

**Master Document – Audit Program**

<b>Activity Code 10110</b>		<b>A-133 Audit</b>
<b>Version 2.1, dated May 2004</b>		
<b>B-1</b>	<b>Planning Considerations</b>	
<b>Purpose and Scope</b>		
<p>1. This audit program should be used for single audits conducted under OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations”. It is intended to provide a logical sequence to the audit effort and to reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards, the audit and reporting requirements of Circular A-133, and DCAA objectives for the current assignment. The program contains general guidance within modules listed at the index. The suggested audit procedures should be expanded or eliminated as necessary to fit the current audit.</p>		
<p>2. An OMB Circular A-133 audit, otherwise known as a single audit, is an entity-wide audit consisting of two main parts: an audit of the basic financial statements and an audit of the entity’s major Federal award programs. The audit of the major programs includes (a) gaining an understanding of and testing the internal controls and (b) a compliance audit governing laws and regulations and the provisions of contracts and grants of the Federal award programs. Circular A-133 requires the auditor to provide an opinion on whether the auditee complied with laws, regulations and the provisions of contracts or grants that have a direct and material effect on each of its major programs.</p>		
<p>3. When DCAA does participate in an A-133 audit, it is normally on a coordinated basis. That is, the participants (e.g. DCAA, internal auditors, Independent Public Auditors (IPA), etc.) discuss and compare their individual audit/review requirements for the fiscal year and identify areas of duplication. The understanding of the individual parties’ audit responsibilities should be documented in a coordinated audit matrix.</p>		
<p>4. It is important to determine the nature and extent of your audit. In some cases the contractor may elect to have their IPAs perform the entire A-133 audit. <b><i>In such cases, you are <u>not</u> performing an A-133 audit.</i></b> If an A-133 audit has already been issued, coordinate with the ACO and supervisor to determine what additional effort, if any, is necessary. Any additional audit planning and execution should consider the extent to which reliance can be placed on the work already performed by the auditee’s independent or internal auditors under the A-133 requirements. Any additional audits or subsequent effort should be planned and performed in such a way as to build upon work already performed by other auditors.</p>		
<p>5. This audit program contains modules that are internally cross-referenced and referenced to the Contract Audit Manual (CAM), the Cost Accounting Standards (CAS), the auditee's CAS Disclosure Statement (D/S) applicable to commercial entities, the Federal Acquisition Regulation and DoD Supplement (FAR/DFARS), the OMB Circulars, and the Internal Control Audit Planning Summary (ICAPS).</p>		
<p>6. The modules also include electronic information on A-133 audits. Internet sites include:</p>		

## Master Document – Audit Program

<ul style="list-style-type: none"><li>• OMB home page – <a href="http://www.whitehouse.gov/WH/EOP/omb">http://www.whitehouse.gov/WH/EOP/omb</a></li></ul>
<ul style="list-style-type: none"><li>• Single Audit Clearinghouse – <a href="http://harvester.census.gov/sac">http://harvester.census.gov/sac</a></li></ul>
<ul style="list-style-type: none"><li>• IG – <a href="http://www.ignet.gov/ignet">http://www.ignet.gov/ignet</a></li></ul>
<p>7. If the Federal agency or the pass-through entity approved in advance a program-specific audit in lieu of a single audit, and the auditee has elected to have a program-specific audit, you are performing a program-specific audit. In that case, the auditor should contact the Office of Inspector General of the Federal agency for a program-specific audit guide that provides specific guidance to the auditor with respect to internal control, compliance requirements, suggested audit procedures, and audit reporting requirements. When a current program-specific audit guide is available, the auditor shall follow GAGAS and the guide when performing a program-specific audit. If a guide is not available, the auditee and auditor shall have basically the same responsibilities for the Federal program as they would have for an audit of a major program in a single audit. Refer to OMB Circular A-133, Section .235 for further information.</p>
<b>Planning Considerations</b>
<p>1. OMB Circular A-133 establishes audit and reporting requirements for States, local Governments, educational institutions, and other nonprofit organizations that expend \$500,000 or more in a year in Federal financial assistance and cost-reimbursement awards. These may be awards received directly from Federal awarding agencies or indirectly from pass-through entities. In determining whether or not an entity meets the \$500,000 threshold, flexibly-priced awards (such as T&amp;M or FPI) should not be considered as they do not meet the definition of a cost-reimbursement award per FAR Subpart 16.3.</p>
<p>2. An OMB Circular A-133 audit includes two significant additional steps that impact the auditor's scope: (1) determining major programs and (2) determining the applicable compliance requirements for the major programs. Circular A-133 prescribes a risk-based approach to determine which Federal programs are major programs (CAM 13-702.4). Compliance requirements generally refer to the laws, regulations, and the provisions of award agreements that should be considered in an audit of a major program (CAM Chapter 13-702.6).</p>
<p>3. The auditor should determine by reviewing the permanent files and prior audit working papers if significant costs related to CAS have been identified and required compliance testing has been accomplished. Compliance with applicable Cost Accounting Standards should be considered during this audit.</p>
<p>4. OMB Circular A-133, section .500(c) requires that in addition to the requirements of GAGAS, the auditor shall perform procedures to obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs. Except where internal control over some or all of the compliance requirements for a major program are likely to be ineffective in preventing or detecting noncompliance the auditor shall: (i) Plan the testing of internal control over major programs</p>

**Master Document – Audit Program**

to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program and (ii) Perform testing of internal controls as planned. Auditors can use evidence from tests of controls done in prior audits (or at an interim date), but they have to obtain evidence about the nature and extent of significant changes in policies, procedures and personnel since they last performed those tests. The auditor should document in the working papers the source of the evidence relied upon (i.e assignment number and working paper number or permanent file section and page number). A generic reference to the permanent file is not considered sufficient documentation.

5. The auditor is required to test internal control over major programs to ensure that controls are designed and operating effectively, as well as testing compliance with the requirements of Federal programs to determine the validity and the propriety of accounting transactions and balances. Although the purpose of these tests is different, both may be achieved simultaneously through dual-purpose tests of details. That is, the auditor may design a sample that will be used for dual purposes: assessing control risk and testing whether the recorded monetary amount of transactions is correct. The auditor should consider the use of dual-purpose transaction testing when developing their sampling plan. Transaction testing working papers should include the criteria (e.g., OMB requirements) used to review the transactions, the nature/description of the transaction reviewed, and the results of the review. The auditor is not required to plan and perform tests of internal controls when they are likely to be ineffective in preventing or detecting noncompliance with the requirements of major programs. In this case the auditor should report a reportable condition, including whether any such condition is a material weakness, and assess the related control risk at the maximum, and consider whether additional compliance tests are required because of ineffective internal control.

6. Auditing effort that satisfies the requirements of OMB Circular A-133 should not necessarily be restricted to incurred cost audits. For example, audit steps for compliance requirements A. Activities Allowed/Unallowed and B. Allowable Costs/Cost Principles may be considered when performing Disclosure Statement reviews, CAS compliance reviews, and labor floor checks.

7. At major contractors, audit effort to satisfy the requirements of the compliance requirements may be considered under the following related activities:

<b>Compliance Requirement</b>	<b>Related Audit Activities</b>
A. Activities Allowed/Unallowed	Control Environment & Overall Accounting Controls; Billing System; Planning and Budget System Controls; Compensation; Indirect and Other Direct Costs; Labor and Accounting Controls; Disclosure Statement audits; CAS compliance audits.
B. Allowable Costs/Cost Principles	Control Environment and Overall Accounting Controls; Billing System; Planning and Budget System Controls; Compensation; Indirect and Other Direct Costs; Labor and Accounting Controls; Disclosure Statement audits; CAS

## Master Document – Audit Program

	compliance audits; labor floorchecks.
C. Cash Management	Control Environment and Overall Accounting Controls; Planning and Budget System Controls; Financial capability audits.
D. Davis-Bacon Act	Labor and Accounting Controls
F. Equipment/Real Property Management	Control Environment and Overall Accounting Controls
G. Matching, Level of Effort, Earmarking	Control Environment and Overall Accounting Controls; Planning and Budget System Controls; Indirect & Other Direct Costs; Labor and Accounting Controls; and labor floorchecks.
H. Period of Availability of Federal Funds	Control Environment and Overall Accounting Controls; Planning and Budget System Controls.
I. Procurement, Suspension, Debarment	Compensation System; Purchasing Controls.
J. Program Income	Control Environment and Overall Accounting Controls; Planning and Budget System Controls
L. Reporting	Control Environment and Overall Accounting Controls
M. Subrecipient Monitoring	Purchasing Controls
N. Special Tests and Provisions	Indirect & Other Direct Costs; Labor and Accounting Controls; CAS compliance audits
<b>References</b>	
1. CAM Chapter 13, Audits at Educational Institutions, Non-Profit Organizations, and Federally Funded Research and Development Centers (FFRDCs).	
2. OMB Circular A-21, Cost Principles for Education Institutions.	
3. OMB Circular A-110, Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations.	
4. OMB Circular A-122, Cost Principles for Non-Profit Organizations	
5. OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.	
6. OMB Circular A-133 Compliance Supplement.	
7. FAR 31.2, Contracts with Commercial Organizations.	
8. Department of Defense Grants and Agreements Regulations, DoD 3210.6-R.	
9. AICPA Statement of Position (SOP) 98-3, “Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards”.	

**Master Document – Audit Program**

10. Cost Accounting Standards Board Rules, Regulations, and Standards.
11. MRD 99-PIC-078(R), dated 2 July 1999, Revised DCAA Proforma A-133 Audit Report and OMB Circular A-133 Compliance Supplement.
12. Others (add any additional references below).

<b>B-1</b>	<b>Preliminary Steps</b>	<b>WP Reference</b>
	<b>Version 2.1, dated May 2004</b>	
	(Preliminary Audit Steps for Performing a Coordinated Audit Under OMB Circular A-133)	
	1. The objectives of a coordinated audit are to avoid duplication of audit effort and build upon each other’s work, but not to limit the audit scope. The participants in a coordinated audit may include the auditee, the independent public accountant (IPA), internal auditor, the ACO and the DCAA auditor. Participants will agree upon which party will be responsible for reporting on the auditee’s compliance requirements and which party will be responsible for completing the applicable portions of the Data Collection Form. Subject agreement will be documented on a coordinated audit matrix. (CAM 13-703.1).	
	a. Coordinate with the Cognizant Agency for Audit (\$50 million in Federal awards or greater) or with the Oversight Agency for Audit (under \$50 million in Federal awards). Identify DCAA’s objectives for participating in the OMB A-133 audit and determine whether the contracting officer has any specific audit concerns. The meeting should also include a discussion of the issue of reimbursement for audit services if the contracting officer is a non-DoD official.	
	b. Meet with the auditee’s management and independent public accounting firm to reach an agreement on DCAA participation in the coordinated audit. Particular attention should be given to the benefits derived from a coordinated audit approach from both a resource perspective (more timely and less duplicative effort) and also from an audit perspective (ability to close out contracts/grants).	
	c. Complete the A-133 Coordinated Audit Matrix on the Major Program Planning Consideration working paper ( <b>W/P C-1</b> ) to ensure that all internal controls and compliance areas are covered, and to ensure that all aspects of the coordination are within the Circular’s stated time constraints for issuance of the reports.	
	d. It should be noted that reports issued by administrative contracting officers from the cognizant agency are not acceptable as part of a contractor’s A-133 reporting package since these individuals do not meet the Circular’s definition of “auditor”. Therefore, either DCAA or	

**Master Document – Audit Program**

<p>the auditee’s independent auditor must perform steps necessary to place reliance upon the ACO’s work and issue a comprehensive report in accordance with the Circular. Alternately, by participating as a team member in an ACO business systems review (usually those addressing compliance requirements F. Equipment and Real Property Management, and I. Procurement, Suspension, and Debarment), the auditor should ensure that the review is sufficient in scope to be responsive to both the needs of the contract administration organization and adequate to satisfy the requirements of the Circular. The auditor should include sufficient documentation in the working paper file describing the scope of work performed and the basis for which reliance can be placed on the work performed (CAM 4-1005). When preparing the A-133 reports, the auditor should make maximum use of any reports issued by the ACO or its designee.</p>	
<p>e. Determine which auditor will be responsible for completing the applicable portion of the data collection form (CAM 13-706.8)</p>	
<p>f. During the course of the fieldwork, communicate both with the auditee and the IPAs to assess the compliance with the coordinated audit matrix.</p>	
<p>g. If applicable, at the completion of fieldwork, review the IPA’s work and ensure that you can rely on the documentation. Complete W/P C-2 to document your reliance on the work of others.</p>	
<p>h. In planning and performing the examination, review the fraud risk indicators in CAM Figure 4-7-3 for applicability to this audit. Document in working paper B any identified fraud risk indicators and your response/actions to those identified risks (either individually, or in combination). This should be done at the planning stage of the audit as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.</p>	
<p>2. Schedule an entrance conference with the auditee to inform them of required information prior to the commencement of the fieldwork. The following items are considered requirements of an adequate submission:</p>	
<p>a. Auditee’s certified proposal to establish indirect rate(s). In cases where a certified proposal has not been received, but is anticipated, the auditor should exercise judgment based on historical experience with the auditee as to how to proceed with the audit.</p>	
<p>b. Auditee’s Schedule of Expenditures of Federal Awards</p>	
<p>c. Auditee’s Summary Schedule of Prior Audit Findings. During the entrance conference with the auditee, obtain the auditee’s Summary Schedule of Prior Audit Findings so that related follow-up actions on previously- reported deficiencies can be evaluated.</p>	
<p>3. Meet with the Internal Audit Department. Review their annual audit plan and request copies of audit reports for internal audits that may influence the audit scope on this assignment. If you are going to rely on the work of the internal auditors, follow the guidance in CAM section 4-1000 and in Chapter 6 of the GAO “Yellow Book”.</p>	

**Master Document – Audit Program**

<b>C-1</b>	<b>Audit Coordination</b>				
<b>Version 2.1, dated May 2004</b>					
<b>Audit Coverage Matrix</b>					
Types of Major Program Compliance Requirements (Refer to Compliance Supplement, Parts 2&3)	Compliance Requirement that is Applicable, and may have a Material Effect on Major Program (Y or N/A)	Organization Accepting Responsibility for Providing Audit Review and Auditor Accepting Responsibility for Providing Reporting Coverage (Review Internal Control and/or Compliance Audit)			Comments
		Independent Public Accountant	DCAA	Other (identify organization)	
A. Activities Allowed or Unallowed					
B. Allowable Costs/Cost Principles					
C. Cash Management					
D. Davis-Bacon Act					
E. Eligibility					
F. Equipment and Real Property Management					
G. Matching, Level of Effort, Earmarking					
H. Period of Availability of Federal Funds					
I. Procurement and Suspension and Debarment					
J. Program Income					
K. Real Property Acquisition and Relocation Assistance					
L. Reporting					

**Master Document – Audit Program**

<b>C-1</b>	<b>Audit Coordination</b>				
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		Independent Public Accountant	DCAA	Other (identify organization)	
M. Subrecipient Monitoring					
N. Special Tests & Provisions					
O. Other (list as applicable)					

Y: denotes requirement is applicable and will be included in audit scope.

**N/A: denotes requirement is/is not applicable and will not be included within current year audit because (provide explanation in Additional Comments – for example, the specific requirement does not have a direct and material impact on the major program, see working paper \_\_\_\_ for documentation supporting assessment).**

Point of Contact:

Auditee

Independent Public Accountant

DCAA

Other

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**Master Document – Audit Program**

<b>C-1</b>	<b>Coordination</b>					
<b>Version 2.1, dated May 2004</b>						
<b>Coordination Matrix</b>						
Office of Management and Budget Circular A-133 Compliance Requirements	Applicable to Contractor (Yes or No)  If not applicable – no additional documentation	If Applicable could the compliance requirement have a direct & material effect on the Major program (Yes or No) (1)		Comments	Audit Coverage by FAO (If not by DCAA FAO or FD - coordinate with IPA to ensure audit coverage?)	Audit Coverage by Field Detachment
		FAO	FD			
1. Activities Allowed/ Unallowed						
2. Allowable Costs/Cost Principles						
3. Cash Management						
4. Davis Bacon Act						
5. Eligibility						
6. Equipment & Real Property Management						
7. Matching, Level of Effort*, Earmarking*						
8. Period of Availability of Federal Funds						
9. Procurement Suspension & Debarment						
10. Program Income						
11. Real Property Acquisition Relocation Assistance						

**Master Document – Audit Program**

<b>C-1</b>	<b>Coordination</b>					
<b>Version 2.1, dated May 2004</b>						
<b>Coordination Matrix</b>						
<b>Office of Management and Budget</b>  <b>Circular A-133 Compliance Requirements</b>	<b>Applicable to Contractor (Yes or No)</b>  <b>If not applicable – no additional documentation</b>	<b>If Applicable could the compliance requirement have a direct &amp; material effect on the Major program (Yes or No) (1)</b>		<b>Comments</b>	<b>Audit Coverage by FAO (If not by DCAA FAO or FD - coordinate with IPA to ensure audit coverage?)</b>	<b>Audit Coverage by Field Detachment</b>
<b>12. Reporting - Financial Performance* Special*</b>						
<b>13. Subrecipient Monitoring</b>						
<b>14. Special Tests &amp; Provisions</b>						

\*Not applicable to the research and development program per OMB Circular A-133 Compliance Supplement, Part 5, pages 5-2-1 through 5-2-2.

**(1) This is important because A-133 requires testing of internal control over compliance and substantive tests of compliance only on those requirements that could have a direct and material effect on the program. For example, if an auditee’s program has not procured contracts for goods or services in excess of \$100,000 and makes no subawards to subrecipients, then procurement and suspension and debarment and subrecipient monitoring requirements could have no direct and material effect on the auditee’s program**

Point of Contact:

CAA Regional FAO

DCAA Field Detachment

Auditee

Independent Public Accountant

Other

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**Master Document – Audit Program**

<b>C-1</b>	<b>Audit Coordination</b>	
Version 2.1, dated May 2004		
<b>Audit Program for Coordinated Audit</b>		<b>WP Reference</b>
1. Using the audit steps in B-1, complete the coordinated audit matrix to ensure that all internal controls and compliance areas are covered, and to ensure that all aspects of the coordination are within the Circular’s stated time constraints for issuance of the reports.		
<b>Audit Program For Coordination With Field Detachment</b>		<b>WP Reference</b>
When reviewing the Schedule of Expenditures of Federal Awards the FAO should verify that it is complete and determine if audit assistance is required. When it is determined that the regional FAO does not have access to federal awards because they are classified, audit assistance from the cognizant Field Detachment FAO should be requested (CAM 13-703.3). The FAO and the cognizant Field Detachment FAO should ensure a comprehensive, coordinated and integrated audit. The regional FAO and Field Detachment FAO should coordinate with the auditee and if applicable the IPA to ensure that a comprehensive audit of the auditees federal expenditures is achieved.		
1. Coordinate with the Field Detachment FAO, the auditee and if applicable the IPA to identify areas of audit coverage. Document the results of the coordination of audit coverage on the FAO/FD Coordination Matrix.		

<b>D-1</b>	<b>Schedule Of Expenditures Of Federal Awards</b>	<b>WP Reference</b>
<b>Version 2.1, dated May 2004</b>		
The audit objective is to determine whether the Schedule of Expenditures of Federal Awards is presented fairly in all material respects in relation to the auditee’s financial statements taken as a whole. Audit effort should be limited to the programs included in the scope of DCAA’s audit.		
1. Determine whether the schedule includes all Federal awards expended during the period.		
2. Determine that the schedule and the notes thereto contain the minimum information required by OMB Circular A-133 Section .310 (b).		
3. Compare the information in the schedule and the notes thereto with the		

**Master Document – Audit Program**

audited financial statements and with the Federal financial reports.	
4. Reconcile the Incurred Cost Submission to the Schedule of Expenditures of Federal Awards.	
5. Document the audit conclusion on Working Paper D.	

<b>E-1</b>	<b>Activities Allowed or Unallowed, Compliance Requirement A</b>
Version 2.1, dated May 2004	
<b>Compliance Requirements</b>	
<p>This compliance requirement specifies the activities that can or cannot be funded under a specific program and almost always applies to Federal programs. The specific requirements for activities allowed or unallowed are unique to each Federal program and are found in the laws, regulations, and the provisions of contracts or grant agreements pertaining to each program. For programs listed in the Compliance Supplement, the specific requirements are in Part 4 – Agency Program Requirements or Part 5 – Clusters of Programs, as applicable.</p>	
<b>Audit Objectives</b>	
<p>Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 ' ____.500(c).</p> <p>Determine whether Federal awards were expended only for allowable activities.</p>	
<b>Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Activities Allowed or Unallowed</b>	
<p>As a condition of receiving Federal awards, a non-Federal entity agrees to comply with applicable laws, regulations, and the provisions of contracts and grant agreements, and to maintain internal control to reasonably ensure compliance with those requirements. OMB Circular A-133 requires that the auditor obtain an understanding of the entity’s internal control over major programs and that internal controls be tested (unless internal control is likely to be ineffective). Part 6 of the OMB Circular A-133 Compliance Supplement (Compliance Supplement) includes suggested internal control characteristics which may be used to reasonably ensure compliance with those requirements. The suggested internal controls in Part 6 of the Compliance Supplement are reflected in the questions included in the audit program. Additional audit steps may be necessary as agreed-to between the auditor and supervisor.</p> <p>However, the categorizations reflected in Part 6 (and this worksheet) may not necessarily reflect how an entity considers and implements internal control. This worksheet is not a</p>	

**Master Document – Audit Program**

checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in this worksheet are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this worksheet. Auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements. The focus of gaining an understanding of internal control is not to determine how many of the “internal control questions” can be answered “Yes,” but to determine that the overall objectives of internal control are met.

Procedures for obtaining an understanding of the internal control system and testing controls may include: consideration of prior experience with the entity; inquiry of appropriate management, supervisory, and staff personnel; inspection of documents and records; observation and activities and operations. The working papers should describe the control policies and procedures, the test of controls, and the findings.

<b>E-1      Activities Allowed Or Unallowed, Compliance Requirement A</b>				
<b>Version 2.1, dated May 2004</b>				
<b>Note: The suggested audit procedures for internal control and compliance testing may be accomplished using dual-purpose testing.</b>	<b>Yes</b>	<b>No</b>	<b>Done by</b>	<b>WP Ref.</b>
<b>Control Objectives.</b>				
To provide reasonable assurance that Federal awards are expended only for allowable activities and that the cost of goods and services charged to Federal awards are allowable and in accordance with the applicable cost principles.				
6. Control Environment. Are policies and procedures in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Does management set reasonable budgets for Federal and non-Federal activities so that no incentive exists to miscode expenditures?				
b. Does management enforce appropriate penalties for misappropriation or misuse of funds?				
c. Are questioned costs resolved on a timely basis?				
d. Is there an organization-wide cognizance of need for separate identification of allowable Federal costs?				
e. Does management provide personnel approving and pre-auditing expenditures with a list of allowable and unallowable expenditures?				

**Master Document – Audit Program**

f. When applicable, has an indirect cost allocation plan been prepared?				
g. When required, has the indirect cost allocation plan been submitted to the cognizant (or oversight) agency?				
7. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 1 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
8. Risk Assessment. Are policies and procedures in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Does management have a process for assessing risks resulting from changes to the cost accounting systems and are policies and procedures in place to reduce the risk to an acceptable level?				
b. Does management have a sufficient understanding of staff, processes, and controls to identify where unallowable activities or costs could be charged to a Federal program and not be detected?				
9. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 3 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
10. Control Activities. Are policies and procedures in place to provide reasonable assurance that federal awards are expended only for allowable activities and that the cost of goods and services charged to federal awards are allowable and in accordance with the specific cost principles. Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Are procedures in place that provide reasonable assurance that consistent treatment is applied in the distribution of charges as direct and indirect costs to all Federal programs?				
b. Do procedures provide separate accountability for time charges and costs between Federal and non-Federal activities?				
c. Are processes in place to ensure timely updating of procedures for changes in activities allowed and cost principles?				

**Master Document – Audit Program**

d. Does the entity have written personnel policies covering job descriptions, hiring, promotions, and dismissals?				
e. When applicable, do procedures provide for rechecking the accuracy of computations?				
f. Is supporting documentation compared to a list of allowable and unallowable expenditures?				
g. Are adjustments to unallowable costs made where appropriate and follow-up action taken to determine the cause?				
h. Are duties adequately segregated between review and authorization of costs?				
i. Are payments approved for payment by an individual who is knowledgeable?				
j. Is accountability for authorization fixed in a responsible individual(s) who is knowledgeable of the requirements for determining activities allowed and allowable costs, including costs charged to direct and indirect cost centers, in accordance with Federal program agreements and applicable Governmental management circulars pertaining to cost principles?				
11. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 5 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
12. Information and Communication. Are policies and procedures in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Are reports, such as a comparison of budget to actual provided to appropriate management for review on a timely basis?				
b. Is there adequate interaction between management and staff regarding questionable costs?				
c. Are employees encouraged to report suspected improprieties to management?				
d. Do training programs, both formal and informal, provide knowledge and skills necessary to determine activities and costs allowed?				
e. Are grant agreements (including referenced program laws, regulations, handbooks, etc.) and cost principles circulars available to staff responsible for				

**Master Document – Audit Program**

determining activities allowed and allowable costs under Federal programs?				
f. Are there adequate internal and external communication channels on activities and costs allowed?				
13. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 7 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
14. Monitoring. Are policies and procedures in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Does management periodically review supporting documentation of allowable cost information?				
b. Does management compare budgeted to actual or prior year to current year costs and are variances investigated?				
c. Are internal audits, either formal or informal, performed?				
d. Does management take appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors)?				
e. Does information from Federal and other agencies flow to appropriate management personnel?				
15. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 9 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
16. Conclusion. Document the audit conclusion on control effectiveness on Working Paper E.				

<b>E-1</b>	<b>Activities Allowed Or Unallowed, Compliance Requirement A</b>
<b>Version 2.1, dated May 2004</b>	
<b>Suggested Audit Steps for Reviewing the Auditee’s Compliance with Activities Allowed or Unallowed</b>	

**Master Document – Audit Program**

<p>This compliance requirement specifies the activities that can or cannot be funded under a specific program and almost always applies to federal programs. The specific requirements for activities allowed or unallowed are unique to each federal program and are found in the laws, regulations, and the provisions of contracts or grant agreements pertaining to each program. For programs listed in the Compliance Supplement, the specific requirements are included at Part 4.</p>				
<p><b>Audit Objectives</b></p>				
<p>Determine whether federal awards were expended only for allowable activities.</p>				
	<b>Yes</b>	<b>No</b>	<b>Done by</b>	<b>WP Ref</b>
1. Allowability of Specific Transactions and Activities				
a. Identify the types of activities which are either specifically allowed or prohibited by the laws, regulations, and the provisions of contracts or grant agreements pertaining to the program.				
b. When allowability is determined based upon summary level data, perform procedures to verify that the activities were allowable and that the individual transactions were properly classified and accumulated into the activity total.				
c. When allowability is determined based upon individual transactions, select a sample of transactions and perform procedures to verify that the transaction was for an allowable activity.				
d. The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities.				

<b>F-1</b>	<b>Allowable Cost, Cost Principles, Compliance Requirement B</b>
<b>Version 2.1, dated May 2004</b>	
<p>Allowable Costs/Cost Principles almost always applies since most Federal programs have charges for goods or services. However, if a program only involves benefits to eligible recipients, with no administrative costs, purchases of goods or services (including salaries and overhead), or allocated costs, then allowable costs may not apply.</p>	

## Master Document – Audit Program

<b>Compliance Requirements—Allowability of Costs</b>
The general criteria affecting the allowability of costs (both direct and indirect) under Federal awards are they must be reasonable and necessary; allocable to the Federal awards under the provisions of the applicable OMB cost circulars; given consistent accounting treatment; conform to any limitation or exclusion set forth in the applicable OMB cost circular, Federal laws, State and local laws, sponsored agreements or other governing regulations; net of all applicable credits that result from transactions that reduce or offset direct or indirect costs; and be documented.
<ul style="list-style-type: none"><li>• OMB Circular A-21, Cost Principles for Educational Institutions</li></ul>
<ul style="list-style-type: none"><li>• OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments</li></ul>
<ul style="list-style-type: none"><li>• OMB Circular A-122, Cost Principles for Non-Profit Organizations</li></ul>
<ul style="list-style-type: none"><li>• FAR 31.2, Contracts with Commercial Organizations (applies to nonprofit organizations not subject to OMB Circular A-122, a list can be found in Attachment C of A-122)</li></ul>
<b>Requirements—Indirect Costs</b>
Indirect costs are defined as costs incurred for a joint purpose benefiting more than one project, award, contract, or cost objective, and costs not readily assignable to cost objectives directly benefited. Indirect costs may include costs of other agencies that supply services. Also, for convenience, minor direct costs may be treated as indirect costs.
In order to recover indirect costs, organizations must prepare cost allocation plans (CAPs) or indirect cost rate proposals (IDCRPs) in accordance with the guidelines provided in OMB Circular A-21, A-87, or A-122. (Only States, local, and Indian tribal Governments prepare CAPs.) States, major local Governments, Indian tribal Governments, institutions of higher education, and nonprofit organizations must submit CAPs or IDCRPs to the Federal cognizant cost negotiation agency for approval. Other organizations, such as smaller local Governments, must prepare the appropriate CAPs or IDCRPs and maintain them on file for review. Those other organizations may use the allocation methods and indirect costs rate maintained on file for cost recovery.
The IDCRPs prepared by institutions of higher education and other non-profit organizations are based on the most current financial data supported by the organization’s accounting system and audited financial statements. These indirect cost proposals can be used to either establish predetermined or fixed indirect cost rates, or to establish or finalize provisional rates.  Predetermined rates are established for the current or multiple future year(s) based on current data (usually data from the most recently ended fiscal year, known as the base period). Predetermined rates are not subject to adjustment except under very unusual circumstances.

## Master Document – Audit Program

<p>Fixed rates are based on current data in the same manner as predetermined rates, except that the difference between the costs of the base period used to establish the rate and the actual costs of the current period is carried forward as an adjustment to the rate computation for a subsequent period. Provisional rates are temporary rates used for funding and billing indirect costs, pending the establishment of a final rate for a period. Indirect audit effort under this compliance requirement is dependent upon the type of rate used by the auditee and the intent of its current rate submission.</p>
<p><b>Audit Objectives (Direct and Indirect Costs)</b></p>
<p>1. Determine whether the organization complied with the provisions of the applicable cost principles (FAR or OMB cost circular) as follows:</p>
<p>a. Direct charges to Federal awards were for allowable costs.</p>
<p>b. Charges to cost pools used in calculating indirect cost rates were for allowable costs.</p>
<p>c. For States, local Governments, and Indian tribal Governments, charges to costs pools allocated to Federal awards through CAPs were for allowable costs.</p>
<p>d. The methods of allocating the costs are in accordance with the applicable provisions of the cost principles circulars and produce an equitable distribution of costs (e.g., cost allocation bases include all allowable and unallowable base costs to which allowable indirect costs are allocable and the cost allocation methodology complies with the applicable cost principles and provides equitable and consistent allocation of indirect costs to benefiting cost objectives).</p>
<p>e. Indirect cost rates were applied in accordance with approved rate agreements and associated billings were the result of applying the approved rate to the proper base amount(s).</p>
<p>f. For States, local Governments, and Indian tribal Governments, cost allocations were in accordance with CAPs approved by the cognizant agency for indirect cost negotiation or, in cases where such plans are not subject to approval, in accordance with the plan on file.</p>
<p>g. Cost accounting practice disclosures, as described in the DS-1 or DS-2 (as applicable), represented actual practices consistently applied.</p>
<p>h. An educational institution's review of large research facilities under construction was documented as required.</p>
<p>2. In order to make this determination, test a sample of transactions for conformance with the following criteria contained in the “Basic Guidelines” section of the applicable OMB cost circulars. Determine that the charges were:</p>
<p>a. Supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, and canceled checks, and time and attendance records, and correctly charged as to account, amount, and period. Documentation requirements for salaries and wages and time and effort distribution are described in applicable cost</p>

**Master Document – Audit Program**

principles. Documentation may be in an electronic form.
b. For State and local Governments, authorized or not prohibited under State or local laws or regulations.
c. Approved by the Federal awarding agency, if required.
d. Conform with the allowability of cost provisions of applicable cost principles, or limitations, in the program agreement, program regulations, or program statute.
e. Conform with the allocability provisions of applicable cost principles or CASB Standards.
f. Represent charges for actual costs, not budgeted or projected amounts.
g. With respect to fringe benefit allocations, charges, or rates, such allocations, charges, or rates are based on the benefits received by different classes of employees within the organization.
h. Applied uniformly to Federal and non-Federal activities.
i. Given consistent accounting treatment within and between accounting periods. (Consistency in accounting requires that costs incurred for the same purpose, in like circumstances, be treated as either direct costs only or indirect costs only with respect to final cost objectives.)
j. Calculated in conformity with CASB Standards, generally accepted accounting principles or another comprehensive basis of accounting, when required under the applicable cost principles or CASB Standards. Costs for post-employment benefits must be funded to be allowable.
k. Not included as a cost or used to meet cost sharing requirements of other Federally-supported activities of the current or a prior period.
l. Net of all applicable credits, e.g., volume or cash discounts, insurance recoveries, refunds, rental income, trade-ins, and scrap sales.
m. Not included as both a direct billing and as a component of indirect costs, e.g., excluded from cost pools included in CAPs and/or IDCSPs, if charged directly to Federal Awards.
<b>Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Allowable Costs/Cost Principles</b>
Refer to W/P Section E-1 for required audit steps for this internal control objective.

**Master Document – Audit Program**

<b>Audit Steps for Reviewing the Auditee’s Compliance with Allowable Costs/Cost Principles</b>		
<p>The following audit procedures were adapted from the OMB Circular A-133 Compliance Supplement issued by OMB. The procedures are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The auditor should simply supplement the procedures with specific audit steps and include them in the working papers.</p>		
<p>OMB Circular A-133 requires, for certain of its suggested audit procedures, that the auditor “select a sample”. However, minimum “sample” sizes and acceptable selection methods are not specified. Circular A-133 permits these matters to be determined based on the auditor’s professional judgment. A combination of other procedures performed, low inherent and control risk, and/or small population sizes should result in a lower level of test work.</p>		
<p>The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper F.</p>		
<b>Direct Costs</b>		
	<b>Performed by</b>	<b>W/P Ref.</b>
<p>Although the Circular requires the determination of allowability for both direct and indirect costs, the following comments apply only to direct charges to Federal awards. If the auditor identifies unallowable costs, the auditor should be aware that “directly associated costs” may also have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would not have been incurred if the other cost had not been incurred. For example, fringe benefits are “directly associated” with payroll costs. When an unallowable cost is incurred, directly associated costs are also unallowable.</p>		
<p>Actual direct cost transaction testing should be accomplished utilizing the appropriate incurred cost audit program applicable to the specific circumstances. Audit steps required for determining compliance with subject compliance requirement should be established using auditor judgment based on the results of risk assessments, internal control review, and the performance of MAARs steps. The audit objectives listed in the narrative section of this audit program should also be considered when performing the transaction testing. <b><i>Direct cost transaction testing must be accomplished in order to issue the A-133 report.</i></b> This may be performed within this audit or as part</p>		

**Master Document – Audit Program**

<p>of another assignment. Audit results should be incorporated into this working paper package to facilitate the preparation of the report.</p>		
<p><b>Indirect Costs</b></p>		
<p>Cost Allocation Plans (CAP) and Indirect Cost Rate Agreements (IDCRA)</p> <p>Ascertain if centralized or administrative services or indirect costs were allocated or charged to Federal awards. If not, the following suggested audit procedures do not apply.</p>		
<p>1. Obtain and read the current CAP and/or IDCRA and determine the terms in effect (i.e. predetermined, fixed with carry-forward provisions, or provisional/final). If required, determine whether the CAP or IDCRA proposals have been approved by the appropriate Federal agency.</p>		
<p>If the auditee has approved predetermined or fixed rates in effect for the relevant fiscal year, audit effort required for the issuance of the A-133 report is limited to this section.</p>		
<p>1. Public Assistance CAPs (for States, local Governments, and Indian tribal Governments only): Verify that the methods of charging costs to Federal awards are in accordance with the provisions of the approved CAP or prepared CAP on file.</p>		
<p>2. State and Local Government-Wide CAPs: Ascertain if the amounts used for reimbursement of central service costs for Federal awards were in accordance with the approved CAPs or plans on file, when approval is not required.</p>		
<p>3. Indirect Cost Rate Agreements: Select a sample of claims for reimbursement and verify that the rates used are in accordance with the rate agreement, that rates are applied to the appropriate bases, and that the amounts claimed were the products of applying the rate to the applicable base.</p>		
<p><b>Note: Indirect Cost Rate proposals (IDCRP)</b></p> <p>If an IDCRP is submitted to establish future predetermined or fixed rates, to compute carry-forward, or to establish future provisional rates, the review of the IDCRP is outside</p>		

**Master Document – Audit Program**

<p>the scope of this audit. The purpose of the A-133 audit is to determine that indirect cost rates as represented in the Schedule of Expenditures of Federal Awards were computed in accordance with approved rate agreements.</p> <p><i>Should an IDCRP be submitted to finalize provisional rates for the relevant fiscal year, it must be audited in order to issue the A-133 report since the Schedule of Expenditures of Federal Awards reflects the auditee’s proposed final rates. Any resulting audit adjustments to the proposed rates must be reported as part of the A-133 package.</i></p> <p><i>Actual indirect cost transaction testing and rate evaluation should be accomplished utilizing the appropriate incurred cost audit program applicable to the specific circumstances. Audit steps required for determining compliance with subject compliance requirement should be established using auditor judgment based on the results of risk assessments, internal control review, and the performance of MAARs steps. The audit objectives listed in the narrative section of this audit program should also be considered when performing the transaction testing. This may be performed within this audit or as part of another assignment. Any work performed under a separate assignment must be clearly cross referenced to this workpaper package. Audit results should be incorporated into this workpaper package to facilitate the preparation of the report.</i></p>		
<p><b>Educational Institutions</b></p>		
<p>1. Perform the following procedures related to large research facilities:</p>		
<p>a. Ascertain if the institution had large research facilities as defined in OMB Circular A-21 under construction. If not, the following audit procedures b and c do not apply.</p>		
<p>b. For large research facilities under construction of which 40 percent or more of total assignable space is expected for Federal use, review the institution's approval process that should include board minutes or other documentation to ascertain if the institution's Board of Trustees or other independent entity reviewed and approved these construction</p>		

**Master Document – Audit Program**

projects.		
c. For research facilities under construction costing more than \$25 million of which 50 percent or more of total assignable space is expected for Federal use, ascertain if the institution documented the review steps performed to assure that construction costs are reasonable.		

<b>G-1</b>	<b>Cash Management - Compliance Requirement C</b>
Version 2.1, dated May 2004	
<b>Compliance Requirements</b>	
<p>When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the recipients. When advance payment procedures are used, recipients must establish similar procedures for subrecipients.</p> <p>Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients' cash balances and cash disbursements in sufficient time to enable the pass-through entities to submit complete and accurate cash transactions reports to the Federal awarding agency or pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to assure that subrecipients conform substantially to the same standards of timing and amounts as apply to the pass-through entity.</p> <p>Interest earned on advances by local Government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses. Interest earned by non-State, nonprofit entities on Federal fund balances in excess of \$250 is required to be remitted to Department of Health and Human Services, Payment Management System, P.O. Box 6021, Rockville, MD 20852.</p> <p>Treasury regulations at 31 CFR part 205, which implement the Cash management Improvement Act of 1990 (CMIA) (P.L 101-453), require State recipients to enter into agreements which prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury State Agreement are subject to procedures prescribed by Treasury in Subpart B of 31 CFR part 205 (Subpart B).</p> <p>The requirements for cash management are contained in the OMB Circular 102 (Paragraph 2.a), the A-102 Common Rule (§__.21), OMB Circular A-110 (§__.22), Treasury regulations at 31 CFR part 205, Federal awarding agency regulations, and the terms and conditions of the award.</p>	
<b>Availability of Other Information</b>	

## Master Document – Audit Program

The U.S. Treasury, Financial Management Service maintains a Cash Management Improvement Act page on the Internet ( <a href="http://www.fms.treas.gov/cmia/">http://www.fms.treas.gov/cmia/</a> ).
<b>Audit Objectives</b>
Determine whether (1) the recipient/subrecipient followed procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity, and their disbursement, (2) States have complied with the terms and conditions of the Treasury-State Agreement or Subpart B procedures prescribed by the Treasury, (3) the pass-through entity implemented procedures to assure that subrecipients conformed substantially to the same timing requirements that apply to the pass-through entity, and (4) interest earned on advances was reported/remitted as required.
<u>Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Cash Management</u>
As a condition of receiving Federal awards, a non-Federal entity agrees to comply with applicable laws, regulations, and the provisions of contracts and grant agreements, and to maintain internal control to reasonably ensure compliance with those requirements. OMB Circular A-133 requires that the auditor obtain an understanding of the entity’s internal control over major programs and that internal controls be tested (unless internal control is likely to be ineffective). Part 6 of the OMB Circular A-133 Compliance Supplement (Compliance Supplement) includes suggested internal control characteristics which may be used to reasonably ensure compliance with those requirements. The suggested internal controls in Part 6 of the Compliance Supplement are reflected in the questions included in the audit program. Additional audit steps may be necessary as agreed-to between the auditor and supervisor.
However, the categorizations reflected in Part 6 (and this worksheet) may not necessarily reflect how an entity considers and implements internal control. This worksheet is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in this worksheet are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this worksheet. Auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements. The focus of gaining an understanding of internal control is not to determine how many of the “internal control questions” can be answered “Yes,” but to determine that the overall objectives of internal control are met.
Procedures for obtaining an understanding of the internal control system and testing controls may include: consideration of prior experience with the entity; inquiry of appropriate management, supervisory, and staff personnel; inspection of documents and records; observation and activities and operations. The working paper should describe the control policies and procedures, the test of controls, and the findings.

**Master Document – Audit Program**

G-1	Cash Management - Compliance Requirement C			
<b>Version 2.1, dated May 2004</b>				
<b>Note: The suggested audit procedures for internal control and compliance testing may be accomplished using dual-purpose testing.</b>	<b>Yes</b>	<b>No</b>	<b>Done By</b>	<b>WP Ref.</b>
<b>Control Objectives.</b>				
To provide reasonable assurance that the draw down of Federal cash is only for immediate needs, States comply with applicable Treasury agreements, and recipients limit payments to subrecipients for immediate cash needs.				
1. Control Environment. Are policies and procedures in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Are cash draw down requests approved by a responsible official(s)?				
b. Are subrecipient cash payment requests approved by a responsible official(s)?				
c. Are budgets for cash draw downs prepared and are they consistent with realistic cash needs?				
d. Does management take appropriate action for known departures from approval policies or misuse of funds?				
2. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 1 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
3. Risk Assessment. Are policies and procedures in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Do procedures exist to anticipate, identify, and react to routine events that affect cash needs?				

**Master Document – Audit Program**

b. Are procedures in place to routinely assess the adequacy of subrecipient cash needs?				
c. Has management identified programs which receive cash advances and is management aware of cash management requirements?				
4. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 3 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
5. <b>Control Activities.</b> Are policies and procedures in place to provide reasonable assurance that the draw down of Federal cash is only for immediate needs and limits payments to subrecipients for immediate cash needs? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Are cash flow statements by program prepared to determine essential cash flow needs?				
b. Are Federal funds deposited in a separate bank account or accounted for through grant fund control accounts?				
c. Are written policies in place that provide:				
(1) Procedures for requesting cash advances as close as is reasonably possible to actual cash outlays?				
(2) Monitoring of cash management activities?				
(3) Repayment of excess interest earnings when required?				
d. Is the accounting system capable of scheduling payments for accounts payable and requests for funds from Treasury to avoid time lapse between draw down of funds and the actual disbursement of funds?				
e. Is there an appropriate level of supervisory review of cash management activities?				
f. For State programs subject to a Treasury-State agreement, does a written policy exist which includes:				
(1) Programs covered by the agreement;				

**Master Document – Audit Program**

(2) Methods of funding to be used;				
(3) Method used to calculate interest; and				
(4) Procedures for determining check clearing patterns (if applicable for the funding method).				
6. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 5 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
7. Information and Communication. Are policies and procedures in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Are variances between expected and actual cash disbursements of Federal awards and draw downs of Federal funds reported to an appropriate level of management?				
b. Have channels of communication been established between pass-through entities and subrecipients regarding cash needs?				
8. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 7 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
9. Monitoring. Are policies and procedures in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Is there periodic independent evaluation (e.g., by internal audit, top management) of entity cash management, budget and actual results, repayment of excess interest earnings, and Federal draw down activities?				
b. Are subrecipient requests for Federal funds properly evaluated?				
c. Does management take appropriate follow-up action for identified problems or weaknesses i.e.				

**Master Document – Audit Program**

internal controls (including matters communicated by the auditors)?				
d. Is there adequate review over compliance with Treasury-State agreements?				
10. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 9 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
11. Conclusion. Document the audit conclusion on control effectiveness on Working Paper G.				

<b>G-1</b>	<b>Cash Management - Compliance Requirement C</b>		
Version 2.1, dated May 2004			
<b>Suggested Audit Steps for Reviewing the Auditee’s Compliance with Cash Management</b>			
The following audit procedures were adapted from the OMB Circular A-133 Compliance Supplement issued by OMB. The procedures are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The auditor should simply supplement the procedures with specific audit steps and include them in working papers.			
OMB Circular A-133 requires, for certain of its suggested audit procedures, that the auditor “select a sample”. However, minimum “sample” sizes and acceptable selection methods are not specified. Circular A-133 permits these matters to be determined based on the auditor’s professional judgment. A combination of other procedures performed, low inherent and control risk, and/or small population sizes should result in a lower level of test work.			
The extent of compliance testing should be related to the overall conclusion on the effectiveness controls, as documented on Working Paper G.			
		<b>Performed by</b>	<b>WP Ref.</b>
Note: The following procedures are intended to be applied to each program determined to be major. However, due to the nature of cash management and the system of cash management in place in a particular entity, it may be appropriate and more efficient to perform these procedures for all programs collectively rather than separately for each program.			

**Master Document – Audit Program**

<b>States:</b>		
1. For programs tested as major for States, verify which of those programs are covered by the Treasury-State Agreement in accordance with the materiality thresholds in Appendix A to subpart A of 31 CFR part 205 (31 CFR section 205.4).		
2. For those programs identified in procedure 1, determine the funding techniques used for those programs. For those funding techniques that require clearance patterns to schedule the transfer of funds to the State, review documentation supporting the clearance pattern and verify that the clearance pattern conforms to the requirements for developing and maintaining clearance patterns as specified in the Treasury-State Agreement (31 CFR sections 205.8 and 205.9(b)(4)).		
3. Select a sample of Federal cash draws and verify that:		
a. The timing of the Federal cash draws were in compliance with the applicable funding techniques specified in the Treasury-State Agreement or Subpart B procedures, whichever is applicable (31 CFR sections 205.7 and 205.20).		
b. To the extent available, program income, rebates, refunds, and other income and receipts were disbursed before requesting additional Federal cash draws as required by the A-102 Common Rule (§__.21) and OMB Circular A-110 (§__.22).		
4. Where applicable, select a sample of reimbursement requests and trace to supporting documentation showing that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request (31 CFR section 205.7(c)(5)).		
5. Review the calculation of the interest obligation owed to or by the Federal Government, reported on the annual report submitted by the State to ascertain that the calculation was in accordance with Treasury regulations and the terms of the Treasury-State Agreement or Subpart B procedures. Trace amounts used in the calculation to supporting documentation.		
<b>States and Other Recipients:</b>		

**Master Document – Audit Program**

1. For those programs where Federal cash draws are passed through to subrecipients:		
a. Select a representative sample of subrecipients and ascertain the procedures implemented to assure that subrecipients minimize the time elapsing between the transfer of Federal funds from the recipient and the pay out of funds for program purposes (A-102 Common Rule (§____.37(a)(4)).		
b. Select a representative sample of Federal cash draws by subrecipients and ascertain that they conformed to the procedures.		
<b>Other Recipients and Subrecipients:</b>		
1. For those programs which receive advances of Federal funds, ascertain the procedures established with the Federal agency or pass-through entity to minimize the time between the transfer of Federal funds and the pay out of funds for program purposes.		
2. Select a sample of Federal cash draws and verify that:		
a. Established procedures to minimize the time elapsing between drawdown and disbursement were followed.		
b. To the extent available, program income, rebates, refunds, and other income and receipts were disbursed before requesting additional cash payments as required by the A-102 Common Rule (§____.21) and OMB Circular A-110 (§____.22).		
3. Where applicable, select a sample of reimbursement requests and trace to supporting documentation showing that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request.		
4. Review records to determine if interest was earned on Federal cash draws. If so, review evidence to ascertain whether it was returned to the appropriate agency.		

<b>H-1</b>	<b>Davis - Bacon Act Compliance Requirement D</b>
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## Master Document – Audit Program

<b>Version 2.1, dated May 2004</b>
<b>Compliance Requirements</b>
When required by the Davis-Bacon Act, the Department of Labor’s (DOL) Government-wide implementation of the Davis-Bacon Act, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 276a-276a-7).
<b>Availability of Other Information</b>
The U.S. Department of Labor, Employment Standards Administration, maintains a Davis Bacon and Related Acts Internet page ( <a href="http://www.dol.gov/dol/esa/public/programs/dbra/index.html">http://www.dol.gov/dol/esa/public/programs/dbra/index.html</a> ).
<b>Audit Objectives</b>
Determine whether the non-Federal entity ensured that contractors and subcontractors paid prevailing wage rates for projects covered by the Davis-Bacon Act.
<b>Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to the Davis Bacon Act</b>
As a condition of receiving Federal awards, a non-Federal entity agrees to comply with applicable laws, regulations, and the provisions of contracts and grant agreements, and to maintain internal control to reasonably ensure compliance with those requirements. OMB Circular A-133 requires that the auditor obtain an understanding of the entity’s internal control over major programs and that internal controls be tested (unless internal control is likely to be ineffective). Part 6 of the OMB Circular A-133 Compliance Supplement (Compliance Supplement) includes suggested internal control characteristics which may be used to reasonably ensure compliance with those requirements. The suggested internal controls in Part 6 of the Compliance Supplement are reflected in the questions included in the audit program. Additional audit steps may be necessary as agreed-to between the auditor and supervisor.
However, the categorizations reflected in Part 6 (and this worksheet) may not necessarily reflect how an entity considers and implements internal control. This worksheet is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in this worksheet are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this worksheet. Auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements. The focus of gaining an understanding of internal control is not to determine how many of the “internal control questions” can be answered “Yes,” but to determine that the overall objectives of internal control are met.
Procedures for obtaining an understanding of the internal control system and testing controls may include: consideration of prior experience with the entity; inquiry of appropriate

**Master Document – Audit Program**

management, supervisory, and staff personnel; inspection of documents and records; observation and activities and operations. The working paper should describe the control policies and procedures, the test of controls, and the findings.				
	<b>Yes</b>	<b>No</b>	<b>Done by</b>	<b>WP Ref.</b>
Note: The suggested audit procedures for internal control and compliance testing may be accomplished using dual-purpose testing.				
Control Objectives. To provide reasonable assurance that laborers and mechanics employed by contractors and subcontractors are paid prevailing wage rates for projects covered by the Davis-Bacon Act.				
1. Control Environment. Are policies and procedures in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Does management understand and communicate to staff, contractors and subcontractors the requirement to pay wages in accordance with the Davis-Bacon Act?				
b. Does management understand their responsibility to monitor compliance?				
c. Does management take appropriate action for known departures from approved policies and procedures?				
2. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 1 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
3. Risk Assessment. Are policies and procedures in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Are procedures in place to identify contractors and subcontractors most at risk of not paying the prevailing wage rates?				

**Master Document – Audit Program**

b. Are policies and procedures in place to reduce the risk to an acceptable level?				
c. Has management identified how compliance will be monitored and the related risks of failure to monitor for compliance with the Davis-Bacon Act?				
4. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 3 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
5. Control Activities. Are policies and procedures in place to provide reasonable assurance that laborers and mechanics employed by contractors and subcontractors are paid prevailing wage rates for projects covered by the Davis-Bacon Act? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Are contractors informed in the procurement documents of the requirement to pay prevailing wage rates?				
b. Are contractors and subcontractors required to submit certifications and copies of payrolls which meet the requirements to pay prevailing wage rates?				
c. Are contractor and subcontractor payrolls monitored for compliance with prevailing wage rates?				
6. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 5 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
7. Information and Communication. Are policies and procedures in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Are prevailing wage rates appropriately				

**Master Document – Audit Program**

communicated to appropriate entity employees and level of management?				
b. Do reports provide sufficient information to determine if requirements are being met?				
c. Have channels of communication been established for staff, contractors, and workers to report misclassification or failure to pay prevailing wages?				
8. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 7 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
9. Monitoring. Are policies and procedures in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Does management perform reviews to ensure that contractors and subcontractors are being required to pay prevailing wage rates?				
b. Are on-site visits performed or other means used to monitor classifications and wage rates?				
c. Are on-site visits performed or other means used to monitor classifications and wage rates?				
d. Are monitoring reports from contractors compared to information obtained from independent checks?				
e. Are management risk assessments updated periodically or as needed?				
f. Does management take appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors)?				
10. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 9 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				

**Master Document – Audit Program**

11. Conclusion: Document the audit conclusion on control effectiveness on Working Paper H.				
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<b>H-1</b>	<b>Davis - Bacon Act Compliance Requirement D</b>												
Version 2.1, dated May 2004													
The following audit procedures were adapted from the OMB Circular A-133 Compliance Supplement issued by OMB. The procedures are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The auditor should simply supplement the procedures with specific audit steps and include them in working papers.													
OMB Circular A-133 requires, for certain of its suggested audit procedures, that the auditor “select a sample”. However, minimum “sample” sizes and acceptable selection methods are not specified. Circular A-133 permits these matters to be determined based on the auditor’s professional judgment. A combination of other procedures performed, low inherent and control risk, and/or small population sizes should result in a lower level of test work.													
The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper H.													
			<table border="1"> <thead> <tr> <th data-bbox="1118 953 1297 1043">Performed by</th> <th data-bbox="1297 953 1479 1043">WP Ref.</th> </tr> </thead> <tbody> <tr> <td data-bbox="220 1043 1118 1205">1. Ascertain if the non-Federal entity received Federal funds for construction projects; if yes, review program/project requirements to ascertain if the program/project was covered by the Davis-Bacon Act.</td> <td data-bbox="1118 1043 1479 1205"></td> </tr> <tr> <td data-bbox="220 1205 1118 1335">2. Select a sample of construction contracts and subcontracts exceeding \$2,000 and verify that the required prevailing wage rate clauses were included in the contracts.</td> <td data-bbox="1118 1205 1479 1335"></td> </tr> <tr> <td data-bbox="220 1335 1118 1465">3. Determine the prevailing wage rates applicable at the time of the construction payroll. (The DOL’s Wage and Hour Division publishes a Register of Wage Determinations.)</td> <td data-bbox="1118 1335 1479 1465"></td> </tr> <tr> <td data-bbox="220 1465 1118 1661">4. Select a sample of contractor or subcontractor payroll submissions and certification and ascertain if such submissions indicate that laborers and mechanics were paid the prevailing wage rates established by the Department of Labor for the locality at the time of the construction payroll.</td> <td data-bbox="1118 1465 1479 1661"></td> </tr> </tbody> </table>	Performed by	WP Ref.	1. Ascertain if the non-Federal entity received Federal funds for construction projects; if yes, review program/project requirements to ascertain if the program/project was covered by the Davis-Bacon Act.		2. Select a sample of construction contracts and subcontracts exceeding \$2,000 and verify that the required prevailing wage rate clauses were included in the contracts.		3. Determine the prevailing wage rates applicable at the time of the construction payroll. (The DOL’s Wage and Hour Division publishes a Register of Wage Determinations.)		4. Select a sample of contractor or subcontractor payroll submissions and certification and ascertain if such submissions indicate that laborers and mechanics were paid the prevailing wage rates established by the Department of Labor for the locality at the time of the construction payroll.	
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<b>I-1</b>	<b>Eligibility Compliance Requirement E</b>		
Version 2.1, dated May 2004			

## Master Document – Audit Program

### Compliance Requirements

Eligibility applies to most Federal programs which provide benefits to individuals, groups of individuals, or make subawards. This compliance requirement specifies the criteria for determining the individuals, groups, or subrecipients that can participate in the program and the amounts for which they qualify. The specific requirements for eligibility are unique to each Federal program and are found in the laws, regulations, and the provisions of contracts or grant agreements pertaining to the programs. For programs listed in the Compliance Supplement, these specific requirements are in Part 4 - Agency Program Requirements or Part 5 – Clusters of Programs, as applicable.

### Audit Objectives

Determine whether (a) required eligibility determinations were made, (including obtaining any required documentation/verifications) and that individual program participants or groups of participants (including area of service delivery) were determined to be eligible. Only eligible individuals or group of individuals (including area of service delivery) participated in the program, (b) subawards were made only to eligible subrecipients, and (c) amounts provided to or on behalf of eligibles were calculated in accordance with program requirements.

### **Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Eligibility**

As a condition of receiving Federal awards, a non-Federal entity agrees to comply with applicable laws, regulations, and the provisions of contracts and grant agreements, and to maintain internal control to reasonably ensure compliance with those requirements. OMB Circular A-133 requires that the auditor obtain an understanding of the entity’s internal control over major programs and that internal controls be tested (unless internal control is likely to be ineffective). Part 6 of the OMB Circular A-133 Compliance Supplement (Compliance Supplement) includes suggested internal control characteristics which may be used to reasonably ensure compliance with those requirements. The suggested internal controls in Part 6 of the Compliance Supplement are reflected in the questions included in the audit program. Additional audit steps may be necessary as agreed-to between the auditor and supervisor.

However, the categorizations reflected in Part 6 (and this worksheet) may not necessarily reflect how an entity considers and implements internal control. This worksheet is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in this worksheet are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this worksheet. Auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements. The focus of gaining an understanding of internal control is not to determine how many of the “internal control questions” can be

**Master Document – Audit Program**

answered “Yes,” but to determine that the overall objectives of internal control are met.

Procedures for obtaining an understanding of the internal control system and testing controls may include: consideration of prior experience with the entity; inquiry of appropriate management, supervisory, and staff personnel; inspection of documents and records; observation and activities and operations. The workpaper should describe the control policies and procedures, the test of controls, and the findings.

I-1	Eligibility_Compliance Requirement E	Yes	No	Done by	WP Ref.
<b>Version 2.1, dated May 2004</b>					
<b>Note: The suggested audit procedures for internal control and compliance testing may be accomplished using dual-purpose testing.</b>					
<b>Control Objectives.</b> To 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 eligibles were calculated in accordance with program requirements.					
1. Control Environment. Are policies and procedures in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control? Check “Yes” for each of the following policies and procedures that contribute to the assurance.					
a. Is the staff size and competence level adequate for making the required eligibility determinations?					
b. Are realistic caseload/performance targets established for eligibility determinations?					
c. Are lines of authority clear for determining eligibility?					
d. Does management take appropriate action for known departures from approved policies and procedures and compliance requirements?					
2. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 1 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.					
3. Risk Assessment. Are policies and procedures in place to provide reasonable assurance that the entity has identified					

**Master Document – Audit Program**

and analyzed relevant risks to achievement of its objectives? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Has management identified the risk that eligibility information prepared internally or received from external sources could be incorrect and are policies and procedures in place to reduce the risk to an acceptable level?				
b. Has management identified the risk that changes to the eligibility requirements will not be communicated to the appropriate individuals making the eligibility determinations and are policies and procedures in place to reduce the risk to an acceptable level?				
c. Are conflict of interest statements maintained for individuals who determine eligibility?				
4. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 3 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
5. Control Activities. Are policies and procedures in place to provide reasonable assurance that only eligible individuals and organizations receive assistance under Federal award programs, subawards are made only to eligible subrecipients, and that amounts provided to or on behalf of eligibles were calculated in accordance with program requirements? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Do written policies provide direction for making and documenting eligibility determinations?				
b. Are procedures in place to provide reasonable assurance that methods used to calculate eligibility amounts are consistent with program requirements?				
c. Are eligibility objectives and procedures clearly communicated to appropriate employees?				
d. Are authorized signatures (manual or electronic) on eligibility documents periodically reviewed by an appropriate official?				
e. Is access to eligibility records limited to appropriate persons?				
f. Are manual criteria checklists used in making				

**Master Document – Audit Program**

eligibility determinations or is the process automated?				
g. Is a process in place for periodic eligibility re-determinations in accordance with program requirements?				
h. Are procedures in place to provide reasonable assurance of the accuracy of the information used in eligibility determinations?				
i. Are procedures in place to provide reasonable assurance of the accuracy and completeness of data used to determine eligibility requirements?				
6. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 5 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
7. Information and Communication. Are policies and procedures in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Does the information system meet the needs of eligibility decision makers and program management?				
b. Is the process of determining eligibility subject to edit checks and balancing procedures?				
c. Are employees kept informed of eligibility requirements through training sessions or other means?				
d. Are channels of communication established that allow people to report suspected eligibility improprieties to an appropriate level of management?				
e. Is management receptive to suggestions to strengthen the eligibility determination process?				
f. Are determinations of eligibility in accordance with program requirements adequately documented?				
8. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 7 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				

**Master Document – Audit Program**

9. Monitoring. Are policies and procedures in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. When appropriate, are periodic analytical reviews of eligibility determinations performed by management?				
b. Are periodic internal audits of detailed transactions conducted?				
c. Are program quality control procedures performed?				
d. Are management risk assessments updated periodically or as needed?				
e. Does management take appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors)?				
10. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 9 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
11. Conclusion: Document the audit conclusion on control effectiveness on Working Paper I.				

<b>I-1</b>	<b>Eligibility Compliance Requirement E</b>
Version 2.1, dated May 2004	
<b>Suggested Audit Steps for Reviewing the Auditee’s Compliance with Eligibility</b>	
<p>The following audit procedures were adapted from the OMB Circular A-133 Compliance Supplement issued by OMB. The procedures are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The auditor should simply supplement the procedures with specific audit steps and include them in workpapers.</p> <p>OMB Circular A-133 requires, for certain of its suggested audit procedures, that the auditor “select a sample”. However, minimum “sample” sizes and acceptable selection methods are not specified. Circular A-133 permits these matters to be determined based on the auditor’s professional judgment. A combination of other procedures performed, low inherent and control risk, and/or small population sizes should result in a lower level of test work.</p>	

**Master Document – Audit Program**

The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper I.		
	<b>Performed by</b>	<b>WP Ref.</b>
1. Eligibility for Individuals.		
a. For some Federal programs with a large number of people receiving benefits, the non-Federal entity may use a computer system for processing individual eligibility determinations and delivery of benefits. The auditor should perform audit procedures relative to the computer system for eligibility as necessary to support the opinion on compliance for the major program. Due to the nature of computer system controls, the auditor may choose to perform these tests of the computer system as part of testing the internal controls for eligibility.		
(1) Often these computer systems are complex and will be separate from the non-Federal entity’s regular financial accounting system. Typical functions a computer system for eligibility may perform are:		
(a) Calculations to assist in determining who is eligible and the amount of benefits.		
(b) Paying benefits (e.g., write checks).		
(2) Maintaining eligibility records, including information about each individual and benefits paid to or on behalf of the individual (regular payments, refunds, and adjustments).		
(a) Tracking the period of time an individual is eligible and stopping benefits at the end of the predetermined period unless there is a redetermination of eligibility.		
(b) Matching with other computer databases to verify eligibility (e.g., matches to verify earnings or identify individuals who are deceased).		
(c) Controlling who is authorized to approve benefits for eligibles (e.g., an employee may be approving benefits on-line and this process may be controlled by passwords or other access controls).		
(d) Producing exception reports indicating likely errors which need follow-up (e.g., when benefits exceed a certain amount, would not be appropriate for a particular classification of individuals, or are paid		

**Master Document – Audit Program**

more frequently than normal).		
(3) Because of the diversity of computer systems, it is not practical for the Compliance Supplement to provide suggested audit procedures to address each system. However, generally accepted auditing standards provide guidance for the auditor when computer processing relates to accounting information that can materially affect the financial statements being audited. Similarly, when eligibility is material to a major program, and a computer system is integral to eligibility compliance, the auditor should follow this guidance and consider the non-Federal entity’s computer processing.		
b. Perform procedures to ascertain if the non-Federal entity’s records/database includes all individuals receiving benefits during the audit period (e.g., that the population of individuals receiving benefits is complete).		
c. Select a sample of individuals receiving benefits and perform test to ascertain if the:		
(1) Specific individuals are eligible in accordance with the compliance requirements of the program. (Note that some programs have both initial and continuing eligibility requirements and the auditor should design and perform appropriate tests for both).		
(2) Benefits paid to or on behalf of the individuals were calculated correctly and in compliance with the requirements of the program.		
(3) Benefits were discontinued when the period of eligibility expires.		
d. In some programs, the non-Federal entity is required to use a quality control process to obtain assurances about eligibility. When applicable, review the quality control process and perform tests to ascertain if it is operating effectively to meet the objectives of the process and in compliance with applicable program requirements.		
2. Eligibility for Group of Individuals or Area of Service Delivery.		
a. In some cases, the non-Federal entity may be required to perform procedures to determine whether a population or area of service delivery is eligible. Test information used in determining eligibility and ascertain if the population or area of service delivery was eligible.		

**Master Document – Audit Program**

<p>b. Perform tests to ascertain if (1) the population or area served were eligible, and (2) the benefits paid to or on behalf of the individuals or area of service delivery were calculated correctly.</p>		
<p>3. Eligibility for Subrecipients.</p>		
<p>a. If the determination of eligibility is based upon an approved application or plan, obtain a copy of this document and identify the applicable eligibility requirements.</p>		
<p>b. Select a sample of the awards to subrecipients and perform procedures to verify that the subrecipients were eligible and amounts awarded were within funding limits. (The auditor may wish to coordinate the subrecipient procedures with the procedures in Section Q-Subrecipient Monitoring.)</p>		

<p><b>J-1</b></p>	<p><b>Equipment And Real Property Management Compliance Requirement F</b></p>
<p>Version 2.1, dated May 2004</p>	
<p><b>Compliance Requirements</b></p>	
<p></p>	
<p>Equipment and Real Property Management requirements apply to Federal programs which purchase equipment or real property.</p>	
<p></p>	
<p><b>Equipment Management</b></p>	
<p></p>	
<p>Title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established.</p>	
<p>A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Subrecipients of States who are local Governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a State.</p>	
<p>Local Governments and Indian tribes shall follow the A-102 Common Rule (§___.32), for equipment acquired under Federal awards received directly from a Federal awarding agency. Nonprofit organizations and public institutions of higher education shall follow the</p>	

**Master Document – Audit Program**

provisions of OMB Circular A-110 (§ \_\_\_\_.34). Basically the A-102 Common Rule and OMB Circular A-110 require that equipment be used in the program which acquired it or, when appropriate, other Federal programs. Equipment records shall be maintained; a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records; an appropriate control system shall be used to safeguard equipment; and equipment shall be adequately maintained. When equipment with a current per unit fair market value in excess of \$5,000 is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

**Real Property Management**

Title to real property acquired by non-Federal entities with Federal awards vest with the non-Federal entity. Real property shall be used for the originally authorized purpose as long as needed for that purpose. For non-Federal entities covered by OMB Circular A-110 and with written approval from the Federal awarding agency, the real property may be used in other Federally sponsored projects or programs that have purposes consistent with those authorized for support by the Federal awarding agency. The non-Federal entity may not dispose of or encumber the title to real property without the prior consent of the awarding agency.

When real property is no longer needed for the Federally-supported programs or projects, the non-Federal entity shall request disposition instructions from the awarding agency. (For this compliance requirement, the awarding agency for recipients under OMB Circular A-110 or the A-102 Common Rule and subrecipients under OMB Circular A-110 is the Federal agency providing the funding. The awarding agency for subrecipients under A-102 Common Rule is the pass-through entity). When real property is sold, sales procedures should provide for competition to the extent practicable and result in the highest possible return. If sold, non-Federal entities are normally required to remit to the awarding agency the Federal portion (based on the Federal participation in the project) of net sales proceeds. If retained, the non-Federal entity shall normally compensate the awarding agency for the Federal portion of the current fair market value of the property. Disposition instructions may also provide for transfer of title in which case the non-Federal entity is entitled to compensation for its percentage share of the current fair market value.

The requirements for real property are contained in the A-102 Common Rule (§ \_\_\_\_.31), OMB Circular A-110 (§ \_\_\_\_\_.32), Federal awarding agency regulations and the terms and conditions of the award.

**Audit Objective**

Determine whether the non-Federal entity maintains proper records for equipment and

**Master Document – Audit Program**

adequately safeguards and maintains equipment. Ascertain if the disposition or encumbrance of any equipment or real property acquired under the Federal awards was in accordance with Federal requirements and that the awarding agency was compensated for its share of any property sold or converted to non-Federal use.

**Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Equipment and Real Property Management**

As a condition of receiving Federal awards, a non-Federal entity agrees to comply with applicable laws, regulations, and the provisions of contracts and grant agreements, and to maintain internal control to reasonably ensure compliance with those requirements. OMB Circular A-133 requires that the auditor obtain an understanding of the entity’s internal control over major programs and that internal controls be tested (unless internal control is likely to be ineffective). Part 6 of the OMB Circular A-133 Compliance Supplement (Compliance Supplement) includes suggested internal control characteristics which may be used to reasonably ensure compliance with those requirements. The suggested internal controls in Part 6 of the Compliance Supplement are reflected in the questions included in the audit program. Additional audit steps may be necessary as agreed-to between the auditor and supervisor.

However, the categorizations reflected in Part 6 (and this worksheet) may not necessarily reflect how an entity considers and implements internal control. This worksheet is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in this worksheet are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this worksheet. Auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements. The focus of gaining an understanding of internal control is not to determine how many of the “internal control questions” can be answered “Yes,” but to determine that the overall objectives of internal control are met.

Procedures for obtaining an understanding of the internal control system and testing controls may include: consideration of prior experience with the entity; inquiry of appropriate management, supervisory, and staff personnel; inspection of documents and records; observation and activities and operations. The working paper should describe the control policies and procedures, the test of controls, and the findings.

<b>J-1</b>	<b>Equipment And Real Property Management _ Compliance Requirement F</b>			
<b>Version 2.1, dated May 2004</b>				
<b>Note: The suggested audit procedures for internal control and compliance testing may be accomplished using dual-purpose testing.</b>	<b>Yes</b>	<b>No</b>	<b>Done By</b>	<b>WP Ref.</b>

**Master Document – Audit Program**

<b>Control Objectives.</b>				
To provide reasonable assurance that proper records are maintained for equipment acquired with Federal awards, equipment is adequately safeguarded and maintained, disposition or encumbrance of any equipment or real property is in accordance with Federal requirements, and the Federal awarding agency is appropriately compensated for its share of any property sold or converted to non-Federal use.				
1. Control Environment. Are policies and procedures in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Is management committed to providing proper stewardship for property acquired with Federal awards?				
b. Does management take appropriate action for known departures from approved policies and procedures?				
c. Are there no incentives in place to under-value assets at time of disposition?				
d. Does sufficient accountability exist to discourage temptation of misuse of Federal assets?				
2. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 1 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
3. Risk Assessment. Are policies and procedures in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Has management identified the risk of				

**Master Document – Audit Program**

<p>misappropriation or improper disposition of property acquired with Federal awards and are policies and procedures in place to reduce the risk to an acceptable level?</p>				
<p>b. Does management understand the requirements and operations sufficiently to identify potential areas of noncompliance (e.g., decentralized locations, departments with budget constraints, transfers of assets between departments)?</p>				
<p>4. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 3 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.</p>				
<p>5. Control Activities. Are policies and procedures in place to provide reasonable assurance that proper records are maintained for equipment acquired with Federal awards, equipment is adequately safeguarded and maintained, disposition of encumbrance of any equipment or real property is in accordance with Federal requirements, and the Federal awarding agency is appropriately compensated for its share of any property sold or converted to non-Federal use? Check “Yes” for each of the following policies and procedures that contribute to the assurance.</p>				
<p>a. Are accurate records maintained on all acquisitions and dispositions of property acquired with Federal awards?</p>				
<p>b. Are property tags placed on equipment?</p>				
<p>c. Is a physical inventory of equipment periodically taken and compared to property records?</p>				
<p>d. Are policies and procedures in place covering recordkeeping responsibilities and dispositions authority?</p>				
<p>e. Do property records contain description (including serial number or other identification number), source, who holds title, acquisitions date and cost, percentage of Federal participation in the cost, location, condition, and disposition data?</p>				
<p>f. Are procedures established to provide reasonable assurance that the Federal awarding agency is</p>				

**Master Document – Audit Program**

appropriately reimbursed for dispositions of property acquired with Federal awards?				
6. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 5 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
7. Information and Communication. Are policies and procedures in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Does the accounting system provide for separate identification of property acquired wholly or partly with Federal funds and non-Federal funds?				
b. Are channels of communication in place allowing people/employees to report suspected improprieties in the use or disposition of equipment to an appropriate level of management?				
c. Are program managers provided with applicable requirements and guidelines?				
8. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 7 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
9. Monitoring. Are policies and procedures in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Does management review the results of periodic property inventories and follow-up on inventory discrepancies?				
b. Are management risk assessments updated periodically or as needed?				
c. Does management review disposition of property				

**Master Document – Audit Program**

to ensure appropriate valuation and reimbursement to Federal awarding agencies?				
d. Does management take appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors)?				
10. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 9 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
11. Conclusion: Document the audit conclusion on control effectiveness on Working Paper J.				

<b>J-1</b>	<b>Equipment And Real Property Management_Compliance Requirement F</b>		
Version 2.1, dated May 2004			
<b>Suggested Audit Steps for Reviewing the Auditee’s Compliance with Equipment and Real Property Management</b>			
The following audit procedures were adapted from the OMB Circular A-133 Compliance Supplement issued by OMB. The procedures are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The auditor should simply supplement the procedures with specific audit steps and include them in workpapers.			
OMB Circular A-133 requires, for certain of its suggested audit procedures, that the auditor “select a sample”. However, minimum “sample” sizes and acceptable selection methods are not specified. Circular A-133 permits these matters to be determined based on the auditor’s professional judgment. A combination of other procedures performed, low inherent and control risk, and/or small population sizes should result in a lower level of test work.			
<b>The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper J.</b>			
		<b>Performed by</b>	<b>WP Ref.</b>
(Procedures 1 and 2 only apply to subrecipients of States that are local Governments or Indian tribal Governments.)			
1. Obtain entity’s policies and procedures for equipment management and ascertain if they comply with the State’s			

## Master Document – Audit Program

policies and procedures.		
2. Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment.		
(Procedures 3 and 4 only apply to nonprofit organizations, public institutions of higher education, and Federal awards received directly from a Federal awarding agency by a local Government or an Indian tribal Government.)		
3. Inventory Management of Equipment.		
a. Inquire if a required physical inventory of equipment acquired under Federal awards was taken within the last two years. Test whether any differences between the physical inventory and equipment records were resolved.		
b. Identify equipment acquired under Federal awards during the audit period and trace selected purchases to the property records. Verify that the property records contain the following information about the equipment: description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition and any ultimate disposition data including, the date of disposal and sales price or method used to determine current fair market value.		
c. Select a sample of equipment identified as acquired under Federal awards from the property records and physically inspect the equipment including whether the equipment is appropriately safeguarded and maintained. (See Sample Size in the Introduction section of this program.		
4. Dispositions of Equipment.		
a. Determine the amount of equipment dispositions for the audit period and perform procedures to verify that dispositions were properly classified between equipment acquired under Federal awards and equipment acquired otherwise.		
b. For dispositions of equipment acquired under Federal awards, perform procedures to verify that the dispositions were properly reflected in the property records.		
c. For dispositions of equipment acquired under Federal awards with a current per-unit fair market value in excess of \$5,000, test whether the awarding agency was reimbursed for the appropriate share.		

**Master Document – Audit Program**

(Procedure 5 applies to States, local Governments, Indian tribal Governments and nonprofit organizations whether funding is received as a recipient or subrecipient.)		
5. Dispositions of Real Property.		
a. Determine real property dispositions for the audit period and which properties (if any) were acquired with Federal awards.		
b. For dispositions of real property acquired under Federal awards, perform procedures to verify that the non-Federal entity followed the instructions of the awarding agency which will normally require reimbursement to the awarding agency for the Federal portion of net sales or fair market value at the time of disposition, as applicable.		

<b>K-1</b>	<b>Matching, Level Of Effort, Earmarking Compliance Requirement G</b>
Version 2.1, dated May 2004	
<b>Compliance Requirements</b>	
The specific requirements for matching, level of effort, and earmarking are not universal and, if applicable, are found in the laws, regulations, and the provisions of contracts or grant agreements pertaining to the program. For programs listed in the Compliance Supplement, the specific requirements can be found in Part 4 – Agency Program Requirements or Part 5 – Clusters of Programs, as applicable.	
Matching, level of effort and earmarking are defined as follows:	
1. Matching or cost sharing includes requirements to provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions).	
2. Level of effort includes requirements for (a) a specified level of service to be provided from period to period, (b) a specified level of expenditures from non-Federal or Federal sources for specified activities to be maintained from period to period, and (c) Federal funds to supplement and not supplant non-Federal funding of services.	
3. Earmarking includes requirements that specify the minimum and/or maximum amount or percentage of the program’s funding that must/may be used for specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered.	

**Master Document – Audit Program**

<b>Audit Objectives</b>
1. Matching—Determine whether the minimum amount or percentage of contributions or matching funds was provided.
2. Level of Effort—Determine whether specified service or expenditure levels were maintained.
3. Earmarking—Determine whether minimum or maximum limits for specified purposes were met.
<b>Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Matching, Level of Effort and Earmarking</b>
<p>As a condition of receiving Federal awards, a non-Federal entity agrees to comply with applicable laws, regulations, and the provisions of contracts and grant agreements, and to maintain internal control to reasonably ensure compliance with those requirements. OMB Circular A-133 requires that the auditor obtain an understanding of the entity’s internal control over major programs and that internal controls be tested (unless internal control is likely to be ineffective). Part 6 of the OMB Circular A-133 Compliance Supplement (Compliance Supplement) includes suggested internal control characteristics which may be used to reasonably ensure compliance with those requirements. The suggested internal controls in Part 6 of the Compliance Supplement are reflected in the questions included in the audit program. Additional audit steps may be necessary as agreed-to between the auditor and supervisor.</p>
<p>However, the categorizations reflected in Part 6 (and this worksheet) may not necessarily reflect how an entity considers and implements internal control. This worksheet is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in this worksheet are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this worksheet. Auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements. The focus of gaining an understanding of internal control is not to determine how many of the “internal control questions” can be answered “Yes,” but to determine that the overall objectives of internal control are met.</p>
<p>Procedures for obtaining an understanding of the internal control system and testing controls may include: consideration of prior experience with the entity; inquiry of appropriate management, supervisory, and staff personnel; inspection of documents and records; observation and activities and operations. The working paper should describe the control policies and procedures, the test of controls, and the findings.</p>

**Master Document – Audit Program**

<b>K-1 Matching, Level Of Effort, Earmarking Compliance Requirement G</b>				
Version 2.1, dated May 2004				
	<b>Yes</b>	<b>No</b>	<b>Done by</b>	<b>WP Ref.</b>
1. Control Objectives. To provide reasonable assurance that matching, level of effort, or earmarking requirements are met using only allowable funds or costs which are properly calculated and valued.				
2. Control Environment. Are policies and procedures in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Is management committed to meeting matching, level of effort, and earmarking requirements?				
b. Does the budgeting process address/provide adequate resources to meet matching, level of effort, or earmarking goals?				
c. Are written policies in place that outline:				
(1) Responsibilities for determining required amounts or limits for matching, level of effort, or earmarking?				
(2) Methods of valuing matching requirements, e.g., “in-kind” contributions of property and services, calculations of levels of effort?				
(3) Allowable costs that may be claimed for matching, level of effort, or earmarking?				
(4) Methods of accounting for and documenting amounts used to calculate amounts claimed for matching, level of effort, or earmarking?				
d. Does management take appropriate action for known departures from approved policies and procedures?				
3. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 1 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and				

**Master Document – Audit Program**

findings.				
4. Risk Assessment. Are policies and procedures in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Has management identified areas where estimated values will be used for matching, level of effort, or earmarking?				
b. Does management have a sufficient understanding of the accounting system to identify potential recording problems?				
5. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 3 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
6. Control Activities. Are policies and procedures in place to provide reasonable assurance that matching, level of effort, or earmarking requirements are met using only allowable funds or costs which are properly calculated and valued? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Is evidence obtained such as a certification from the donor, or are other procedures performed to identify whether matching contributions:				
(1) Are from non-Federal sources?				
(2) Involve Federal funding, directly or indirectly?				
(3) Were used for another federally assisted program?				
(4) Note: Generally, matching contributions must be from a non-Federal source and may not involve Federal funding or be used for another federally assisted program.				
b. Is there an adequate review by program management of monthly cost reports and adjusting entries?				

**Master Document – Audit Program**

<p>7. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 5 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.</p>				
<p>8. Information and Communication. Are policies and procedures in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities? Check “Yes” for each of the following policies and procedures that contribute to the assurance.</p>				
<p>a. Is the accounting system capable of:</p>				
<p>(1) Separately accounting for data used to support matching, level of effort, or earmarking amounts or limits or calculations?</p>				
<p>(2) Ensuring that expenditures or expenses, refunds, and cash receipts or revenue are properly classified and recorded only once as to their effort on matching, level of effort, or earmarking?</p>				
<p>(3) Documenting the value of “in-kind” contributions of property or services, including: (a) basis for local labor market rates for valuing volunteer services, (b) payroll records or confirmation from other organizations for services provided by their employees, (c) quotes, published prices, or independent appraisals used as the basis for donated equipment, supplies, land, buildings, or use of space?</p>				
<p>9. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 7 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.</p>				
<p>10. Monitoring. Are policies and procedures in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed? Check “Yes” for each of the following policies and procedures that contribute to the</p>				

**Master Document – Audit Program**

assurance.				
a. Is there adequate supervisory review of matching, level of effort, or earmarking activities performed at the time reports on Federal awards are prepared to provide reasonable assurance that:				
(1) The transactions and determinations are accurate and allowable?				
(2) Amounts claimed or used for matching were determined in accordance with applicable laws and regulations, e.g., OMB Circular A-122, OMB Circular A-110, OMB Circular A-87, OMB Circular A-21, and the Common Rule?				
b. Does management take appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors)?				
11. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 9 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
12. Conclusion. Document the audit conclusion on control effectiveness on Working Paper K.				

<b>K-1</b>	<b>Matching, Level Of Effort, Earmarking Compliance Requirement G</b>
Version 2.1, dated May 2004	
<b>Suggested Audit Steps for Reviewing the Auditee’s Compliance with Matching, Level of Effort and Earmarking</b>	
<p>The following audit procedures were adapted from the OMB Circular A-133 Compliance Supplement issued by OMB. The procedures are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The auditor should simply supplement the procedures with specific audit steps and include them in working papers.</p> <p>OMB Circular A-133 requires, for certain of its suggested audit procedures, that the auditor “select a sample”. However, minimum “sample” sizes and acceptable selection methods are not specified. Circular A-133 permits these matters to be determined based on the auditor’s professional judgment. A combination of other procedures performed, low inherent and</p>	

**Master Document – Audit Program**

control risk, and/or small population sizes should result in a lower level of test work.		
The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper K.		
	<b>Performed by</b>	<b>WP Ref.</b>
1. Matching.		
a. Perform tests to verify that the required matching contributions were met.		
b. Ascertain the sources of matching contributions and perform tests to verify that they were from an allowable source		
c. Test records to corroborate that the values placed on in-kind contributions are in accordance with the OMB cost circulars, the A-102 Common Rule, program regulations, and the terms of the award.		
d. Test transactions used to match for compliance with the allowable costs/cost principles requirement. This test may, in some instances, be performed in conjunction with the testing of the requirements related to allowable costs/cost principles.		
(1) The A-102 Common Rule (§__.24) and OMB Circular A-110 (§__.23) provide detailed criteria for acceptable costs and contributions. Following is a list of the basic criteria for acceptable matching:		
(2) Are verifiable from the non-Federal entity’s records.		
(3) Are not included as contributions for any other Federally-assisted project or program unless specifically allowed by the Federal program laws and regulations.		
(4) Are necessary and reasonable for proper and efficient accomplishment of project or program activities.		
(5) Are allowed under the applicable cost principles.		
(6) Are not paid by the Federal Government under another award except where authorized by Federal statute to be used for cost sharing or matching.		
(7) Are provided for in the approved budget when required by the Federal awarding agency.		
(8) Conform to other applicable provisions of the A-102 Common Rule and OMB Circular A-110 and the laws,		

**Master Document – Audit Program**

regulations, and provisions of contract or grant agreements applicable to the program		
2. Level of Effort – Maintenance of Effort		
a. Identify the required level of effort and perform tests to verify that the level of effort requirement was met		
b. Perform tests to verify that only allowable categories of expenditures or other effort indicators (e.g., hours, number of people served) were included in the computation and that the categories were consistent from year to year. ( For example, in some programs, capital expenditures may not be included in the computation.)		
c. Perform procedures to verify that the amounts used in the computation were derived from the books and records from which the audited financial statements were prepared.		
d. Perform procedures to verify that non-monetary effort indicators were supported by official records.		
3. Level of Effort—Supplement Not Supplant.		
a. Ascertain if the entity used Federal funds to provide services which they were required to make available under Federal, State, or local law and were also made available by funds subject to the supplement not supplant requirement.		
b. Ascertain if the entity used Federal funds to provide services which were provided with non-Federal funds in the prior year		
(1) Identify the Federally funded services.		
(2) Perform procedures to determine whether the Federal program funded services were previously provided with non-Federal funds.		
(3) Perform procedures to ascertain if the total level of services applicable to the requirement increased in proportion to the level of Federal contribution.		
4. Earmarking		
a. Identify the applicable percentage of dollar requirements for earmarking.		
b. Perform procedures to verify that the amounts recorded in the financial records meet the requirements (e.g., when a minimum amount is required to be spent for a specified type of service, perform procedures to verify that the financial records show that at least the minimum amount		

**Master Document – Audit Program**

<p>for this type of service was charged to the program; or when the amount spent on a specified type of service may not exceed a maximum amount, perform procedures to verify that the financial records show no more than this maximum amount for the specified type of service was charged to the program)</p>		
<p>c. When earmarking requirements specify a minimum percentage or amount, select a sample of transactions supporting the specified amount or percentage, and perform tests to verify proper classification to meet the minimum percentage or amount.</p>		
<p>d. When the earmarking requirements specify a maximum percentage or amount, review the financial records to identify transactions for the specified activity which were improperly classified in another account (e.g., if only 10 percent may be spent for administrative costs, review accounts to identify administrative costs which were improperly classified elsewhere and cause the maximum percentage or amount to be exceeded).</p>		
<p>e. When earmarking requirements prescribe the minimum number or percentage of specified types of participants that can be served, select a sample of participants that are counted toward meeting the minimum requirement and perform tests to verify that they were properly classified.</p>		
<p>f. When earmarking requirements prescribe the maximum number or percentage of specified types of participants that can be served, select a sample of other participants and perform tests to verify that they were not of the specified type.</p>		

<b>L-1</b>	<b>Period Of Availability Of Federal Funds_Compliance Requirement H</b>
<b>Version 2.1, dated May 2004</b>	
<b>Compliance Requirements</b>	
<p>Federal awards generally specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged for obligations of the subsequent funding period. Obligations means the amounts of orders placed; contracts</p>	

**Master Document – Audit Program**

and subgrants awarded; goods and services received; and similar transactions during a given period that will require payment by the non-Federal entity during the same or a future period [A-102 Common Rule, §\_\_\_\_.23; OMB Circular A-110, §\_\_\_\_.28 . An example used by a program to determine when an obligation occurs (is made) is found under Part 4, Department of Education, CFDA 84.000 (Cross-Cutting Section) of the Compliance Supplement.

Non-Federal entities subject to the A-102 Common Rule should liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status report (SF 269). The Federal agency may extend this deadline upon request (A-102 Common Rule, §\_\_\_\_.23).

**Audit Objective**

Determine whether Federal funds were obligated within the period of availability and obligations were liquidated within the required time period.

**Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Period of Availability of Federal Funds**

As a condition of receiving Federal awards, a non-Federal entity agrees to comply with applicable laws, regulations, and the provisions of contracts and grant agreements, and to maintain internal control to reasonably ensure compliance with those requirements. OMB Circular A-133 requires that the auditor obtain an understanding of the entity’s internal control over major programs and that internal controls be tested (unless internal control is likely to be ineffective). Part 6 of the OMB Circular A-133 Compliance Supplement (Compliance Supplement) includes suggested internal control characteristics which may be used to reasonably ensure compliance with those requirements. The suggested internal controls in Part 6 of the Compliance Supplement are reflected in the questions included in the audit program. Additional audit steps may be necessary as agreed-to between the auditor and supervisor.

However, the categorizations reflected in Part 6 (and this worksheet) may not necessarily reflect how an entity considers and implements internal control. This worksheet is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in this worksheet are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this worksheet. Auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements. The focus of gaining an understanding of internal control is not to determine how many of the “internal control questions” can be answered “Yes,” but to determine that the overall objectives of internal control are met.

**Master Document – Audit Program**

Procedures for obtaining an understanding of the internal control system and testing controls may include: consideration of prior experience with the entity; inquiry of appropriate management, supervisory, and staff personnel; inspection of documents and records; observation and activities and operations. The working paper should describe the control policies and procedures, the test of controls, and the findings.

L-1	<b>Period Of Availability Of Federal Funds_ Compliance Requirement H</b>			
<b>Version 2.1, dated May 2004</b>				
	Yes	No	Done by	WP Ref.
1. Control Objectives. To provide reasonable assurance that Federal funds are used only during the authorized period of availability.				
2. Control Environment. Are policies and procedures in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Does management understand and is it committed to complying with period of availability requirement?				
b. Is the entity’s operations such that it is unlikely there will be Federal funds remaining at the end of the period of availability?				
c. Does management take appropriate action for known departures from approved policies and procedures?				
3. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 1 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
4. Risk Assessment. Are policies and procedures in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				

**Master Document – Audit Program**

<p>a. Does the budgetary process consider the period of availability of Federal funds as to both obligation and disbursement of funds? (Is the budget prepared on the accrual basis of accounting)?</p>				
<p>b. Has management assessed the risk that Federal funds will be expended (obligated) outside of the period of availability and are policies and procedures in place to reduce the risk to an acceptable level?</p>				
<p>c. Is there adequate identification and communication of period of availability cut-off requirements as to both obligations and disbursement?</p>				
<p>5. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 3 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.</p>				
<p>6. Control Activities. Are policies and procedures in place to provide reasonable assurance that Federal funds are used only during the authorized period of availability? Check “Yes” for each of the following policies and procedures that contribute to the assurance.</p>				
<p>a. Does the accounting system provide reasonable assurance that Federal funds will not be expended or obligated outside (after the close of) the period of availability by procedures such as:</p>				
<p>(1) Program managers are advised (by management) of impending cut-off dates for periods of availability?</p>				
<p>(2) Review of disbursements by persons knowledgeable of the period of availability for the funds?</p>				
<p>(3) Review of expenditures from program funds just before and after the close of the period of availability by program management or other responsible officials?</p>				
<p>b. When applicable, are unfunded awards (money not received or receivable) at the end of the period of availability removed from the accounting records?</p>				
<p>7. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 5 (the individual</p>				

**Master Document – Audit Program**

policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
8. Information and Communication. Are policies and procedures in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Is there timely communication of period of availability requirements and expenditure deadlines to individuals responsible for program expenditures, including automated notifications of pending deadlines?				
b. Is there periodic reporting of unliquidated balances to appropriate levels of management and follow up?				
9. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 7 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
10. Monitoring. Are policies and procedures in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Does management or other responsible officials periodically review expenditures just before and after cut-off dates to ensure compliance with period of availability requirements?				
b. Does management review reports showing budgeted and actual expenditures for the period?				
c. Are management risk assessments updated periodically or as needed?				
d. Does management take appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors)?				
11. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 9 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and				

**Master Document – Audit Program**

procedures and the audit procedures and findings.				
12. Conclusion - Document the audit conclusion on control effectiveness on Working Paper L.				

<b>L-1</b>	<b>Period Of Availability Of Federal Funds_Compliance Requirement H</b>		
Version 2.1, dated May 2004			
<b>Suggested Audit Steps for Reviewing the Auditee’s Compliance with Period of Availability of Federal Fund</b>			
<p>The following audit procedures were adapted from the OMB Circular A-133 Compliance Supplement issued by OMB. The procedures are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The auditor should simply supplement the procedures with specific audit steps and include them in workpapers.</p> <p>OMB Circular A-133 requires, for certain of its suggested audit procedures, that the auditor “select a sample”. However, minimum “sample” sizes and acceptable selection methods are not specified. Circular A-133 permits these matters to be determined based on the auditor’s professional judgment. A combination of other procedures performed, low inherent and control risk, and/or small population sizes should result in a lower level of test work.</p> <p>The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper L.</p>			
		<b>Performed By</b>	<b>WP Ref.</b>
1. Review the award documents and regulations pertaining to the program and determine any award specific requirements related to the period of availability and document the availability period.			
2. Test a sample of transactions charged to the Federal award after the end of the period of availability and verify that the underlying obligations occurred within the period of availability and that the liquidation (payment) was made within the allowed time period.			
3. Test a sample of transactions that were recorded during the period of availability and verify that the underlying obligations occurred within the period of availability.			
4. Select a sample of adjustments to the Federal funds and verify that these adjustments were for transactions that occurred during the period of availability.			

**Master Document – Audit Program**

<b>M-1</b>	<b>Procurement And Suspension And Debarment Compliance Requirement I</b>
<b>Version 2.1, dated May 2004</b>	
<b>Compliance Requirements</b>	
Procurement and Suspension and Debarment applies anytime the entity procures goods or services. Suspension and debarment applies to both procurement and subawards.	
<b>Procurement</b>	
States, and Governmental subrecipients of States, should use the same policies and procedures used for procurement from non-Federal funds. They also should ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.	
Local Governments and Indian tribal Governments which are not subrecipients of States should use their own procurement procedures provided they conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule.	
Nonprofit organizations and public institutions of higher education should use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110. All non-Federal entities should follow Federal laws and implementing regulations applicable to procurement as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular A-110.	
Requirements for procurement are contained in the A-102 Common Rule (§___.36), OMB Circular A-110 (§___.40 through §___.48), Federal awarding agency regulations, and the terms of the award. The specific references for the A-102 Common Rule and OMB Circular A-110, respectively, are provided in the following Suggested Audit Procedures section for each audit procedure.	
<b>Suspension and Debarment</b>	
Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods and services equal to or in excess of \$100,000 and all nonprocurement transactions (e.g., subawards to subrecipients).	
Contractors receiving individual awards for \$100,000 or more and all subrecipients must	

## Master Document – Audit Program

<p>certify that the organization and its principals are not suspended or debarred. The non-Federal entities may rely upon the certification unless it knows that the certification is erroneous. Non-Federal entities may, but are not required to check for suspended and debarred parties which are listed in <i>the List of Parties Excluded from Federal Procurement or Nonprocurement Programs</i>, issued by the General Services Administration (GSA). The electronic version can be accessed on the Internet (<a href="http://www.arnet.gov/epl">http://www.arnet.gov/epl</a>).</p>
<p>Requirements for suspension and debarment are contained in the Federal agencies codification of the Government wide debarment and suspension common rule.</p>
<b>Audit Objectives</b>
<p>Determine whether procurements were made in compliance with the provisions of the A-102 Common Rule, OMB Circular A-110 and other procurement requirements specific to an award. Ascertain if the non-Federal entity obtained the required certification for covered contracts and subawards.</p>
<b>Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Procurement and Suspension and Debarment</b>
<p>As a condition of receiving Federal awards, a non-Federal entity agrees to comply with applicable laws, regulations, and the provisions of contracts and grant agreements, and to maintain internal control to reasonably ensure compliance with those requirements. OMB Circular A-133 requires that the auditor obtain an understanding of the entity’s internal control over major programs and that internal controls be tested (unless internal control is likely to be ineffective). Part 6 of the OMB Circular A-133 Compliance Supplement (Compliance Supplement) includes suggested internal control characteristics which may be used to reasonably ensure compliance with those requirements. The suggested internal controls in Part 6 of the Compliance Supplement are reflected in the questions included in the audit program. Additional audit steps may be necessary as agreed-to between the auditor and supervisor.</p>
<p>However, the categorizations reflected in Part 6 (and this worksheet) may not necessarily reflect how an entity considers and implements internal control. This worksheet is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in this worksheet are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this worksheet. Auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements. The focus of gaining an understanding of internal control is not to determine how many of the “internal control questions” can be answered “Yes,” but to determine that the overall objectives of internal control are met.</p>

**Master Document – Audit Program**

Procedures for obtaining an understanding of the internal control system and testing controls may include: consideration of prior experience with the entity; inquiry of appropriate management, supervisory, and staff personnel; inspection of documents and records; observation and activities and operations. The working paper should describe the control policies and procedures, the test of controls, and the findings.

<b>M-1 Procurement And Suspension And Debarment Compliance Requirement I</b>				
Version 2.1, dated May 2004				
	<b>Yes</b>	<b>No</b>	<b>Done By</b>	<b>WP Ref.</b>
<b>Control Objectives.</b>				
.				
To provide reasonable assurance that procurement of goods and services are made in compliance with the provisions of the A-102 Common Rule or OMB Circular A-110, as applicable, and that no subaward, contract, or agreement for purchases of goods or services is made with any debarred or suspended party.				
1. Control Environment. Are policies and procedures in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Are codes of conduct and other policies regarding acceptable practices, conflicts of interest, or expected standards of ethical and moral behavior for making procurements in existence and implemented?				
b. Is a procurement manual including the Federal requirements made available to responsible management and employees?				
c. Does management take appropriate action for known departures from approved policies and procedures and compliance requirements?				
d. Is there an absence of significant pressure to meet unrealistic procurement performance targets?				
Note: These pressures may come from more senior management; commitments to Federal or				

**Master Document – Audit Program**

State funding agencies, creditors, or other third parties; unrealistic performance targets or program results; unrealistic budgetary goals; political motivations; adverse consequences on pending transactions if poor financial or program performance result are reported; etc.				
e. Is board or governing body oversight required for high dollar, lengthy, or other sensitive procurement contracts?				
f. Is the knowledge and experience of key procurement managers adequate in light of their responsibilities for procurements for Federal awards?				
g. Is there a clear assignment of authority for issuing purchasing orders and contracting for goods and services?				
2. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 1 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
3. Risk Assessment. Are policies and procedures in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Has management identified risks arising from vendor inadequacy, e.g., quality of goods and services, delivery schedules, warranty assurances, user support and are policies and procedures in place to reduce the risk to an acceptable level?				
b. Does management understand the requirements for procurement, suspension, and debarment, and, given the organization’s staff, departments, and processes, has management identified where noncompliance could likely occur?				
c. Has management identified risks arising from conflicts of interest, e.g., kickbacks, related party transactions, bribery and are policies and procedures in place to reduce the risk to an acceptable level?				

**Master Document – Audit Program**

d. Are conflict of interest statements maintained for individuals with responsibility for procurement of goods and services?				
e. Are procedures in place to identify Federal programs where the regulations impose requirements that differ from the entity’s normal policies?				
4. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 3 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
5. Control Activities. Are policies and procedures in place to provide reasonable assurance that procurement of goods and services are made in compliance with the provisions of the Common Rule or OMB Circular A-110 and that no subaward, contract, or agreement for purchases of goods or services is made with any debarred or suspended party? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Are job descriptions or other means used to define tasks that comprise particular procurement jobs?				
b. Are official written policies for procurement and contracts in place that require:				
(1) Contract files documenting significant procurement history?				
(2) Methods of procurement authorized including selection of contract type, contractor selection or rejection, and the basis of contract price?				
(3) Verification that procurement provides full and open competition?				
(4) Cost or price analysis, including contract modifications?				
(5) Obtaining and reacting to suspension and debarment certifications?				
(6) Other applicable requirements for procurement under Federal awards be followed?				

**Master Document – Audit Program**

c. Are official written policies in place covering suspension and debarments that:				
(1) Contain or reference the Federal requirements?				
(2) Prohibits the award of a subaward, covered contract, or other covered agreement for program administration, goods, services, or any other program purpose with any suspended or debarred party?				
(3) Requires staff to obtain certifications from entities receiving subawards (contract and subcontract) over \$100,000, certifying that the organization and its principals are not suspended or debarred?				
d. Is contractor’s performance with the terms, conditions and specifications of the contract monitored and documented?				
e. Is there segregation of duties between employees responsible for contracting and accounts payable and cash disbursing?				
f. Do supervisors review procurement and contracting decisions for compliance with Federal procurement policies?				
g. Are procurement actions appropriately documented in the procurement files?				
h. Are procedures established to verify that vendors providing goods and services under the award have not been suspended or debarred from Federal procurements or contracts?				
6. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 5 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
7. Information and Communication. Are policies and procedures in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities? Check “Yes” for each of the following policies and procedures that contribute to				

**Master Document – Audit Program**

the assurance.				
a. Is a system in place to assure that the following procurement documentation is retained for the time period required by the A-102 Common Rule, OMB Circular A-110, award agreements, contracts, and program regulations:				
(1) The basis for contractor selection?				
(2) Justification for lack of completion when competitive bids or offers are not obtained?				
(3) The basis for award cost or price?				
b. Are employee procurement duties and control responsibilities effectively communicated?				
c. Are channels of communication provided for people/employees to report suspected procurement and contracting improprieties to an appropriate level of management?				
d. Is procurement staff provided current “Lists of Parties Excluded from Federal Procurement or Nonprocurement Programs,” issued by the General Services Administration (updated for current changes) or have on-line access?				
8. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 7 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
9. Monitoring. Are policies and procedures in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Does management or representatives of management periodically conduct independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended?				
b. Are management risk assessments updated periodically or as needed?				
c. Does management take appropriate follow-up				

**Master Document – Audit Program**

action for identified problems or weaknesses in internal controls (including matters communicated by the auditors)?				
10. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 9 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
11. Conclusion: Document the audit conclusion on control effectiveness on Working Paper M.				

<b>M-1</b>	<b>Procurement And Suspension And Debarment Compliance Requirement I</b>		
Version 2.1, dated May 2004			
<b>Suggested Audit Steps for Reviewing the Auditee’s Compliance with Procurement and Suspension and Debarment</b>			
The following audit procedures were adapted from the OMB Circular A-133 Compliance Supplement issued by OMB. The procedures are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The auditor should simply supplement the procedures with specific audit steps and include them in working papers.			
OMB Circular A-133 requires, for certain of its suggested audit procedures, that the auditor “select a sample”. However, minimum “sample” sizes and acceptable selection methods are not specified. Circular A-133 permits these matters to be determined based on the auditor’s professional judgment. A combination of other procedures performed, low inherent and control risk, and/or small population sizes should result in a lower level of test work.			
The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper M.			
		<b>Performed by</b>	<b>WP Ref.</b>
(Procedures 1–4 apply only to nonprofit organizations and Federal awards received directly from a Federal awarding agency by a local Government or an Indian tribal Government.)			
1. Obtain entity’s procurement policies. Verify that the policies comply with applicable Federal requirements.			
a. State and local Governments and Indian tribal Governments—See A-102 Common Rule [§____.36(b)(1)]			
b. Nonprofit organizations—See OMB Circular A-110			

**Master Document – Audit Program**

(§___.43)		
2. Ascertain if the entity has a policy to use statutorily or administratively imposed in-State or local geographical preferences in the evaluation of bids and proposals. If yes, verify that these limitations were not applied to Federal procurement except where applicable Federal statutes expressly mandate or encourage geographic preference.		
a. State and local Governments and Indian tribal Governments—See A-102 Common Rule [§___.36(c)(2)]		
b. Nonprofit organizations – See OMB Circular A-110(§___.43).		
3. Examine procurement policies and procedures and verify the following:		
a. Written selection procedures require that solicitations incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured, identify all requirements that the offerors must fulfill, and include all other factors to be used in evaluating bids or proposals.		
(1) State and local Governments and Indian tribal Governments—See A-102 Common Rule [§___.36(c)(3)]		
(2) Nonprofit organizations—See OMB Circular A-110 [§___.44(a)(3)]		
b. There is a written policy pertaining to ethical conduct.		
(1) State and local Governments and Indian tribal Governments—See A-102 Common Rule [§___.36(b)(3)].		
(2) Nonprofit organizations—See OMB Circular A-110 (§___.42).		
4. Select a sample of procurement and perform the following:		
a. Examine contract files and verify that they document the significant history of the procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis of contract price.		
(1) State and local Governments and Indian tribal Governments—See A-102 Common Rule [§___.36(b)(9)		
(2) Nonprofit organizations—See OMB Circular A-110 (§___.46)		

**Master Document – Audit Program**

<p>b. Verify that procurement procedures provide full and open competition.</p>		
<p>(1) State and local Governments and Indian tribal Governments—See A-102 Common Rule [§___.36(c)(1)]</p>		
<p>(2) Nonprofit organizations—See OMB Circular A-110 (§___.43)</p>		
<p>c. Examine documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified.</p>		
<p>(1) State and local Governments and Indian tribal Governments—See A-102 Common Rule [§___.36(b)(1)and (d)(4)].</p>		
<p>(2) Nonprofit organizations—See OMB Circular A-110 [§___.43 and .44(e)]</p>		
<p>d. Verify that contract files exist and ascertain if appropriate cost or price analysis was performed in connection with procurement actions, including contract modifications and that this analysis supported the procurement action.</p>		
<p>(1) State and local Governments and Indian tribal Governments—See A-102 Common Rule [§___.36(f) ].</p>		
<p>(2) Nonprofit organizations—See OMB Circular A-110 [§___.45]</p>		
<p>e. Verify that the awarding Federal agency approved procurements exceeding \$100,000 when such approval was required. Procurements awarded by noncompetitive negotiation, awarded when only a single bid or offer was received, awarded to other than the apparent low bidder, or specifying a “brand name” product may require prior Federal awarding agency approval.</p>		
<p>(1) State and local Governments and Indian tribal Governments—See A-102 Common Rule [§___.36(g)(1) ].</p>		
<p>(2) Nonprofit organizations—See OMB Circular A-110 [§___.44(e)]</p>		
<p>Note: Test a sample of procurements and subawards and ascertain if the required suspension and debarment certifications were received for subawards and covered contracts, or test a sample of procurements and subawards to the List of Parties Excluded From Federal Procurement or</p>		

**Master Document – Audit Program**

<p>Nonprocurement Programs, issued by the General Services Administration (GSA) and ascertain if contracts were awarded to suspended or debarred parties. Verify compliance with other procurement requirements specific to an award.</p>		
<p>(Procedure 5 applies only to States and Federal awards subgranted by the State to a local Government or Indian tribal Government.)</p> <p>5. Test a sample of procurements to ascertain if the State’s laws and procedures were followed and that the policies and procedures used were the same as for State funds.</p>		
<p>(Procedures 6 applies to all non-Federal entities)</p> <p>6. Test a sample of procurements and subawards and ascertain if the required suspension and debarment certifications were received for subawards and covered contracts, or test a sample of procurements and subawards to the List of Parties Excluded From Federal Procurement or Nonprocurement Programs, issued by the General Services Administration (GSA) and ascertain if contracts were awarded to suspended or debarred parties.</p>		

<b>N-1</b>	<b>Program Income Compliance Requirement J</b>
<b>Version 2.1, dated May 2004</b>	
<p>Program income applies to any program that generates program income and is primarily related to the disposition of the income. The program regulations or the contract or grant agreements applicable to the program may specify additional criteria.</p>	
<b>Compliance Requirements</b>	
<p>Program income is gross income received that is directly generated by the Federally-funded project during the grant period. If authorized by Federal regulations or the grant agreement, costs incident to the generation of program income may be deducted from gross income to determine program income. Program income includes, but is not limited to, income from: fees for services performed, the use or rental of real or personal property acquired with grant funds, the sale of commodities or items fabricated under a grant agreement, and payments of principal and interest on loans made with grant funds. Except as otherwise provided in the Federal awarding agency regulations or terms and conditions of the award, program income does not include interest on grant funds (covered under Cash Management), rebates, credits, discounts, refunds, etc. (covered under Allowable Costs/Cost Principles), or interest earned on any of them (covered under Cash Management). Program income does not include the proceeds from the sale of equipment or real property (covered under Equipment and Real</p>	

## Master Document – Audit Program

Property Management).
Property income may be used in one of three methods: deducted from outlays, added to the project budget, or used to meet matching requirement. Unless specified in the Federal awarding agency regulations or the terms and conditions of the award, program income shall be deducted from program outlays. However, for research and development activities by colleges and universities and other nonprofit organizations, the default method is to add program income to the project budget. Unless Federal awarding agency regulations or the terms and conditions of the award specify otherwise, non-Federal entities have no obligation to the Federal Government regarding program income earned after the end of the grant period.
The requirements for program income are found in the A-102 Common Rule (§____.21(payment) and §__.25) OMB Circular A-110 (§__.2 (program income definition), §__.22 (payment), and §__.24), Federal awarding agency laws, program regulations, and the provisions of the contract or grant agreements pertaining to the program.
<b>Audit Objectives</b>
Determine whether program income is correctly recorded and used in accordance with the program requirements, A-102 Common Rule, and OMB Circular A-110, as applicable.
<b>Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Program Income</b>
As a condition of receiving Federal awards, a non-Federal entity agrees to comply with applicable laws, regulations, and the provisions of contracts and grant agreements, and to maintain internal control to reasonably ensure compliance with those requirements. OMB Circular A-133 requires that the auditor obtain an understanding of the entity’s internal control over major programs and that internal controls be tested (unless internal control is likely to be ineffective). Part 6 of the OMB Circular A-133 Compliance Supplement (Compliance Supplement) includes suggested internal control characteristics which may be used to reasonably ensure compliance with those requirements. The suggested internal controls in Part 6 of the Compliance Supplement are reflected in the questions included in the audit program. Additional audit steps may be necessary as agreed-to between the auditor and supervisor.
However, the categorizations reflected in Part 6 (and this worksheet) may not necessarily reflect how an entity considers and implements internal control. This worksheet is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in this worksheet are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this worksheet. Auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements. The focus of gaining an understanding of internal control is

**Master Document – Audit Program**

not to determine how many of the “internal control questions” can be answered “Yes,” but to determine that the overall objectives of internal control are met.
Procedures for obtaining an understanding of the internal control system and testing controls may include: consideration of prior experience with the entity; inquiry of appropriate management, supervisory, and staff personnel; inspection of documents and records; observation and activities and operations. The working paper should describe the control policies and procedures, the test of controls, and the findings.

<b>N-1</b>	<b>Program Income Compliance Requirement J</b>			
<b>Version 2.1, dated May 2004</b>				
	<b>Yes</b>	<b>No</b>	<b>Done by</b>	<b>WP Ref.</b>
<b>Control Objectives.</b>				
To provide reasonable assurance that program income is correctly earned, recorded, and used in accordance with the program requirements.				
1. Control Environment. Are policies and procedures in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Does management recognize its responsibilities for program income?				
b. Does management take appropriate action for known departures from approved policies and procedures and misuse of funds?				
c. Are performance targets for the generation of program income realistic?				
2. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 1 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
3. Risk Assessment. Are policies and procedures in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of				

**Master Document – Audit Program**

its objectives? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Has management identified the risk of unrecorded or miscoded program income and are policies and procedures in place to reduce the risk to an acceptable level?				
b. Are variances between expected and actual income analyzed?				
4. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 3 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
5. Control Activities. Are policies and procedures in place to provide reasonable assurance that program income is correctly earned, recorded, and used in accordance with the program requirements? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Are pricing and collection policy procedures clearly communicated to personnel responsible for program income?				
b. Are procedures in place to provide reasonable assurance that program income is properly recorded as earned and deposited in the bank as collected?				
c. Are policies and procedures in place to provide reasonable assurance that program income will be used in accordance with Federal program requirements?				
6. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 5 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
7. Information and Communication. Are policies and procedures in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Do information systems identify program income collections and usage?				

**Master Document – Audit Program**

b. Are channels of communication in place allowing people/employees to report suspected improprieties in the collection or use of program income to an appropriate level of management?				
8. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 7 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
9. Monitoring. Are policies and procedures in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Is there an internal audit, either formal or informal, of program income?				
b. Does management compare program income to budget and investigate significant differences?				
c. Are management risk assessments updated periodically or as needed?				
d. Does management take appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors)?				
10. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 9 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
11. Conclusion. Document the audit conclusion on control effectiveness on Working Paper N.				

<b>N-1</b>	<b>Program Income_Compliance Requirement J</b>
Version 2.1, dated May 2004	
<b>Suggested Audit Steps for Reviewing the Auditee’s Compliance with Program Income</b>	
The following audit procedures were adapted from the OMB Circular A-133 Compliance Supplement issued by OMB. The procedures are labeled as suggested audit procedures and	

**Master Document – Audit Program**

<p>should be tailored to the needs of the auditor and the circumstances. The auditor should simply supplement the procedures with specific audit steps and include them in the working papers.</p>		
<p>OMB Circular A-133 requires, for certain of its suggested audit procedures, that the auditor “select a sample”. However, minimum “sample” sizes and acceptable selection methods are not specified. Circular A-133 permits these matters to be determined based on the auditor’s professional judgment. A combination of other procedures performed, low inherent and control risk, and/or small population sizes should result in a lower level of test work.</p>		
<p>The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper N.</p>		
	<b>Performed by</b>	<b>WP Ref</b>
1. Identify Program Income		
a. Review the laws, regulations, and the provisions of contracts or grant agreements applicable to the program and ascertain if program income was anticipated and, if so, the requirements for recording and using program income.		
b. Inquire of management and review accounting records to ascertain if program income was received.		
2. Recording of Program Income—Perform tests to verify that all program income was properly recorded in the accounting records.		
3. Use of Program Income—Perform tests to ascertain if program income was used in accordance with the program requirements, the A-102 Common Rule, and OMB Circular A-110.		

<b>O-1</b>	<b>Real Property Acquisition And Relocation Assistance Compliance Requirement K</b>
Version 2.1, dated May 2004	
<b>Compliance Requirements</b>	
<p>The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA), as amended, provides for uniform and equitable treatment of persons displaced from their home, businesses, or farms by Federally-assisted programs. Property acquired must be appraised by qualified independent appraisers. All appraisals must be examined by a review appraiser to assure acceptability. After acceptance, the review appraiser certifies the recommended or approved value of the property for establishment of the offer of just compensation to the owner. Federal requirements govern the determination of payments for replacement housing assistance, rental assistance, and down payment assistance for individuals</p>	

## Master Document – Audit Program

displaced by Federally-funded projects. The regulations also cover the payment of moving-related expenses and reestablishment expenses incurred by displaced business and farm operations.

Government wide requirements for real property acquisition and relocation assistance are contained in Department of Transportation’s single Government-wide rule at 49 CFR part 24, Uniform Relocation Assistance and Real Property Acquisition Regulations for Federal and Federally assisted programs.

### **Audit Objectives**

Determine whether the non-Federal entity complied with the real property acquisition, appraisal, negotiation, and relocation requirements.

### **Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Real Property Acquisition and Relocation Assistance**

As a condition of receiving Federal awards, a non-Federal entity agrees to comply with applicable laws, regulations, and the provisions of contracts and grant agreements, and to maintain internal control to reasonably ensure compliance with those requirements. OMB Circular A-133 requires that the auditor obtain an understanding of the entity’s internal control over major programs and that internal controls be tested (unless internal control is likely to be ineffective). Part 6 of the OMB Circular A-133 Compliance Supplement (Compliance Supplement) includes suggested internal control characteristics which may be used to reasonably ensure compliance with those requirements. The suggested internal controls in Part 6 of the Compliance Supplement are reflected in the questions included in the audit program. Additional audit steps may be necessary as agreed-to between the auditor and supervisor.

However, the categorizations reflected in Part 6 (and this worksheet) may not necessarily reflect how an entity considers and implements internal control. This worksheet is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in this worksheet are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this worksheet. Auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements. The focus of gaining an understanding of internal control is not to determine how many of the “internal control questions” can be answered “Yes,” but to determine that the overall objectives of internal control are met.

Procedures for obtaining an understanding of the internal control system and testing controls may include: consideration of prior experience with the entity; inquiry of appropriate management, supervisory, and staff personnel; inspection of documents and records; observation and activities and operations. The working paper should describe the control policies and procedures, the test of controls, and the findings.

**Master Document – Audit Program**

<b>O-1 Real Property Acquisition And Relocation Assistance_ Compliance Requirement K</b>				
<b>Version 2.1, dated May 2004</b>				
	<b>Yes</b>	<b>No</b>	<b>Done by</b>	<b>WP Ref.</b>
<b>Control Objectives.</b>				
To provide reasonable assurance of compliance with the real property acquisition, appraisal, negotiation, and relocation requirements.				
1. Control Environment. Are policies and procedures in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Does management recognize its responsibility to comply with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (URA)?				
b. Do written policies provide direction for handling relocation assistance and real property acquisition payments (in accordance with the compliance requirements)?				
c. Does management take appropriate action for known departures from approved policies and procedures?				
2. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 1 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
3. Risk Assessment. Are policies and procedures in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Has program management identified the risk that relocation will not be conducted in accordance with the compliance requirements, e.g., improper payments will be made to individuals or businesses				

**Master Document – Audit Program**

that relocate and are policies and procedures in place to reduce the risk to an acceptable level?				
4. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 3 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
5. Control Activities. Are policies and procedures in place to provide reasonable assurance of compliance with the property acquisition, appraisal, negotiation, and relocation requirements; replacement housing payment requirements; rental or down payment assistance requirements; and business relocation and reestablishment payment requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Have employees handling relocation assistance and real property acquisition been trained in the compliance requirements?				
b. Do employees, knowledgeable in the requirements, review and approve all real property acquisition and relocation assistance payments?				
6. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 5 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
7. Information and Communication. Are policies and procedures in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Is a system in place to assure adequate documentation of relocation assistance and real property acquisition payments?				
8. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 7 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				

**Master Document – Audit Program**

9. Monitoring. Are policies and procedures in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Does management monitor relocation assistance and real property acquisition for compliance?				
b. Are management risk assessments updated periodically or as needed?				
c. Does management take appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors)?				
10. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 9 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
11. Conclusion. Document the audit conclusion on control effectiveness on Working Paper O.				

<b>O-1</b>	<b>Real Property Acquisition And Relocation Assistance_Compliance Requirement K</b>
Version 2.1, dated May 2004	
<b>Suggested Audit Steps for Reviewing the Auditee’s Compliance with Real Property and Relocation Assistance</b>	
<p>The following audit procedures were adapted from the OMB Circular A-133 Compliance Supplement issued by OMB. The procedures are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The auditor should simply supplement the procedures with specific audit steps and include them in working papers.</p>	
<p>OMB Circular A-133 requires, for certain of its suggested audit procedures, that the auditor “select a sample”. However, minimum “sample” sizes and acceptable selection methods are not specified. Circular A-133 permits these matters to be determined based on the auditor’s professional judgment. A combination of other procedures performed, low inherent and control risk, and/or small population sizes should result in a lower level of test work.</p>	
<p>The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper O.</p>	

**Master Document – Audit Program**

	<b>Performed by</b>	<b>WP Ref.</b>
1. Inquire of management and review the records of Federal programs to ascertain if the non-Federal entity administers Federally-assisted programs that involve the acquisition of real property or the displacement of households or businesses. If no, Steps 2–5 do not apply.		
2. Select a sample of property acquisitions.		
a. Appraisal—Test records to verify: (1) the just compensation amount offered the property owner was determined by an appraisal process; (2) the appraisal(s) was examined by a review appraiser; and (3) the review appraiser prepared a signed statement which explains the basis for adjusting comparable sales to reach the review appraiser’s determination of the fair market value.		
b. Negotiations—Verify from supporting documentation that (1) a written offer of the appraised value was made to the property owner; and (2) a written justification was prepared if the purchase price for the property exceeded the amount offered and that the documentation (e.g. recent court awards, estimated trial costs, valuation problems) supports such administrative settlement as being reasonable, prudent, and in the public interest.		
c. Residential Relocations—Test supporting documentation to ascertain if the non-Federal entity made available to the displaced persons one or more comparable replacement dwellings.		
3. Select a sample of replacement housing payments and examine the non-Federal entity’s records to verify if there is documentation that supports the following:		
a. The owner occupied the displacement dwelling for at least 180 days immediately prior to initiation of negotiations.		
b. The non-Federal entity examined at least three comparable replacement dwellings available for sale and computed the payment on the basis of the price of the dwelling most representative of the displacement dwelling.		
c. The asking price for the comparable dwelling was adjusted, to the extent justified by local market data, to recognize local area selling price reductions.		
d. The allowance for increased mortgage cost “buy down” amount was computed based on the remaining principal		

**Master Document – Audit Program**

balance, the interest rate, and the remaining term of the old mortgage on the displacement dwelling.		
e. The non-Federal entity prepared written justification on the need to employ last resort housing provisions, if the total replacement housing payment exceeded \$22,500.		
4. Select a sample of rental or down payment assistance payments and examine the non-Federal entity’s records to ascertain if there is documentation that supports the following:		
a. The displacee occupied the displacement dwelling for at least 90 days immediately prior to initiation of negotiations.		
b. The displacee rented, or purchased, and occupied a decent, safe, and sanitary replacement dwelling within one year.		
5. Select a sample of business relocation payments.		
a. Moving Expenses—Verify that payments for moving and related expenses were for actual costs incurred or that fixed payments, in lieu of actual costs, were limited to a maximum of \$20,000 and computed based on the average annual net earnings of the business as evidenced by income tax returns, certified financial statements, or other reliable evidence.		
b. Business Reestablishment Expense—Verify that (1) the displacee was eligible as a farm operation, a nonprofit organization, or a small business to receive reestablishment assistance, and (2) the payment was for actual costs incurred and did not exceed \$10,000.		

<b>P-1</b>	<b>Reporting Compliance Requirement L</b>
Version 2.1, dated May 2004	
<b>Compliance Requirements</b>	
<b>Financial Reporting</b>	
<p>Recipients should use the standard financial reporting forms or other such forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). These other forms may include financial, performance, and special reporting. Each recipient must report program outlays and program income on a cash or accrual basis as prescribed by the Federal awarding agency. If the Federal awarding agency requires accrual information and the recipient’s accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may</p>	

## Master Document – Audit Program

develop such accrual information through analysis. The awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats. (Certain open-ended entitlement programs require quarterly reports.)

The reporting requirements for subrecipients are as specified by the pass-through entity. In many cases, these will be the same as or similar to the following requirements for recipients.

The standard financial reporting forms are as follows:

1. Financial Status Report (FSR) [SF-269 (OMB No. 0348-.0039) or SF-269A (OMB No. 0348-.0038)]. Recipients use the FSR to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271.
2. Request for Advance or Reimbursement [SF-270 (OMB No. 0348-.0004)]. Recipients use the SF-270 to request Treasury advance payments and reimbursements under non-construction programs.
3. Outlay Report and Request for Reimbursement for Construction Programs [SF-271 (OMB No. 0348-.0002)]. Recipients use the SF-271 to request funds for construction projects unless advances or the SF-270 is used.
4. Federal Cash Transaction Report [SF-272 (OMB No. 0348-.0003) or SF-272A (OMB No. 0348-.0003)]. Recipients use the SF-272 when payment is by advances or reimbursements. The awarding agency may waive the requirement for a SF-272 when electronic payment mechanisms provide adequate data.

Electronic versions of these standard forms are located on the OMB's Internet home page (<http://www.whitehouse.gov/OMB>).

### **Reporting Under the Payment Management System**

Many recipients utilize the Payment Management System (PMS) operated by the Division of Payment Management (DPM) within the Department of Health and Human Services. After a Federal agency awards a grant, DPM is responsible for controlling payments to the recipient; receiving collections for unexpended funds, duplicate payments, audit disallowances, and interest earned on Federal funds; accounting for disbursement information provided by the recipient; and reporting data equivalent to the SF-272, Federal Cash Transaction Report, to the recipient and Federal agency.

Federal awarding agencies enter authorization amounts in PMS to allow recipients to draw Federal funds. There are three methods by which recipients can request funds: (1) the PMS 270 cash request, (2) SMARTLINK II, or (3) CASHLINE systems. SMARTLINK II enables recipients to request Federal funds through computer link with DPM, while CASHLINE allows funds to be requested via a touch tone telephone. Once a quarter, using the authorization amounts provided by the Federal agency, payments requested by recipients, cash collection activity, and disbursement information provided by recipients, DPM generates PMS 272 reports.

## Master Document – Audit Program

<p>The PMS 272 is a series of reports consisting of:</p>
<p>1. PMS 272, Federal Cash Transactions Report, Status of Federal Cash (OMB No. 0937-0200). This report provides a total accountability of all Federal cash received by the recipient. It is partially prepared by DPM based on data reported to DPM, and is completed and certified by the recipient.</p>
<p>2. PMS 272-A, Federal Cash Transactions Report (OMB No. 0937-0200). This report is a continuation of the PMS-272 and is used by the recipient to report cash disbursements back to DPM.</p>
<p>3. PMS 272-B, Statement of Cash Accountability (OMB No. 0937-0200). This report is furnished for the recipient's information and shows how the recipient's cash accountability was derived by DPM.</p>
<p>4. PMS 272-C, Error Correction Document (OMB No. 0937-0200). This report can be used by the recipient to report data reconciliation problems for awards on the PMS 272-A or the Advances to Payee portion in the PMS 272-B.</p>
<p>5. PMS 272-E, Major Program Statement (OMB No. 0937-0200). This report is furnished to States, Indian Tribes, and cross-serviced organizations for their information only. This report lists individual payments during the quarter among the various programs, and provides a cash accountability for all advances received through PMS by major program. All information provided is pre-printed by DPM.</p>
<p>6. PMS 272-F, Authorizations for Future Periods (OMB No. 0937-0200). This report is provided for information only and requires no action by the recipient. It represents all awards posted in the PMS database that have effective dates in future reporting periods.</p>
<p>7. PMS 272-G, Inactive Documents Report (OMB No. 0937-0200). This report lists all awards posted in the PMS database that have become inactive or fully disbursed during the current period or a previous period. In the event that disbursement adjustments are required, they should be reported via the PMS 272-A.</p>
<p>The reports are either mailed to the recipient or electronically downloaded by the recipient using DPM's Electronic 272 System. Recipients should verify the reported amounts. If discrepancies are noted, the report is annotated (or the PMS 272-C is completed) and returned to DPM. The recipient uses the PMS 272-A to report the amount of disbursements made; then signs, dates, and returns the report to DPM. Recipients may report disbursements data electronically using the Electronic 272 process. PMS 272 reporting requirements do not apply to block grant programs; however, DPM does provide block grant recipients with a PMS 272-E, Major Program Statement, quarterly. This report is provided solely for information and no action is required by the recipient.</p>
<p><b>Performance Reporting</b></p>
<p>Recipients shall submit performance reports at least annually but not more frequently than</p>

**Master Document – Audit Program**

quarterly. Performance reports generally contain, for each award, brief information on each of the following:

1. A comparison of actual accomplishments with the goals and objectives established for the period.
2. Reasons why established goals were not met, if appropriate.
3. Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

**Special Reporting**

Non-Federal entities may be required to submit other reporting which may be used by the Federal agency for such purposes as allocating program funding.

1. Compliance testing of performance and special reporting are only required for data that are quantifiable and meet the following criteria:
  - a. Have a direct and material effect on the program.
  - b. Are capable of evaluation against objective criteria stated in the laws, regulations, contract or grant agreements pertaining to the program.
  - c. Performance and special reporting data specified in Part 4, Compliance Requirements, meet the above criteria.
2. Reporting requirements are contained in the following documents:
  - a. A-102 Common Rule -- Financial reporting, §\_\_\_\_.41; Performance reporting, §\_\_\_\_.40(b).
  - b. OMB Circular A-110 -- Financial reporting, §\_\_\_\_.52; Performance reporting, §\_\_\_\_.51.
3. The laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

**Audit Objectives**

Determine whether required reports for Federal awards included all activity of the reporting period, were supported by applicable accounting or performance records, and were fairly presented in accordance with program requirements.

**Master Document – Audit Program**

<b>Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Reporting</b>
<p>As a condition of receiving Federal awards, a non-Federal entity agrees to comply with applicable laws, regulations, and the provisions of contracts and grant agreements, and to maintain internal control to reasonably ensure compliance with those requirements. OMB Circular A-133 requires that the auditor obtain an understanding of the entity’s internal control over major programs and that internal controls be tested (unless internal control is likely to be ineffective). Part 6 of the OMB Circular A-133 Compliance Supplement (Compliance Supplement) includes suggested internal control characteristics which may be used to reasonably ensure compliance with those requirements. The suggested internal controls in Part 6 of the Compliance Supplement are reflected in the questions included in the audit program. Additional audit steps may be necessary as agreed-to between the auditor and supervisor.</p> <p>Procedures for obtaining an understanding of the internal control system and testing controls may include: consideration of prior experience with the entity; inquiry of appropriate management, supervisory, and staff personnel; inspection of documents and records; observation and activities and operations. The working paper should describe the control policies and procedures, the test of controls, and the findings.</p>

<b>P-1</b>	<b>Reporting Compliance Requirement L</b>			
<b>Version 2.1, dated May 2004</b>				
	<b>Yes</b>	<b>No</b>	<b>Done by</b>	<b>WP Ref.</b>
<b>Control Objectives.</b>				
To provide reasonable assurance that reports of Federal awards 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.				
1. Control Environment. Are policies and procedures in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				

**Master Document – Audit Program**

a. Does management’s attitude toward reporting promote accurate and fair presentations?				
b. Do persons preparing, reviewing, and approving the reports possess the required knowledge, skills, and abilities?				
c. Is there an appropriate assignment of responsibility and delegation of authority for reporting decisions?				
d. Are Federal financial reports prepared as required within the time imposed by the grantor agencies?				
e. Does management take appropriate action for known departures from approved policies and procedures and compliance requirements?				
2. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 1 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
3. Risk Assessment. Are policies and procedures in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Has management identified risks of faulty reporting caused by such items as lack of current knowledge of, inconsistent application of, or carelessness or disregard for standards and reporting requirements of Federal awards and are policies and procedures in place to reduce the risk to an acceptable level?				
b. Are procedures in place to identify underlying source data, or analysis for performance or special reporting that may not be reliable?				
4. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 3 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
5. Control Activities. Are policies and procedures in place to provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or				

**Master Document – Audit Program**

performance records, and are fairly presented in accordance with program requirements? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Do written policies provide direction that establishes responsibility and provide the procedures for periodic monitoring, verification, and reporting of program progress and accomplishments?				
b. Is a system in place which reminds staff when reports are due?				
c. Is the general ledger or other reliable records the basis for the reports?				
d. Are reconciliations of Federal financial reports with supporting accounting records prepared by responsibility employees and reviewed and approved by a responsible official before filing?				
e. Is the required accounting method used (e.g., cash or accrual)?				
6. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 5 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
7. Information and Communication. Are policies and procedures in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Is an accounting or information system in place that provides for the reliable processing of financial and performance information for Federal awards?				
8. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 7 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
9. Monitoring. Are policies and procedures in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				

**Master Document – Audit Program**

a. Are communications from external parties reviewed to determine if they corroborate information included in the reports for Federal awards?				
b. Are comparisons of reports to supporting records made periodically by appropriate officials?				
c. Are management risk assessments updated periodically or as needed?				
d. Does management take appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors)?				
10. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 9 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
11. Conclusion. Document the audit conclusion on control effectiveness on Working Paper P.				

<b>P-1</b>	<b>Reporting Compliance Requirement L</b>		
<b>Version 2.1, dated May 2004</b>			
<b>Suggested Audit Steps for Reviewing the Auditee’s Compliance with Reporting</b>			
<p>The following audit procedures were adapted from the OMB Circular A-133 Compliance Supplement issued by OMB. The procedures are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The auditor should simply supplement the procedures with specific audit steps and include them in working papers.</p> <p>OMB Circular A-133 requires, for certain of its suggested audit procedures, that the auditor “select a sample”. However, minimum “sample” sizes and acceptable selection methods are not specified. Circular A-133 permits these matters to be determined based on the auditor’s professional judgment. A combination of other procedures performed, low inherent and control risk, and/or small population sizes should result in a lower level of test work.</p> <p><b>The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper P.</b></p>			
		<b>Performed by</b>	<b>WP Ref.</b>
Note: For recipients using PMS to draw Federal funds, the auditor should consider the following steps numbered 1 through 5 as they			

**Master Document – Audit Program**

pertain to the PMS 272, PMS 272-A, PMS 272-B, and PMS 272-E, regardless of the source of the data included in the PMS reports. Although certain data is supplied by the Federal awarding agency (i.e., award authorization amounts) and certain amounts are provided by DPM, the auditor should ensure that such amounts are in agreement with the recipient's records and are otherwise accurate.		
1. Review applicable laws, regulations, and the provisions of contracts or grant agreements pertaining to the program for reporting requirements. Determine the types and frequency of required reports. Obtain and review Federal awarding agency, or pass-through entity in the case of a subrecipient, instructions for completing the reports.		
a. For financial reports, ascertain the accounting basis used in reporting the date (e.g., cash or accrual).		
b. For performance and special reports, determine the criteria and methodology used in compiling and reporting the data.		
2. Perform appropriate analytical procedures and ascertain the reason for any unexpected differences.		
a. Examples of analytical procedures include:		
(1) Comparing current period reports to prior period reports.		
(2) Comparing anticipated results to the data included in the reports.		
(3) Comparing information obtained during the audit of the financial statements to the reports.		
(4) Note: The results of the analytical procedures should be considered in determining the nature, timing, and extent of the other audit procedures for reporting.		
3. Select a sample of each of the following report types.		
a. Financial reports:		
(1) Ascertain if the financial reports were prepared in accordance with the required accounting basis.		
(2) Trace the amounts reported to accounting records that support the audited financial statements and the schedule of expenditures of Federal awards and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records.		
(3) For any discrepancies noted in PMS-272 reports, review subsequent PMS-272 reports to ascertain if the discrepancies were appropriately resolved with the		

**Master Document – Audit Program**

Department of Health and Human Services’ Division of Payment Management.		
b. Performance and special reports:		
(1) Trace the data to records that accumulate and summarize data.		
(2) Perform tests of the underlying data to verify that the data was accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.		
c. When reconciling computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.		
d. Test mathematical accuracy of reports and supporting worksheets.		
4. Test the selected reports for completeness.		
a. For financial reports, review accounting records and ascertain if all applicable accounts were included in the sample reports (e.g., program income, expenditure credits, loans, and reserve funds).		
(1) Comparing current period reports to prior period reports.		
(2) Comparing current period reports to prior period reports.		
5. Obtain written representation from management that the reports provided to the auditor are true copies of the reports submitted or electronically transmitted to the Federal awarding agency, the Department of Health and Human Services’ Division of Payment Management for recipients using the Payment Management System, or pass-through entity in the case of a subrecipient.		

<b>Q-1</b>	<b>Subrecipient Monitoring Compliance Requirement M</b>
Version 2.1, dated May 2004	
<b>Compliance Requirements</b>	
A subrecipient is a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program.	
A pass-through entity is responsible for:	

## Master Document – Audit Program

<ul style="list-style-type: none"><li>• identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.</li></ul>
<ul style="list-style-type: none"><li>• monitoring the subrecipient’s activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.</li></ul>
<ul style="list-style-type: none"><li>• ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings.</li></ul>
<ul style="list-style-type: none"><li>• evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable Federal regulations.</li></ul>
Factors such as the size of the 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.
Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed upon procedures engagements for certain aspects of subrecipient activities, (such as eligibility determinations, reviewing the subrecipient’s single audit or program-specific audit results) and evaluating audit findings and the subrecipient’s corrective action plan.
The requirements for subrecipient monitoring are contained in the A-102 Common Rule [§__.37 and §__.40(a), OMB Circular A-110 [§__.50), Federal awarding agency program regulations, and the terms and conditions of the award.
<b>Audit Objectives</b>
Determine whether the pass-through entity (1) identified Federal award information and compliance requirements to the subrecipient, and approved only allowable activities in the award documents. (2) monitored subrecipient activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements. (3) Ensured required audits are performed and appropriate corrective action on monitoring and audit findings. and (4) evaluated the impact of subrecipient activities on the pass-through entity.
<b>Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Subrecipient Monitoring</b>
As a condition of receiving Federal awards, a non-Federal entity agrees to comply with applicable laws, regulations, and the provisions of contracts and grant agreements, and to maintain internal control to reasonably ensure compliance with those requirements. OMB Circular A-133 requires that the auditor obtain an understanding of the entity’s internal control

**Master Document – Audit Program**

over major programs and that internal controls be tested (unless internal control is likely to be ineffective). Part 6 of the OMB Circular A-133 Compliance Supplement (Compliance Supplement) includes suggested internal control characteristics which may be used to reasonably ensure compliance with those requirements. The suggested internal controls in Part 6 of the Compliance Supplement are reflected in the questions included in the audit program. Additional audit steps may be necessary as agreed-to between the auditor and supervisor.

However, the categorizations reflected in Part 6 (and this worksheet) may not necessarily reflect how an entity considers and implements internal control. This worksheet is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in this worksheet are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this worksheet. Auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements. The focus of gaining an understanding of internal control is not to determine how many of the “internal control questions” can be answered “Yes,” but to determine that the overall objectives of internal control are met.

Procedures for obtaining an understanding of the internal control system and testing controls may include: consideration of prior experience with the entity; inquiry of appropriate management, supervisory, and staff personnel; inspection of documents and records; observation and activities and operations. The working paper should describe the control policies and procedures, the test of controls, and the findings.

<b>Q-1</b>	<b>Subrecipient Monitoring Compliance Requirement M</b>			
Version 2.1, dated May 2004				
	<b>Yes</b>	<b>No</b>	<b>Done by</b>	<b>WP Ref.</b>
<b>Control Objectives.</b>				
To provide reasonable assurance that Federal award information and compliance-requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated. Also, the pass-through entity should perform procedures to provide reasonable assurance that subrecipient has required audits performed and taken appropriate corrective action on audit findings.				
1. Control Environment. Are policies and procedures in place to provide reasonable assurance that the control				

**Master Document – Audit Program**

environment is conducive to and reflects an appropriate management attitude toward internal control? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Is management committed to monitoring subrecipients?				
b. Does management take appropriate action for known departures from approved policies, procedures, and compliance requirements?				
c. Is the entity’s organizational structure, and its ability to provide the necessary information flow to monitor subrecipients adequate?				
d. Are sufficient resources (personnel and funds) dedicated to subrecipient monitoring?				
e. Is the knowledge, skills and abilities needed to accomplish subrecipient monitoring tasks adequately defined?				
f. Do individuals performing subrecipient monitoring possess the necessary knowledge, skills, and abilities?				
g. Do subrecipients demonstrate that:				
(1) They are willing and able to comply with the requirements of the award?				
(2) They have accounting systems, including the use of applicable cost principles, and internal control systems adequate to administer the award?				
h. Are appropriate sanctions taken for subrecipient noncompliance?				
2. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 1 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
3. Risk Assessment. Are policies and procedures in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives? Check “Yes” for each of the following policies and procedures that contribute to the assurance. Policies and procedures not listed may be				

**Master Document – Audit Program**

added at Step 3.d.				
a. Do key managers understand the subrecipient’s environment, systems, and controls sufficient to identify the level and methods of monitoring required?				
b. Has management identified risks arising from external sources affecting subrecipients, such as risks related to:				
(1) Economic conditions?				
(2) Political conditions?				
(3) Regulatory changes?				
(4) Unreliable information?				
(5) Other? (Describe.)				
c. Do procedures exist to identify and react to changes in subrecipients, such as:				
(1) Financial problems that could lead to diversion of grant funds?				
(2) Loss of essential personnel?				
(3) Loss of license or accreditation to operate program?				
(4) Rapid growth?				
(5) New activities, products, or services?				
(6) Organizational restructuring?				
4. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 3 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
5. Control Activities. Are policies and procedures in place to provide reasonable assurance that Federal award information and compliance-requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated? Also, that the pass-through entity performs procedures to provide reasonable assurance that subrecipient has required audits performed and has taken appropriate corrective				

**Master Document – Audit Program**

action on audit findings? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Are Federal award information (e.g., CFDA title and number, award name, name of Federal agency, and amount of award) and applicable compliance requirements provided to all subrecipients?				
b. Is the requirement to comply with all compliance requirements applicable to all applicable Federal programs, including the audit requirements of OMB Circular A-133, included in all subrecipient agreements?				
c. Is subrecipient compliance with audit requirements monitored using techniques such as the following:				
(1) Determining by inquiry and discussions whether subrecipient met thresholds requiring an audit under OMB Circular A-133?				
(2) If an audit is required, assuring that the subrecipient submits the report, report package, or the documents required by the latest OMB circulars and/or recipient’s requirements?				
d. If a subrecipient was required to obtain an audit in accordance with OMB Circular A-133 but did not do so:				
(1) Is there follow-up with the subrecipient until the audit is completed?				
(2) Are appropriate actions taken such as withholding further funding until the subrecipient meets the audit requirement?				
e. Is subrecipient’s compliance with Federal program requirements monitored using techniques such as the following:				
(1) Issuing timely management decisions for audit and monitoring findings to inform the subrecipient whether the corrective action planned is acceptable?				
(2) Maintaining a system to track and following-up on reported deficiencies related to programs funded by the recipient and ensuring that timely corrective action is taken?				
(3) Maintaining regular contacts with subrecipients				

**Master Document – Audit Program**

and appropriate inquiries concerning the Federal programs?				
(4) Reviewing subrecipient reports and following-up on areas of concern?				
(5) Monitoring subrecipient budgets?				
(6) Performing site visits to subrecipient to review financial and programmatic records and observing operations?				
(7) Offering subrecipients technical assistance where needed?				
(8) Obtaining agreed-upon procedures engagements?				
f. Do official written policies exist establishing:				
(1) Communication of Federal award requirements to subrecipients?				
(2) Responsibilities for monitoring subrecipients?				
(3) Process and procedures for monitoring?				
(4) Methodology for resolving findings of subrecipient noncompliance or weaknesses in internal control?				
(5) Requirements for and processing of subrecipient audits, including appropriate adjustment of pass-through entity's accounts?				
6. Test of Controls. For each of the policies and procedures contributing to a "Yes" answer at Step 5 (the individual policies and procedures checked "Yes"), perform a test of controls. Document auditee's policies and procedures and the audit procedures and findings.				
7. Information and Communication. Are policies and procedures in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities? Check "Yes" for each of the following policies and procedures that contribute to the assurance.				
a. Do standard award documents used by the non-Federal entity contain:				
(1) A listing of Federal requirements that the				

**Master Document – Audit Program**

subrecipient must follow?				
b. Items can be specifically listed in the award document, attached as an exhibit to the document, or incorporated by reference to specific criteria.				
(1) The description and program number for each program as stated in the Catalog of Federal Domestic Assistance (CFDA), and, if applicable, the pass-through program information?				
(2) A statement signed by an official of the subrecipient, stating that subrecipient was informed of, understands, and agrees to comply with the applicable compliance requirements?				
c. Is a system for record keeping in place to assure that documentation is retained for the time period required by the recipient?				
d. Are procedures in place to provide channels for subrecipients to communicate concerns to the pass-through entity?				
8. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 7 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
9. Monitoring. Are policies and procedures in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed? Check “Yes” for each of the following policies and procedures that contribute to the assurance.				
a. Is a tracking system in place that assures timely submission of required reporting, such as financial reports, performance reports, audit reports, on-site monitoring reviews of subrecipients, and timely resolution of audit findings?				
b. Are management risk assessments updated periodically or as needed?				
c. Does management take appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors)?				

**Master Document – Audit Program**

d. Are supervisory reviews performed to determine the adequacy of subrecipient monitoring?				
10. Test of Controls. For each of the policies and procedures contributing to a “Yes” answer at Step 9 (the individual policies and procedures checked “Yes”), perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
11. Conclusion. Document the audit conclusion on control effectiveness on Working Paper Q.				

<b>Q-1</b>	<b>Subrecipient Monitoring Compliance Requirement M</b>		
Version 2.1, dated May 2004			
<b>Suggested Audit Steps for Reviewing the Auditee’s Compliance with Subrecipient Monitoring</b>			
The following audit procedures were adapted from the OMB Circular A-133 Compliance Supplement issued by OMB. The procedures are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The auditor should simply supplement the procedures with specific audit steps and include them in working papers.			
OMB Circular A-133 requires, for certain of its suggested audit procedures, that the auditor “select a sample”. However, minimum “sample” sizes and acceptable selection methods are not specified. Circular A-133 permits these matters to be determined based on the auditor’s professional judgment. A combination of other procedures performed, low inherent and control risk, and/or small population sizes should result in a lower level of test work.			
The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper Q.			
		<b>Performed by</b>	<b>WP Ref.</b>
Note: The auditor may wish to coordinate the tests related to subrecipients performed as part of Cash Management (tests of cash reports submitted by subrecipients), Eligibility (tests that subawards were made only to eligible subrecipients), and Procurement (tests of suspension and debarment certifications) with the testing of Subrecipient Monitoring.			
1. Discuss subrecipient monitoring with the pass-through entity’s staff to gain an understanding of the scope of monitoring activities, including the number, size, and complexity of awards			

**Master Document – Audit Program**

to subrecipients.		
2. Select a sample of award documents and ascertain if the pass-through entity makes subrecipients aware of the award information (e.g., CFDA title and number, award name, name of Federal agency) and requirements imposed by laws, regulations, and the provisions of contracts or grant agreements, and to verify that the activities approved in the award documents were allowable.		
a. Verify that the pass-through entity requires subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year to have audits made in accordance with OMB Circular A-133.		
3. Review the pass-through entity’s documentation of subrecipient monitoring to ascertain if the pass-through entity monitors that subrecipients used Federal funds for authorized purposes and takes actions in response to monitoring findings.		
a. Verify that the pass-through entity monitors the activities of subrecipients not subject to OMB Circular A-133, using techniques such as those discussed in the Compliance Requirements provisions of this section.		
4. Verify that the pass-through entity receives audit reports from subrecipients required to have an audit in accordance with OMB Circular A-133, issues timely management decisions on audit and monitoring findings, and requires subrecipients to take timely corrective action on deficiencies identified in audits and subrecipient monitoring.		
5. Verify that the effects of subrecipient noncompliance are properly reflected in the pass-through entity’s records		

<b>R-1</b>	<b>Special Tests And Provisions_ Compliance Requirement N</b>
Version 2.1, dated May 2004	
<b>Compliance Requirements</b>	
<p>The specific requirements for Special Tests and Provisions are unique to each Federal program and are found in the laws, regulations, and the provisions of contracts or grant agreements pertaining to the program. For programs listed in the Compliance Supplement, the compliance requirements, audit objectives, and suggested audit procedures for Special Tests and Provisions are found in Part 4 – Agency Program Requirements or Part 5 – Clusters of Programs. For programs not listed in the Supplement, the auditor shall review the program’s</p>	

## Master Document – Audit Program

contract and grant agreements and referenced laws and regulations to identify the compliance requirements and develop the audit objectives and audit procedures for Special Tests and Provisions which could have a direct and material effect on a major program. The auditor should also inquire of the non-Federal entity to help identify and understand any Special Tests and Provisions.

Additionally, for both programs included and not included in the Supplement, the auditor shall identify any additional compliance requirements which are not based in law or regulation (e.g., were agreed to as part of audit resolution of prior audit findings) which could be material to a major program. Reasonable procedures to identify such compliance requirements would be inquiry of non-Federal entity management and review of the contract and grant agreements pertaining to the program. Any such requirements which may have a direct and material on a major program shall be included in the audit.

### Year 2000 Compliance Considerations

The Year 2000 (Y2K) problem stems from the use in many computer systems of a two-digit dating system that assumes the first two digits of the year are 1 and 9, a convention adopted years ago when coding space was a premium. Without corrective action, the systems may recognize "00" date not as 2000 but as 1900, which could cause systems to shut down or malfunction. On August 19, 1998, OMB issued an "Advisory to Federal Grantees on Responsibility to Address Year 2000 Issue," which included guidance related to Federal awards. This advisory is located under the grants management heading on OMB's Internet home page (<http://www.whitehouse.gov/OMB>) and a copy is also included as Appendix VI to the Compliance Supplement.

Many Federal agencies have included in the provisions of contracts and grant agreements requirements relative to the Y2K problem (e.g., the non-Federal entity should make specified progress towards becoming Y2K compliant; meet specified Y2K performance requirements; use, develop, or acquire equipment and systems that are Y2K compliant; or develop Y2K contingency plans). The auditor is not expected to plan and perform procedures to determine whether a non-Federal entity is in compliance with these Y2K compliant provisions.

However, as with any other issue affecting a non-Federal entity's ability to comply with the requirements related to Federal awards, auditors will need to consider the effect of the Y2K issue when performing tests of compliance during the audit period. This will be particularly important when the audit period or dates affecting compliance (e.g., eligibility calculations) include dates after 12/31/99.

### **Suggested Audit Steps for Reviewing the Auditee's Internal Controls Relating to Special Tests and Provisions**

As a condition of receiving Federal awards, a non-Federal entity agrees to comply with applicable laws, regulations, and the provisions of contracts and grant agreements, and to maintain internal control to reasonably ensure compliance with those requirements. OMB Circular A-133 requires that the auditor obtain an understanding of the entity's internal control

**Master Document – Audit Program**

over major programs and that internal controls be tested (unless internal control is likely to be ineffective). Part 6 of the OMB Circular A-133 Compliance Supplement (Compliance Supplement) includes suggested internal control characteristics which may be used to reasonably ensure compliance with those requirements. The suggested internal controls in Part 6 of the Compliance Supplement are reflected in the questions included in the audit program. Additional audit steps may be necessary as agreed-to between the auditor and supervisor.

However, the categorizations reflected in Part 6 (and this worksheet) may not necessarily reflect how an entity considers and implements internal control. This worksheet is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in this worksheet are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this worksheet. Auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements. The focus of gaining an understanding of internal control is not to determine how many of the “internal control questions” can be answered “Yes,” but to determine that the overall objectives of internal control are met.

Procedures for obtaining an understanding of the internal control system and testing controls may include: consideration of prior experience with the entity; inquiry of appropriate management, supervisory, and staff personnel; inspection of documents and records; observation and activities and operations. The working paper should describe the control policies and procedures, the test of controls, and the findings.

<b>R-1</b>	<b>Special Tests And Provisions_ Compliance Requirement N</b>			
Version 2.1, dated May 2004				
	<b>Yes</b>	<b>No</b>	<b>Done by</b>	<b>WP Ref.</b>
<b>Special Tests and Provisions</b>				
The specific requirements for special tests and provisions are unique to each Federal program. Based on the special tests and provisions compliance requirements identified, the auditor should consider the need to obtain an understanding of the internal control system as it relates to the requirements				
<b>Control Objectives</b>				
Control Environment. Are policies and procedures in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control? Describe below (or attach)				

**Master Document – Audit Program**

the policies and procedures that contribute to the assurance.				
1. Test of Controls. For the policies and procedures contributing to a “Yes” answer at Step 1, perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
2. Risk Assessment. Are policies and procedures in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives? Describe below (or attach) the policies and procedures that contribute to the assurance.				
3. Test of Controls. For the policies and procedures contributing to a “Yes” answer at Step 3, perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
4. Control Activities. Are policies and procedures in place to provide reasonable assurance that management’s policies and procedures relating to special tests and provisions are carried out? Describe below (or attach) the policies and procedures that contribute to the assurance.				
5. Test of Controls. For the policies and procedures contributing to a “Yes” answer at Step 5, perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
6. Information and Communication. Are policies and procedures in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities? Describe below (or attach) the policies and procedures that contribute to the assurance.				
7. Test of Controls. For the policies and procedures contributing to a “Yes” answer at Step 7, perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				
8. Monitoring. Are policies and procedures in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed? Describe below (or attach) the policies and procedures that contribute to the assurance.				
9. Test of Controls. For the policies and procedures contributing to a “Yes” answer at Step 9, perform a test of controls. Document auditee’s policies and procedures and the audit procedures and findings.				

**Master Document – Audit Program**

10. Conclusion. Document the audit conclusion on control effectiveness on Working Paper R.				
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<b>R-1</b>	<b>Special Tests And Provisions_ Compliance Requirement N</b>		
Version 2.1, dated May 2004			
<b>Suggested Audit Steps for Reviewing the Auditee’s Compliance with Special Tests and Provisions</b>			
The following audit procedures were adapted from the OMB Circular A-133 Compliance Supplement issued by OMB. The procedures are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The auditor should simply supplement the procedures with specific audit steps and include them in working papers.			
OMB Circular A-133 requires, for certain of its suggested audit procedures, that the auditor “select a sample”. However, minimum “sample” sizes and acceptable selection methods are not specified. Circular A-133 permits these matters to be determined based on the auditor’s professional judgment. A combination of other procedures performed, low inherent and control risk, and/or small population sizes should result in a lower level of test work.			
The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper R.			
		<b>Performed by</b>	<b>WP Ref.</b>
1.	For programs listed in the Compliance Supplement, complete the suggested audit procedures for Special Tests and Provisions found in Part 4 or 5 of the Compliance Supplement.		
2.	For programs not listed in the Compliance Supplement, determine any Special Tests and Provisions which could be material to a major program and develop audit procedures		
3.	Based on inquires of entity management and reviews of contracts and grant agreements pertaining to major programs, identify any additional compliance requirements not based on law or regulations (e.g., were agreed to as part of audit resolution of prior audit findings) that could be material to a major program.		
a.	Develop and complete audit procedures designed to test compliance with the requirements.		

<b>S-1</b>	<b>Summary Of Prior Audit Findings</b>
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**Master Document – Audit Program**

<b>Version 2.1, dated May 2004</b>		<b>WP Reference</b>
1. Obtain a Summary Schedule of Prior Audit Findings from the auditee.		
2. Review management decisions issued by federal agencies and pass-through entities and any appeals of those decisions.		
3. Consider whether the schedule:		
a. Contains all elements required by A-133, Section .315(b), including reasons why the auditee believes prior findings are no longer valid.		
b. Reports the status of all prior year findings that have not previously been listed as corrected, no longer valid, or not warranting further action, even if associated with a program that is not a current year major program.		
4. Observe activities that have been redesigned to address prior-audit findings.		
5. Test similar current-year transactions.		
6. Review the information in the schedule for consistency with:		
a. Management’s responses to inquiries.		
b. Knowledge obtained of the status of prior audit findings.		
7. Report as a current year finding instances where the results of audit follow-up procedures disclose that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding.		

<b>A-1</b>	<b>Concluding Steps</b>	<b>WP Reference</b>
<b>Version 2.1, dated May 2004</b>		
	1. Prepare a Schedule of Findings and Questioned Costs (CAM 13-706.5)	
	a. Circular A-133, Section .505(d) requires inclusion of a Schedule of Findings and Questioned Costs in the reporting package for all single audits even if there are no current year findings. Complete the schedule in W/P A.	
	2. Reconcile the direct costs in the Field Detachment’s assist audit report and the related indirect costs to the Schedule of Expenditures of Federal Awards.	

## Master Document – Audit Program

3. Summarize audit results for supervisory review.	
4. Conduct an exit conference and provide the audit results (including the exhibit and explanatory notes) to the contractor (see CAM 4-304.4). The contractor's reaction should be obtained for inclusion into the final audit report.	
5. Review and assess the auditee's response to current year audit findings as presented in the auditee's Corrective Action Plan (CAM 13-706.6). Incorporate responses and auditor's rejoinder, if necessary, into the audit report.	
6. Prepare the matrix shown on W/P A. Information on the matrix must be taken from the Schedule of Findings and Questioned Costs.	
a. The matrix summarizes the information for the purpose of facilitating completion of Part III, Item 7 of the Data Collection Form.	
7. Prepare the Data Collection Form (Form No. SF-SAC) as described in CAM 13-706.8 and the Form instructions.	
a. Coordinate with the auditee and its auditors regarding responsibility for completion of the Data Collection Form in a timely manner to satisfy the reporting time constraints.	
b. As prescribed by the coordinated audit matrix, complete Parts I (Item 7), II, and III.	
c. An electronic version of the form can be downloaded from the clearinghouse's website: <a href="http://harvester.census.gov/sac">http://harvester.census.gov/sac</a> .	
8. If applicable, prepare a rate agreement letter in accordance with CAM 6-708.2 if the contractor agrees with the audit results.	
9. If the contractor does not agree with the audit results, prepare a DCAA Form 1 in accordance with CAM 6-900 if applicable. Notify the cognizant ACO of the pending Form 1 and the major cost issues. For audits of subcontracts, coordinate Form 1 issues with the prime contract auditors for their preparation of any needed Form 1.	
10. Prepare the draft report in accordance with CAM 13-700.	
11. If applicable, prepare CAS noncompliance reports.	
12. Obtain supervisory review of the draft reports and rate agreement letter or Form 1, as applicable. The RAM should also review the DCAA Form 1.	
13. Prepare any required audit lead sheets and update permanent files (CAM 4-405.1).	
14. Prepare and review the accuracy of dollars examined, questioned costs, and sustained questioned costs amounts for DMIS reporting.	
15. Ensure audit program steps initially approved by the supervisor have been	

**Master Document – Audit Program**

<p>posted with appropriate working paper references and reasons provided for all steps not performed. Ensure all working papers, including the administrative papers, are complete.</p>	
<p>16. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:</p>	
<p>a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.</p>	
<p>b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.</p>	
<p>c. Review the APPS exe file for temporary files. These files can be recognized by the “~\$” or “~WRL” at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.</p>	
<p>d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report” would be replaced</p>	
<p>e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails.</p>	
<p>f. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to make the file a part of the APPS generated executable file and it must be included separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is</p>	

**Master Document – Audit Program**

distributed outside of DCAA.	
g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.	
h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.	
i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701-2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.	
j. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label.	
k. Securely enclose the “backup” set of electronic files (CD) and any “official” set of hard copy in the hard copy folder.	
l. File the “official” set of electronic files in iRIMS (see iRIMS User Guide).	
m. <b><u>Do Not File Sensitive Audits in iRIMS</u></b> : Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions.	