-19 for appropriateness, they will make two copies; one copy is placed in the Community Action Agency's (CAA) folder and one copy is sent to fiscal for processing.

Summary of Key Internal Controls:

Key Control 1- To ensure 90% of funds are obligated within the first fiscal year of the grant award, the Program Manager prepares subawards based on the the funds that are allocated as pass-through to subrecipients. (Control Activities)

Key Control #2 - When contract managers receive an A-19, they review it to ensure that all expenditures are accurate, within period of performance, and budget allocations are not exceeded. (We will test this control in conjunction with Earmarking) (Control Activities/Monitoring)

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

Preliminary Control Risk Assessment

State of Washington

Step 4

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

D.2.PRG - 93.568-Low-Income Energy Assistance Program (LIHEAP) - COM

Procedure Step: L. Reporting - Controls

Prepared By: BZH, 12/7/2022

Reviewed By: CCM, 12/8/2022

Purpose/Conclusion.*

Purpose:

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

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

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

Source:

Brian Sarensen, Program Manager

Lexi Becker, Weatherization Program Manager

Gena Allen, Internal Audit Liaison

Brini Kennedy, Accounting Support Manager

Alisha Meder, Grants and Loans Manager

Darrel Stoa, Budget Analyst

Conclusion:

Financial/Performance/Special Reporting

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

FFATA Reporting

State of Washington

Based on our understanding of internal controls over Reporting, we found the agency does not have adequate internal controls to prevent material noncompliance. Therefore we assess **preliminary control risk as high and will report a finding for a material weakness [here: 2022-038 The Department of Commerce did not have adequate internal controls over and did not comply with requirements to ensure it filed reports required by the Federal Funding Accountability and Transparency Act.]**. No internal control testing is necessary in this instance.

Testing Strategy:

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

Reporting - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

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

Step 2: Gather Information

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

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

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

Federal Funding Accountability and Transparency Act (FFATA)

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

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

State of Washington

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

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

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

Step 3: Gain an Understanding of Internal Controls

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

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

State of Washington

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

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

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

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

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

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

Step 4: Assess Preliminary Control Risk (CR)

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

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

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

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

Guidance/Criteria.:

INTERNAL CONTROL UNDERSTANDING

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

SMALL POPULATION – SELECTION SIZE

State of Washington

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

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

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

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

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

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

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

Gather Information

Step 2

We reviewed the scope of work per the grant agreement, Part 4 of the Compliance Supplement, and any available program guidelines to determine specific requirements for Reporting.

1. Financial Reporting

SF-425, Federal Financial Report. Annual due 90 days after FFY close (Dec 30) per Health and Human Services (HHS) grant terms and conditions

2. Performance Reporting

LIHEAP Performance Data Form (OMB No 0970-0449). State grantees must submit this report by January 31st regarding the prior federal fiscal year. The first

State of Washington

section of the report is the Grantee Survey that covers sources and allocation of funding. The rest of the report is regarding performance metrics, mostly related to home energy burden targeting and reduction, as well as the continuity of home energy service.

3. Special Reporting

LIHEAP Carryover and Reallotment Report (OMB No. 0970-0106). Grantees must submit this report no later than August 1 indicating the amount expected to be carried forward for obligation in the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year and must also be reported (42 USC 8626).

- Key Line Items:
 - "Carryover amount"
 - "Reallotment amount"

Annual Report on Households Assisted by LIHEAP (OMB No. 0970-0060). As part of the application for block grant funds each year, a report is required for the preceding fiscal year of (1) the number and income levels of the households assisted for each component and any type of LIHEAP assistance (heating, cooling, crisis, and weatherization); and (2) the number of households served that contained young children, elderly, or persons with disabilities, or any vulnerable household for each component. Territories with annual allotments of less than \$200,000 and all Indian tribes are required to report only on the number of households served for each program component (42 USC 8629; 45 CFR section 96.82).

- Key Line Items - The following line items contain critical information:
 - Section 1 - LIHEAP Assisted Households
 - Section 2-LIHEAP Applicant Households

4. Special Reporting for Federal Funding Accountability and Transparency Act (FFATA)

Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282), as amended by Section 6202 of Public Law 110-252, hereafter referred as the “Transparency Act” that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). In accordance with OMB Memorandum M-20-21, Implementation Guidance for Supplementing Funding Provided in Response to the Coronavirus Disease 2019 (COVID-19), existing Transparency Act subaward reporting requirements may be leveraged to meet the transparency requirements outlined in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Aspects of the Transparency Act that relate to subaward reporting (1) under grants and cooperative agreements were implemented in OMB in 2 CFR Part 170 and (2) under contracts, by the regulatory agencies responsible for the Federal Acquisition Regulation (FAR at 5 FR 39414 et seq., July 8, 2010).

The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts. There are limited exceptions as specified in 2 CFR Part 170 and the FAR. The guidance at 2 CFR Part 170 currently applies only to federal financial assistance awards in the form of grants and cooperative agreements (e.g., it does not apply to loans made by a federal agency to a recipient), however the subaward reporting requirement applies to all types of first-tier subawards under a grant or cooperative agreement.

Consistent with the OMB guidance,

The 2 CFR Part 170 “subaward” has the meaning given in 2 CFR 200.1 and means an award provided by a pass-through entity to a subrecipient for the

State of Washington

subrecipient to carry out part of a Federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a Federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.

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.

Financial Reporting

We requested the Department's written policies and procedures and internal controls related to Financial Reporting as part of gaining an understanding of internal controls. We were provided the following:

[Federal Financial Reporting FFR Process; LIHEAP-Business-Rules]. We also requested and received the following Financial Reports submitted by the Department:

SF-425

We spoke with Alisha Meder, Grants and Loans Supervisor, Britni Kennedy, Accounting Program Support Manager, and Darrel Stoa, Funds Manager, on June 30th, 2022, to gain an understanding of the SF-425 Federal Financial Reporting process. The FFR details grant expenditures by state and federal share, any unobligated balance, and indirect costs for the grant period. The report is completed annually and due in December for each grant award open.

Contract Management System (CMS), is an internal system used by Commerce to account for contracts to which grant funds are allocated. The CMS system automatically downloads financial data for each project from AFRS every night. A Fiscal Analyst 4 (FA4) runs a quarterly CMS report that shows which FFR's are due for the upcoming reporting cycle. KC? The SF-425 can be prepared in CMS, as CMS pre-populates datafields and information.

1. FA4 runs a "Project Billing Flexible by Project" Enterprise Report for each project code when FFR is due. The report shows revenues and expenditures to-date for the projects.
2. The revenues and expenditures from ER are compared to the prepopulated data within CMS. Contract Management System (CMS), is an internal system used by Commerce to account for contracts to which grant funds are allocated. The CMS system downloads financial data for each project from AFRS every night. Missing Step
3. Accounting staff will review the information and verify that what is entered is accurate by comparing the revenues and expenditures from the Enterprise Report to the prepopulated data within CMS. .
4. Britni Kennedy, Accounting Program Support Manager, or Alisha Meder, Grants and Loans Supervisor will then review the FFR and backup documentation for accuracy. **Once program staff approves, the accounting reviewer (Britni or Alisha) will hit an "approve" button in CMS. (Key Control #1) (Control Activities).**
5. The FA4 goes into the Payment Management System (PMS), a web-based portal used by Fiscal, and submits the report.
6. **The FA4 (or another supervisor) will review and certify the data entered into PMS with the data in CMS, to ensure the report is accurate and complete. (Key Control #2) (Control Activities) KC?**

State of Washington

Performance Reporting

We requested policies and procedure related to performance and special reporting from the Program Manager.

Control Weakness: We were not provided policies and procedures related to Performance and Special reporting.

LIHEAP Performance Data Form

Grantee Survey (Subsections 1-4)

Darrel Stoa, Budget Manager, prepares the Grantee survey portion of the Performance Report and informed us of the following:

The Grantee Survey report is Project /subproject code specific. On a monthly basis Darrel will download data out of CMS and feed that information into several "Budget Status Reports" (BSRs) by running WebIntelligence expenditure reports with the specific grants, project, and subproject coding to ensure and verify BSR reports are accurate. The Grantee Survey is the lead sheet in the performance report, it automatically pulls information and populates the data from the BSR excel spreadsheets into the appropriate cells.

Before submitting the Performance report, the Program Manager will meet with the Department of Health and Human Services' (HHS) Budget Manager to collaborate and ensure the numbers recorded by the Program Manager were accurately recorded [see: [Performance Measures | LIHEAP Performance Management \(hhs.gov\)](#) for a more information]. The Program Manager does not review the fiscal reports or budgeted obligations, only that the recorded figures were accurately recorded, it is HHS' responsibility to ensure these numbers are correct and supported. **The Program Manager of LIHEAP communicates with HHS and makes changes to the Grantee Survey based on the Budget Manager's feedback, prior to its electronic submission (Key Control #3) (Communication).** The Program Manager will then electronically upload the report to OLDC system [see: [BaseCamp Submission screen shot](#)].

B. LIHEAP Performance Measures (Subsection 5-7)

We met with Brian Sarensen, Program Manager, on 6/22/2022 to discuss the Performance Measures portion of the Performance Report.

Performance report sections 1-4 are generated in report 719 and sections 5-7 are generated in report 710 automatically from the LIHEAP database.

(Key Control #4) (Automated Control).

Team IT Audit has gained an understanding here: [[Reporting Compliance](#)] and will test this automated control to ensure the key control is working as intended.

We were informed that while the fiscal team conducts the Grantee Survey, simultaneously the Program Manager (Brian Sarensen) handles the Performance Measure subsections of the report. The Program Manager obtains the report from a built in datasystem. All data is centralized, housed, and maintained at Commerce. All reported numbers on each report are actual benefits that have been paid. This report gives the Program Manager the information to input into the HHS basecamp site. The Program Manager enters the data into section 5 (part A and part B) and section 6 (part A) and section 7 (part A).

The information included in the report is obtained from Commerce's internal LIHEAP client database, a separate specialized database used by sub-grantees to report information relevant to the LIHEAP program. IT audit gained an understanding of the process as part of compliance testing see: [[Identify General IT Controls w/ Team Single Audit](#)].

The rest of the form is auto filled from the input sections. The intent is for LIHEAP to drill down to 2 numbers; the energy burden before and after a LIHEAP assistance. This data is evaluated for the impact of the LIHEAP benefit across all household and high burden households. LIHEAP does report all households helped. However, only households with 12 months of data are able to be evaluated. To evaluate recipients with 12 months of data, they take the highest and lowest month from the first 6 months and the last 6 months and average the 4 months. The information that is entered into the database is entered by the

State of Washington

subrecipients. Subrecipients are responsible for verifying the information. Please see: [\[M. Energy Assistance - Subrecipient Monitoring - Controls\]](#) for more information on how the Department ensures subrecipients are entering eligible individuals to the database. The Program Manager will review the results and then Cecil Daniels, Managing Director, will review prior to electronically submitting the information directly into the basecamp system. [Who?](#)

The Program Manager ensures that all reports are submitted timely by maintaining a calendar that breaks down all LIHEAP tasks by month [see: [Federal Reporting Tracker](#)] (Key Control #5) (Control Activities).

Special Reporting

Both special reports are submitted to HHS via the ACF Online Data Collection System (OLDC). When the reports are submitted, the Program Manager and Managing Director both receive confirmation that the reports were submitted and are being reviewed. If any errors are found, they will be contacted. Funding is not awarded for the next grant period unless both reports are submitted.

a. LIHEAP Carryover and Reallotment Report

The LIHEAP statute and regulations require LIHEAP grantees to report information to HHS concerning funds to be carried forward and funds subject to reallotment. LIHEAP's carryover threshold is a maximum of 10% of total year funding.

Key line items are:

- Carryover amount
- Reallotment amount.

On June 22nd 2022, we met with Darryl Stoa, Budget Manager, to discuss the controls in place to address federal compliance over Carryover and Reallotment reporting.

For SFY '22, reporting was conducted by Joyce Miller, however, moving forward, the duty will be assigned to Darrel Stoa. The federal government wants regular updates if the carryover amount is in excess of the 10% allowance. The feds typically request by email that the LIHEAP Carryover and Reallotment Report be submitted in interim and updated several times prior to the FFY end depending on the activity at the federal level. This is due to the timing difference of the reports submittal and the service continuing to be provided until numbers are final for the grant as a whole.

The amount that is reported to the feds from the LIHEAP Carryover and Reallotment Report is automatically generated into the LIHEAP Performance Data Form the following year. If one was to try and change the number, OLDC would announce a critical error on the screen and disallow the amount. The only way to change this number is to un-submit the Carryover and Re-allotment report and resubmit it. It will not allow the two numbers to be different.

The carryover amount is what is reallotted, therefore, these numbers will always be the same amount. To determine the carryover amount, Joyce pulls an AFRS report to see how much money has been spent in COM-LIHEAP specific administrative and compares that to the budgeted amount. The budgeted amount is derived from the initial allocation of funding for the grant. 10% of the grant is allowed for administrative costs in which Commerce splits 70/30 with the contractor (3% admin goes to COM-LIHEAP admin). Any administrative funding that has not been spent by commerce at the time the report is prepared is considered the variance and reported as the Carryover amount and therefore the reallotment amount. Note: the carry-forward or unobligated amount must be the same from the Performance report to the Carryover and reallotment report.

Once the report has been prepared, **the Program Manager will review, sign, and date the certification section of the report to ensure completeness and**

State of Washington

accuracy on the budgeted amount (Key Control #6) (Control Activities). Review Documented? If the Program Manager determines that they will not be spending out all of the carryover funding, they will increase the allocation where allowable and appropriate. For example, the DSHS food program may receive additional funding to ensure that there is no significant carryover amount. This reduces the administrative costs and maximizes program allocations. Joyce Miller enters the reported amounts into the Federal Online Data Collection System (OLDC). She will then meet with LIHEAP Program Manager to discuss any changes that may be needed. Note: OLDC has built in checks that are input by the feds based on expenditures.

b. Annual Report on Households Assisted by LIHEAP FY21 Finding and CAP

The information included in the report is obtained from Commerce's internal LIHEAP client database, a separate specialized database used by sub-grantees to report information relevant to the LIHEAP program. (Key Control #7) (Automated Control).

Team IT Audit has gained an understanding here: [Reporting Compliance] and will test this key control to ensure database communication is working as intended.

This report shows the number of households that receive heating and weatherization assistance over the reported period and the information is input into the LIHEAP centralized database by the CAA's. We reviewed a copy of the Annual Report on Household Assisted by LIHEAP [See: Household Report - Long Form] which is also submitted via OLDC. The household report contains 6 demographic related sections (roman numerals I through VI) to report the following specific information:

- 1) LIHEAP assisted households
- 2) LIHEAP applicant households served during the prior federal fiscal year, including a breakdown by poverty level and vulnerability.

The information included in the report is obtained from Commerce's centralized datasystem, a database used by Commerce and sub-grantees to report information relevant to the LIHEAP program.

Automated Controls?

The Program Manager meets with Michelle DeBell, IS Business Analyst, and the database developer Daniel Waterbly, LIHEAP Support Developer, to ensure report accuracy. Any abnormality in the numbers would cause the report to flag the submission and request further information, usually supporting footnotes are sufficient. Abnormalities are determined by the OLDC server.

The results from the LIHEAP database are then reviewed by the Program Manager to ensure the data is accurate and complete. (Key Control #8) (Control Activities) The due date is determined by HHS each year; the Program Manager will submit via the Online Data Collection website when requested. Separate rows are added to the reports to allow for them to report CARES funding on household and the grantee survey.

Special Reporting for Federal Funding Accountability and Transparency Act (FFATA) Federal Funding Accountability and Transparency Act Energy Assistance - Control Weakness

We met with Brian Sarensen, Program Manager on 6/30/2022 to discuss how LIHEAP ensures they submit their FFATA reporting both accurately and timely. Brian informed us LIHEAP has new policies and procedures implemented for FFATA [see: FFATA Procedure], but these were not implemented until April 15, 2022, when all outstanding LIHEAP contracts were submitted into the FSRS database. For SFY '22 we are unable to identify a testable Key Control.

Weatherization - Control Weakness

State of Washington

During testing, we identified there were no FFATA reports for Weatherization subawardee contracts. We spoke with Seth Kolodziejki, Housing Improvement Preservation Unit and Contracts Manager, on 9/16/2022, who confirmed that the Weatherization team did not have controls in place for ensuring Weatherization subawards over \$30,000 were reported into FSRS in accordance with FFATA.

We will test FFATA compliance here: [\[L. Reporting - Compliance\]](#).

FY21 Finding and CAP

Finding Follow Up

We reviewed the Department's corrective action plans (CAP), for findings 2021-031 and 2021-032. [See: [Section G - CAPS](#) pages 47-50]

The CAP 2021-031 is noted as having with the following actions completed:

The Low-Income Home Energy Assistance Program (LIHEAP) has added all current awards to the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System and data entry for the sub-awardees was completed as of April 15, 2022. In addition, the Department implemented the following procedures to ensure compliance:

- Added FFATA reporting requirements to the obligation process for contracting funds (Obligation memo)
- Designated responsibility to the Program Manager for ensuring the FFATA reporting requirement gets completed.
- Implemented a process that designated FFATA reports are to be reviewed by a second staff member to ensure accuracy and completeness prior to submission.
- Established policies and procedures [see: [FFATA Procedure](#)] to ensure subawards are determined as FFATA applicable are identified and monitored.
- Stipulated the due date of report submission to be 30 days after the assistant director signs the obligation memo to ensure that the program meets FFATA reporting deadlines

While this CAP is noted as completed, the corrective action was not in place until 10 months after the start of the audit period. Therefore, we consider this a weakness during the audit.

The CAP 2021-032 is noted as having with the following actions completed:

The Low-Income Home Energy Assistance Program (LIHEAP) has made the following changes to the LIHEAP database for LIHEAP transactions:

- Adding contract numbers to the LIHEAP database.
- Requiring all contractors to enter the contract number for every payment.
- Adding reporting criteria to Household Report.

The Department also updated the process and procedures to be completed by the LIHEAP team for the reporting requirement; Furthermore, The Department of Health and Human Services (HHS) provided an annual training to update grantees on changes made to the reporting documents that need to be submitted.

While the CAP states it is still in progress, Brian Sarsen clarified that the reason it is still in progress is because the FFY20 report is still being revised.

However, the LIHEAP database was updated to address the material weakness identified to ensure accurate household data collection prior to the start of the FFY21 reporting period.

Summary of Key Internal Controls: Review KC Summary

Key Control #1 (FFR) - Once program staff approves, the accounting reviewer (Britni or Alisha) will hit an “approve” button in CMS. **(Control Activities).**

State of Washington

Key Control #2 - (FFR) - The FA4 (or another supervisor) will review and certify the data entered into PMS to ensure the report is accurate and complete. **(Control Activities)**.

Key Control #3 - (Grantee Survey) - The Program Manager of LIHEAP communicates with HHS' Budget Manager and makes changes to the Grantee Survey based on the Budget Manager's feedback, prior to its electronic submission. **(Communication)**.

Key Control #4 (Performance Report) - Performance report sections 1-4 are generated in report 719 and sections 5-7 are generated in report 710 automatically from the LIHEAP database. **(Automated Control)**.

Key Control #5 - (Performance Report) - The Program Manager ensures that all reports are submitted timely by maintaining a calendar that breaks down all LIHEAP tasks by month **(Control Activities)**.

Key Control #6 - (Carryover and Reallotment Report) - The Program Manager will review, sign, and date the certification section of the Carryover and Reallotment report to ensure completeness and accuracy on the budgeted amount. **(Control Activities)**.

Key Control #7 (Annual Report on Households) - The information included in the report is obtained from Commerce's internal LIHEAP client database, a separate specialized database used by sub-grantees to report information relevant to the LIHEAP program. **(Automated Control)**.

Key Control #8 - (Annual Report on Households) - The Program Manager reviews, signs, and dates the results from the LIHEAP database to ensure the data is accurate and complete. **(Control Activities)**.

Evaluation of Results: We identified three control deficiencies related to internal controls over Reporting:

Performance and Special Reporting:

1. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **remote** and the magnitude of potential noncompliance is **less than material**.
2. The Department does not have policies and procedures in place to ensure they meet the performance reporting or special reporting requirements. This alone does not rise to the level of a material weakness. However, after control and compliance testing, we determined a finding will be issued. Therefore, we will incorporate this weakness into the finding. See: [2022-039 The Department of Commerce did not have adequate internal controls over and did not comply with reporting requirements for the Low-Income Home Energy Assistance Program.]. Exit Item Change

FFATA:

1. We consulted the *Decision Matrix for Single Audit Internal Control Deficiencies* located in the SWSA Major Program attachment. The likelihood of noncompliance is **more than remote** and the magnitude of potential noncompliance is **material**.
2. The Department verified that FFATA reports were not submitted for the Weatherization subawards and the Energy Assistance subawards were reported, but not within the required timeframe. Therefore, we determined the Department does not have adequate controls in place to ensure it meets the FFATA reporting requirement. FFATA Eval of Results Rationale We will report a Finding in accordance with 2 CFR §200.516(1).

Preliminary Control Risk Assessment

Step 4

Financial/Performance/Special Reporting

LOW - Internal control design is likely to be effective to prevent or detect non-compliance with grant requirements. We will place reliance on these key controls in Step 5.

State of Washington

FFATA Reporting

HIGH - Internal control design is not likely to be effective to prevent or detect non-compliance with grant requirements. We will report a material weakness in accordance with 2 CFR §200.516(1). See issue at [2022-038 The Department of Commerce did not have adequate internal controls over and did not comply with requirements to ensure it filed reports required by the Federal Funding Accountability and Transparency Act.]

D.2.PRG - 93.568-Low-Income Energy Assistance Program (LIHEAP) - COM

Procedure Step: M. Energy Assistance - Subrecipient Monitoring - Controls

Prepared By: BZH, 8/10/2022

Reviewed By: CCM, 8/18/2022

Purpose/Conclusion.*

Purpose:

To gain an understanding of the internal controls the agency has established that provide reasonable assurance that Federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, the impact of any subrecipient noncompliance on the pass-through entity is evaluated, and subrecipients obtained required audits and took appropriate corrective action on audit findings.
To identify key internal controls the agency has established to prevent or detect noncompliance with subrecipient monitoring requirements.
To provide a preliminary control risk assessment based upon our understanding of the internal controls.

Source:

Gena Allen, Internal Audit Liaison.
Brian Sarensen, Program Manager.
Leah Snow, Financial Operations Manager.

Conclusion:

Based on our understanding of internal controls over Subrecipient Monitoring, we assessed preliminary control risk as **LOW**. We will place reliance on and test key controls.

Testing Strategy.*

State of Washington

Subrecipient Monitoring - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

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

Step 2: Gather Information

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

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

1. Specific federal identification elements per 2 CFR section 200.332(a)(1) – find a list of the 13 requirements in the Policy/Standards tab
2. All program requirements imposed on the PTE that are passed through to the subrecipient (federal statutes, regulations, and the terms and conditions of the PTE's award).
3. Any additional program requirements imposed by the PTE on the subrecipient.

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

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

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

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

State of Washington

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

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

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

Case-by-case Information: There is additional information for the auditor when the following situations occur. Find this information in the Policy/Standards tab as needed:

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

Step 3: Gain an Understanding of Internal Controls

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

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

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

(a) Subrecipient Contracts: The entity includes all necessary information in the subrecipient contract per 2 CFR section 200.332(a)(1).

NOTE: The control may be someone writes the contract to include all of the elements, someone reviews the contracts to specifically confirm all elements are included, or someone ensures they use an established contract template that includes the elements and periodically makes sure that template is up to date with the federal requirements (since elements may change over time).

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

State of Washington

(c) Monitoring: Subrecipients are monitored to ensure that federal awards are used for authorized purposes and in accordance with Federal statutes, regulations, and the terms and conditions of the Federal award. This includes monitoring the subrecipient to ensure they are performing eligibility determinations appropriately and accurately (as applicable). The auditee must have a process in place to provide reasonable assurance that they can prevent or detect non-compliance or unallowable costs.

(d) Subrecipients' Audits:

- Subrecipients receive a single audit if necessary.
- Management decisions are issued on audit findings within 6 months after receipt of the subrecipient's audit report
- Subrecipients took timely and appropriate corrective action on all audit findings.
- Sanctions are taken (or other appropriate action) in cases of continued inability or unwillingness of a subrecipient to have the required audits.

NOTE: The control may be that someone checks with SAO, on the SAO website or with the subrecipient to determine if an audit was completed and the results. The auditee should make or retain documentation of this process.

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

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

Step 4: Assess Preliminary Control Risk (CR)

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

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

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

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

State of Washington

Guidance/Criteria:

INTERNAL CONTROL UNDERSTANDING

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

The requirements for subrecipient monitoring for the subaward are contained in 31 USC 7502(f)(2) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)), 2 CFR sections 200.331, .332, and .501(h); Federal awarding agency regulations; and the terms and conditions of the award.

Subrecipient means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. State agencies cannot be subrecipients of another state agency. (Note: there are a few very rare exceptions, such as some FEMA awards, where a federal grantor may specify state agencies be treated as subrecipients). Please keep in mind, however, that if the managing state agency gives federal funds to a second state agency, we may need to test subrecipient monitoring at the second agency.

DEFINITION OF “FIRST TIER” SUBRECIPIENT

First tier subrecipients are those that receive federal awards from direct (prime) recipients. For example, state agencies are often direct (prime) recipients of grant funds. If a state agency passes the funding through to a local government, the local government is the first tier subrecipient. Similarly, some local governments receive federal awards directly from a federal agency. In this case, the local government is the direct (prime) recipient. Then, if the local government passes funding through to another local government or non-profit, the receiving local government/non-profit is the first tier subrecipient.

SUBRECIPIENT CONTRACTS – IDENTIFICATION ELEMENTS

Subaward contracts must include the following elements per federal requirements per 2 CFR section 200.331(a)(1):

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

State of Washington

(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 considerations below. If there are significant concerns regarding monitoring, contact the Single Audit Specialist.

A. FOR-PROFIT SUBRECIPIENTS

State of Washington

Some Federal awards may be passed through to for-profit entities. For-profit subrecipients are accountable to the PTE for the use of the Federal funds provided. Because the single audit is not applicable to for-profit subrecipients, the PTE is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients for the subaward. The agreement with the for-profit subrecipient should describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the agreement, and post-award audits (2 CFR section 200.501(h)).

B. PTE AGREED-UPON PROCEDURES ENGAGEMENTS

A pass-through entity may arrange for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations. Since the pass-through entity determines the procedures to be used and compliance areas to be tested, these agreed-upon procedures engagements enable the pass-through entity to target the coverage to areas of greatest risk. The pass-through entity's costs of agreed-upon procedures engagements is allocable to the federal award if the agreed-upon procedures are performed for subrecipients below the single audit threshold for audit (currently at \$750,000 for fiscal years ending on or after December 31, 2015) **AND** the AUP is limited in scope to one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; and reporting (Uniform Guidance 2 CFR §200.425 Audit services).

C. FIXED AMOUNT SUBAWARDS

Per 2 CFR 200.332, with prior written approval from the Federal awarding agency, a pass-through entity may provide subawards based on fixed amounts up to \$150,000, provided that the subawards meet the requirements for fixed amount awards in 2 CFR 200.201. Except in the case of termination before completion, there is no governmental review of the actual costs incurred by the awardee in performance of these fixed amount subawards.

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

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

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

Gather Information

Step 2

We reviewed the scope of work per the grant agreement and Part 4 of the Compliance Supplement, and did not identify any additional requirements for Subrecipient Monitoring.

Understanding of Internal Controls

Step 3

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

On June 15th, 2022, we requested policies and procedures related to Subrecipient Monitoring from the Program Manager. We were provided the following [see:

State of Washington

PY22 LIHEAP Policy Manual - February 1, 2022 page 129].

On June 23rd, 2022 we met with the following staff at Commerce to discuss and gain an understanding of the subrecipient monitoring process:

- Brian Sarensen, LIHEAP Program Manager
- Leah Snow, Financial Operations Manager
- Andrew Etue, Monitoring and Compliance Team Manager - Weatherization

Energy assistance program, energy efficiency upgrades as well as health and safety upgrades to eligible client homes. Local agencies also get local utility support. The program's primary purpose is to reduce families' energy burden, specifically for heating in Washington State. The program period in Washington State is October 1st to September 30th. Commerce provides a state plan with its application to the federal government annually detailing how the LIHEAP program will operate in Washington State [see: 2022 DETAILED MODEL PLAN (LIHEAP) with Attachments]. The federal government approves the state plan. Commerce generally receives 90% of the federal grant award in November for the October through September federal fiscal year, with the remaining funds being released around May. Once Commerce receives the federal grant award, it transfers 15% of the total grant award to Weatherization and obligates 85% of the funds in grant awards to its subrecipients, which are 26 Community Action Agencies (CAAs) across the state. (Note: Every year the Department has the ability to file a waiver with the federal government that allows it to transfer up to 25% of the total LIHEAP grant to Weatherization. This year, Commerce did not file a waiver.)

(a) Subrecipient Contracts:

The same 26 Community Action Agencies (CAA) submit their application to Commerce to be a subrecipient of LIHEAP grant funds annually before September 15th each year for the October 1st federal fiscal year start. The application is a narrative of how the CAA will administer the program, the proposed budget, DUNS number, and additional information about the CAA. Each Application has a "Face-Sheet" page that includes all 13 federal identification elements on it. Contract managers first review the applications for completeness and accuracy; afterwards, the Program Manager reviews the applications to ensure they meet program and fiscal requirements. Commerce uses the Statewide vendor number (UEIs) to identify each subrecipient. The American Rescue Plan (ARP) awards and newly executed 2022 contracts are 36 month-long contracts.

Once the review is complete and all applications are approved, the Program Manager uses an allocation formula based on 2010 census data (state need) and the 3 year average LIHEAP benefit by county (county needs) to disperse the funds to each CAA. The formula is based on the percentage of individuals at 150% and below, what percentage of that population live in each service area, and apply it to amount received. The Program Manager downloads the federal boilerplate and terms and conditions from Intracom and delegates preparation to the contract manager. Once the subaward is prepared it is then routed back to the Program Manager. **To ensure each subaward includes federally required information per 2 CFR 200, the Program Manager, Brian Sarensen will review and approve all subawards. (Key Control #1) (Control Activities).** Afterwards, The Program Manager will give the subawards to the Assistant Director, Diane Klontz, to review budget capacity. KC 2

Once the subaward is signed by the CAA and is received, the approved subaward and CAA information are input into the Contract Management System (CMS). Note that the CMS system does not allow subrecipients to be uploaded into it's database without all of the information on the Face Sheet; therefore, any blank fields on the Face Sheet in a subawardee contract will be rejected by CMS when attempting to upload the subawardee. When the subaward is processed in CMS, the Statewide Vendor Number is verified as active. Once verified as active, the CAA may begin requesting reimbursement for expenditures using A19's in CMS.

State of Washington

CAA's have the ability to log in to CMS and upload A19's.

Relevance

(b) Risk Assessments:

To ensure an adequate level of monitoring is conducted, contract managers perform a risk assessment of each subrecipient annually. The Program Manager then reviews the result of the risk assessment for appropriateness. Risk Assessments are due at the same time as the subrecipient applications; therefore, this process is typically conducted in April to ensure they are completed April? prior to the new fiscal period start. **The Program Manager maintains a risk assessment tracking tool [see: 2022 Tracking Tool - Risk, Desk, Apps, Close-outs, & Onsite Timeline] for each subrecipient to ensure risk assessments are completed prior to executing new subawards (Key Control #2) (Monitoring Activities).** KC 3 The spreadsheet tallies the risk assessment score based on a variety of factors, including a questionnaire emailed to each CAA, past monitoring visits, and experience with the CAA during the past year. The spreadsheet calculates a risk assessment score for each CAA based on the inputs. Commerce uses the risk assessment score to help determine which CAAs will receive on-site monitoring visits or need training, or other assistance.

(c) Monitoring:

There are two types of monitoring conducted by the LIHEAP program; Desk and On-site:

On-site monitoring is conducted for every subrecipient every three years and may be increased if a risk assessment has determined it necessary. Prior to the start of the on-site monitoring visits for the year, the Program Manager and Contract Manager meet to discuss any additional issues that they would like to include or concentrate on during the visits that year; the Contract Manager also meets with the Program Manager before each on-site monitoring visit to discuss any issues or concerns specific to that CAA. An on-site monitoring is a heavier review of the subrecipient. Monitors will look at a higher percentage of application files, and track transactions for the highest 3 spending months over the last program year.

Each CAA has an on-site monitoring visit at least once every three years (more often if the risk assessment or contract manager deem it necessary).

The Program Manager tracks all monitorings using an Excel spreadsheet [see: 2022 Tracking Tool - Risk, Desk, Apps, Close-outs, & Onsite Timeline] to ensure each CAA receives an on-site monitoring visit at least every three years and a desk monitoring annually (**KC#2**).

To prepare for the monitoring visit, there are two types of reports that are ran, one that drives client file review, and one that drives fiscal review. For client file review, the contract manager pulls a report from the LIHEAP database showing all clients served by the specific CAA during the year. Contract Managers first select any clients that received payments directly, or that had heat system repairs, and then they pull a random sample of 1% of the CAA's clients or 100 clients, whichever is less. To prepare for the financial review, the Contract Manager will pull a report from Secure Access Washington (SAW) and analyze the expenditures from the last 5 years to identify the three months with the highest spending. LIHEAP develops a Monitoring plan [see: LIHEAP Monitoring Plan] based on the subrecipients Risk assessment. **Contract Managers prepare and use a checklist monitoring tool** [see here: LIHEAP On-Site Monitoring Tool Check List:2021 Monitoring Client File Documentation Checklist]Checklist Monitoring Tool? Monitoring Toolto ensure the review of all necessary areas/items at each on-site visit (**Key Control #3) (Control activities)**. The checklist is derived from the contracts scope of work and the quantitative determinations made by client and fiscal review analysis.

Client files are reviewed to ensure the CAA determined client financial assistance was allowable per federal poverty level and LIHEAP guidelines and properly documented. Fiscal review consists of reviewing back-up documentation for the summary/roll-up documentation that supports the A-19 reimbursement per

State of Washington

LIHEAP line item: Admin, Conservation Education, Other Direct Services, Direct Services, Other Emergency Services, in addition to any other costs charged to LIHEAP. Once the on-site monitoring is complete, the Contract Manager meets with the Program Manager again to discuss the visit before completing the monitoring report.

Contract Managers perform the on-site and desk monitorings [see procedure here: [LIHEAP Desk Monitoring Procedures](#)] .**KC 6** This includes reviewing electronic or hard copy files of 10 client files (high risk files are selected including clients who receive direct payments or repairs), fiscal files including the general ledger for 3 highest paid months (generally a month between October and June), and payment documentation to a utility vendor, salary and benefit payment for an employee (timesheet for higher risk employee - program coordinator or a seasonal employee), and a miscellaneous cost that is not cost allocated. Each of the CAAs are also required to submit an invoice monthly to Commerce through the Contract Management System (CMS). The Program Manager schedules and tracks all monitorings using a tracking spreadsheet. **To ensure adequate monitoring is conducted, the Program Manager maintains a tracking spreadsheet for all on-site and desk monitorings** [see:[2022 Tracking Tool - Risk, Desk, Apps, Close-outs, & Onsite Timeline](#)].**(Key Control #4) (Control activities).**

Note: LIHEAP is allowed to provide cash advances to the CAAs. The CAAs forecast their spending and have the option of requesting funds for the 1st through the 15th of the month or the 16th through the 31st of the month. When they request an advance, their next invoice is applied against the advance. The contract manager subtracts the amount of the invoice from the advance and then pays any additional funds that were requested over the amount of the advance (Control activities). At the end of the grant cycle (45 days after the contract close), each CAA provides a closeout report indicating the total expenditures. The Contract Managers ensure that the close out report information matches the information in CMS, such as total expenditures and line item information (categories of expenditures).

Program Management disperses client eligibility guidelines to each of the CAAs for the year and provides ongoing training. They have workgroup meetings every other month from October through June and annual training in September with the CAAs (Information and communication/Monitoring activities).

(d) Subrecipients' Audits:

On July 26th, 2022, we confirmed our understanding of Subrecipients' Audits with Gena Allen, Internal Audit Liaison to gain an understanding over the Department's internal controls over subrecipient audits.

Gena informed us she joined the Department during SFY '22, and began to reestablish the process in which Commerce does Subrecipients Audit's during our Audit period. Her own process during the Audit period is as follows:

Commerce does not segregate CMS reports by program; instead, a general CMS report is ran that has all federal recipients Commerce has a contract with. From there, the Internal Auditor segregates contracts that have expenditures on either side(</>) of \$750,000. The Internal Auditor reviews the contracts that trigger a Single Audit (>\$750,000) and verifies they submitted their Audits via Federal Audit Clearinghouse (FAC). Subrecipients can email their Single Audit to Commerce via a unique email address, and those email-box submissions are documented in CMS by a Fiscal Analyst 2 (FA2) when the email arrives. **The Internal Auditor also tracks and maintains an excel spreadsheet, that records relevant subrecipient information required to properly track the Single Audit requirement.** [see: [FAC certification monitoring SAO](#)]. **(Key Control #5) (Control Activities/Monitoring).**

The second list of contracts consists of the federal expenditures <\$750,000. The Internal Auditor will send out a certification request which the subrecipient will have to fill out and return. [see: [Audit Certification Form 4-2022](#)].

State of Washington

Afterwards, the Internal Auditor reaches out to subrecipients who haven't turned in CAPs; if they need to, and follow up with them regarding update status or potential punitive action.

Weakness Reason

Gena informed us that she began this process in December 2021. We verified Gena was able to establish this process prior to single audit reporting being due, since they were not due until March 2022 as a result of the reporting extensions. Since we were able to verify that the new Internal Auditor established a process to ensure subrecipients received a single audit, if necessary, prior to the due date, we are able to place reliance on the control.

Summary of Key Internal Controls:Update Key Control Summary

Key Control #1 - To ensure each subaward includes federally required information per 2 CFR 200, the Program Manager, Brian Sarensen will review and approve all subawards. (Control Activities)

Key Control #2 - The Program Manager maintains an excel spreadsheet that contains a risk assessment tracking tool and a monitoring spreadsheet for each subrecipient to ensure risk assessments are completed prior to executing new subawards, and to ensure each CAA receives an on-site monitoring visit at least every three years and a desk monitoring annually. (Monitoring)

Key Control #3 - Contract Managers prepare and use a checklist monitoring tool to ensure the review of all necessary areas/items at each on-site visit. (Control Activities)

Key Control #4 - To ensure adequate monitoring is conducted, the Program Manager maintains a tracking spreadsheet for all on-site and desk monitorings (Control Activities)

Key Control #5 - The Internal Auditor maintains an excel spreadsheet that records relevant subrecipient information required to properly track the Single Audit requirement. (Control Activities/Monitoring).

Evaluation of Results:

We did not identify any control deficiencies.

Control Weakness Reason

Preliminary Control Risk Assessment

Step 4

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

D.2.PR.G - 93.568-Low-Income Energy Assistance Program (LIHEAP) - COM

Procedure Step: M. Weatherization - Subrecipient Monitoring - Controls

State of Washington

Prepared By: BZH, 8/19/2022

Reviewed By: CCM, 8/22/2022

Purpose/Conclusion:

Purpose:

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

To identify key internal controls the agency has established to prevent or detect noncompliance with subrecipient monitoring requirements.

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

Source:Update

Lexi Becker, Program Manager

Seth Kolodziejewski, Housing Improvement Preservation Unit and Contracts Manager

Andrew Etue, Monitoring and Compliance Team Manager - Weatherization

Conclusion:

Based on our understanding of internal controls over Subrecipient Monitoring, we assessed preliminary control risk as **LOW**. We will place reliance on and test key controls.

Testing Strategy:

Subrecipient Monitoring - Post Uniform Guidance Awards

Step 1: Assess Inherent Risk (IR)

Inherent Risk of Noncompliance

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

Step 2: Gather Information

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

State of Washington

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

1. Specific federal identification elements per 2 CFR section 200.332(a)(1) – find a list of the 13 requirements in the Policy/Standards tab
2. All program requirements imposed on the PTE that are passed through to the subrecipient (federal statutes, regulations, and the terms and conditions of the PTE's award).
3. Any additional program requirements imposed by the PTE on the subrecipient.

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

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

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

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

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

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

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

Case-by-case Information: There is additional information for the auditor when the following situations occur. Find this information in the Policy/Standards tab as needed:

- A. For-Profit Subrecipients

State of Washington

B. PTE Agreed-Upon Procedure Engagements

C. Fixed-amount Subawards

Step 3: Gain an Understanding of Internal Controls

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

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

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

(a) Subrecipient Contracts: The entity includes all necessary information in the subrecipient contract per 2 CFR section 200.332(a)(1).

NOTE: The control may be someone writes the contract to include all of the elements, someone reviews the contracts to specifically confirm all elements are included, or someone ensures they use an established contract template that includes the elements and periodically makes sure that template is up to date with the federal requirements (since elements may change over time).

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

(c) Monitoring: Subrecipients are monitored to ensure that federal awards are used for authorized purposes and in accordance with Federal statutes, regulations, and the terms and conditions of the Federal award. This includes monitoring the subrecipient to ensure they are performing eligibility determinations appropriately and accurately (as applicable). The auditee must have a process in place to provide reasonable assurance that they can prevent or detect non-compliance or unallowable costs.

(d) Subrecipients' Audits:

- Subrecipients receive a single audit if necessary.
- Management decisions are issued on audit findings within 6 months after receipt of the subrecipient's audit report
- Subrecipients took timely and appropriate corrective action on all audit findings.

State of Washington

- Sanctions are taken (or other appropriate action) in cases of continued inability or unwillingness of a subrecipient to have the required audits.

NOTE: The control may be that someone checks with SAO, on the SAO website or with the subrecipient to determine if an audit was completed and the results. The auditee should make or retain documentation of this process.

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

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

Step 4: Assess Preliminary Control Risk (CR)

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

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

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

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

Guidance/Criteria.7

INTERNAL CONTROL UNDERSTANDING

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

The requirements for subrecipient monitoring for the subaward are contained in 31 USC 7502(f)(2) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)), 2 CFR sections 200.331, .332, and .501(h); Federal awarding agency regulations; and the terms and conditions of the award.

State of Washington

Subrecipient means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. State agencies cannot be subrecipients of another state agency. (Note: there are a few very rare exceptions, such as some FEMA awards, where a federal grantor may specify state agencies be treated as subrecipients). Please keep in mind, however, that if the managing state agency gives federal funds to a second state agency, we may need to test subrecipient monitoring at the second agency.

DEFINITION OF “FIRST TIER” SUBRECIPIENT

First tier subrecipients are those that receive federal awards from direct (prime) recipients. For example, state agencies are often direct (prime) recipients of grant funds. If a state agency passes the funding through to a local government, the local government is the first tier subrecipient. Similarly, some local governments receive federal awards directly from a federal agency. In this case, the local government is the direct (prime) recipient. Then, if the local government passes funding through to another local government or non-profit, the receiving local government/non-profit is the first tier subrecipient.

SUBRECIPIENT CONTRACTS – IDENTIFICATION ELEMENTS

Subaward contracts must include the following elements per federal requirements per 2 CFR section 200.331(a)(1):

<i>Subaward Contract Checklist</i>	
Element	Element
(i) Subrecipient name (which must match the name associated with its unique entity identifier);	(viii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;
(ii) Subrecipient's unique entity identifier;	(ix) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
(iii) Federal Award Identification Number (FAIN);	(x) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
(iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency;	(xi) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;
(v) Subaward Period of Performance Start and End Date;	(xii) Assistance Listings number and Title; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement;
(vi) Subaward Budget Period Start and End Date;	(xiii) Identification of whether the award is R&D; and

State of Washington

(vii) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;	(xiv) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).
--	---

SUBRECIPIENT RISK EVALUATIONS

PTEs must perform a risk assessment for every subrecipient to determine and support their level of monitoring (2 CFR section 200.331(b)). This evaluation may include consideration of:

1. The subrecipient's prior experience with the same or similar subawards;
2. The results of previous audits including whether or not the subrecipient receives a single audit as mandated, and the extent to which the same or similar subaward has been audited as a major program at the subrecipient;
3. Whether the subrecipient has new personnel or new or substantially changed systems
4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

IS THE LEVEL OF MONITORING REASONABLE?

The auditor may need to consider whether the amount of oversight is reasonable. Factors such as the size of awards, percentage of the total program's funds awarded to subrecipients, and the complexity of the compliance requirements may influence the extent of monitoring procedures. See additional monitoring considerations below. If there are significant concerns regarding monitoring, contact the Single Audit Specialist.

A. FOR-PROFIT SUBRECIPIENTS

Some Federal awards may be passed through to for-profit entities. For-profit subrecipients are accountable to the PTE for the use of the Federal funds provided. Because the single audit is not applicable to for-profit subrecipients, the PTE is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients for the subaward. The agreement with the for-profit subrecipient should describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the agreement, and post-award audits (2 CFR section 200.501(h)).

B. PTE AGREED-UPON PROCEDURES ENGAGEMENTS

A pass-through entity may arrange for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations. Since the pass-through entity determines the procedures to be used and compliance areas to be tested, these agreed-upon procedures engagements enable the pass-through entity to target the coverage to areas of greatest risk. The pass-through entity's costs of agreed-upon procedures engagements is allocable to the federal award if the agreed-upon procedures are performed for subrecipients below the single audit threshold for audit (currently at \$750,000 for fiscal years ending on or after December 31, 2015) **AND** the AUP is limited in scope to one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; and reporting (Uniform Guidance 2 CFR §200.425 Audit services).

State of Washington

C. FIXED AMOUNT SUBAWARDS

Per 2 CFR 200.332, with prior written approval from the Federal awarding agency, a pass-through entity may provide subawards based on fixed amounts up to \$150,000, provided that the subawards meet the requirements for fixed amount awards in 2 CFR 200.201. Except in the case of termination before completion, there is no governmental review of the actual costs incurred by the awardee in performance of these fixed amount subawards.

Record of Work Done:

Inherent Risk of Noncompliance

Step 1

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

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

Gather Information

Step 2

We reviewed the scope of work per the grant agreement and part 4 of the Compliance Supplement and did not identify any additional specific requirements for Weatherization Subrecipient Monitoring.

Understanding of Internal Controls

Step 3

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

On July 5th, 2022, we requested policies and procedures related to Subrecipient Monitoring from the program manager. We were provided the following: [Monitoring Manual].

We met with Lexi Becker, Program Manager and Seth Kolodziejski, Housing Improvement Preservation Unit and Contracts Manager (Section Supervisor), on July 5th, 2022. We also met with Andrew Etue, Scheduling Coordinator, on June 23rd, 2022. Both of these meetings were held to gain an understanding of internal controls related to subrecipient monitoring. Mtg with Andrew

(a) Subrecipient Contracts:

The weatherization network is made up of 28 agencies selected based on criteria laid out in 10 CFR 440.15 - Subgrantees. Subrecipients submit a General Weatherization Work Plan (application) that includes the Statewide Vendor Number. The Chief Contracts Officer maintains various boilerplate contracts that are available for download in Intracom. The federal subrecipient boilerplate includes all necessary information per 2 CFR section 200.332(a)(1) with General Terms and Conditions and additional requirements imposed on the subrecipients by Commerce. The Program Coordinator, Lexi Becker, will download the appropriate boilerplate template subaward (facesheet), general and special terms and conditions from Intracom. Using the information on the awards, the Program Coordinator works with the Program Manager of LIHEAP (Brian Sarensen) to ensure subawards contain all necessary subaward information. Seth

State of Washington

Kolodjowski, Section Supervisor, will perform a secondary review prior. Afterwards, the Program Coordinator works with a COM 2 (entry level staff) to create the draft, populate the contract details in CMS, and prepare the facesheet and special terms and conditions. The Program Manager will provide Amanda Rains, Program Supervisor, the contracts to perform final review and approval. **To ensure each subaward includes federally required information per 2 CFR 200, the Program Supervisor, will review and approve all subawards. (Key Control #1) (Control Activities).**Program Supervisor Purpose?

(b) Risk Assessments:

To ensure an adequate level of monitoring is conducted, contract managers perform a risk assessment of each subrecipient annually. KC 2 Monitoring? The HIP Unit performs a risk assessment for each agency annually based on their General Weatherization Work Plan (application) and actual performance in the prior year. The risk assessment tool used has four main categories:

- Organization- Any audit findings staff turnover, etc.
- Expenditures- How much money they are getting and if they are spending.
- Production - If they met their targets and what was, if any, the deviation.
- Historical - The monitoring results from the previous year.

There are several categories of risk that elevates a subrecipients overall risk such as: (un)timely reimbursement request submittal, total amount of funding received from all sources, prior year audit findings, and deviations from target goals to actual results. Subrecipients will be determined to be: high or low risk and this will drive the type of monitoring that is conducted and the amount of projects that are reviewed. The Program Manager then reviews the result of the risk assessment for appropriateness. **The Program Manager maintains a Risk Assessment tracking spreadsheet to ensure each subrecipient receives an annual Risk Assessment (Key Control #2) (Risk assessments)** See: [DRAFT 2022 Risk Assessment]

(c) Monitoring:

For General Monitoring the Program Manager informed us that the unit generally monitors around 10% of the total of each Local Agency (subrecipient) they are Weatherizing. At smaller Local Agencies

The Weatherization Scheduling Coordinator, Andrew Etue, schedules monitoring visits with the Local Agency approximately six months in advance. Local Agency management negotiates the date of the monitoring visit. Once the monitoring dates are confirmed, the Weatherization Lead Monitor will send the Monitoring Guides to the Local Agency for completion. The Weatherization Program has three Lead Monitors who conduct the on site monitoring visits and unit/home inspections.

Each Local Agency receives two formal visits from Housing Improvement and Preservation unit annually. **The Scheduling Coordinator maintains a monitoring spreadsheet to ensure subrecipients receive their 2 formal visits. (Key Control #3) (Control Activities, Monitoring).** [See: SFY 22' Monitoring Spreadsheet]. KC 3- Monitoring

The Scheduling Coordinator and the Lead Monitors will build a unique monitoring plan for each subrecipient based off of each Risk Assessment. One visit is focused on getting out to homes that have been weatherized. The Lead Monitors look at production, Q&A, technical assistance, and any hands-on review of weatherized work done (crawlspaces, roofs, etc.). The second visit is more of a programmatic monitoring. The Lead Monitors look at programmatic performance, production targets hit or missed, fiscal review which includes requesting the general ledger information and reviewing to ensure costs are allocated and allowable

State of Washington

and trackable. There are rare instances where the two types of visits are conducted together. In addition, lead monitors conduct quarterly check in calls with each agency to ask about the agency and offer support. For more information on how monitoring is conducted, see WX general monitoring policy here: [[Monitoring Manual](#)].

(d) Subrecipients' Audits:

The Internal Auditor maintains an excel spreadsheet that records relevant subrecipient information required to properly track the Single Audit requirement. (Key Control #4) (Control Activities/Monitoring) Subrecipient audit submittal requirements understanding was gained at EA subrecipient monitoring: [[M. Energy Assistance - Subrecipient Monitoring - Controls](#)]. **KC**

Summary of key controls:

Key Control Wording

Key Control #1 - To ensure each subaward includes federally required information per 2 CFR 200, the Program Supervisor will review and approve all subawards. (Control Activities)

Key Control #2 - The Program Manager maintains a Risk Assessment tracking spreadsheet to ensure each subrecipient receives an annual Risk Assessment (Risk assessments)

Key Control #3 - The Scheduling Coordinator maintains a monitoring spreadsheet to ensure subrecipients receive their 2 formal visits. (Monitoring).

Key Control #4 - The Internal Auditor maintains an excel spreadsheet that records relevant subrecipient information required to properly track the Single Audit requirement (Control Activities/Monitoring)

Evaluation of Results:

We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Step 4

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