

PART 7 - GUIDANCE FOR AUDITING PROGRAMS NOT INCLUDED IN THIS COMPLIANCE SUPPLEMENT

Purpose

The 2 CFR section 200.514(d)(3) states that for those federal programs not covered in the compliance supplement, the auditor must use the types of compliance requirements (see 12 types of compliance requirements described in Part 3) contained in the compliance supplement (this Supplement) as guidance for identifying the types of compliance requirements to test, and determine the requirements governing the federal program by reviewing the provisions of the federal award, and the laws and regulations referred in such awards.

The purpose of this Part is to provide the auditor with guidance on how to identify the applicable compliance requirements for programs not included in this Supplement for single audits and for program-specific audits when a program-specific audit guide is not available. This Supplement includes only the largest and/or riskiest federal programs. However, more than 1,500 assistance programs are currently funded by the federal government. Therefore, it is likely that the auditor will encounter programs that the auditor is required to test as major programs that are not included in this Supplement. For this reason, the following guidance is provided for the auditor to identify those compliance requirements that should be tested.

Organization of this Supplement

First, a review of how this Supplement is organized will be helpful, since the auditor must consider several parts of the Supplement in identifying compliance requirements to be tested. This Supplement comprises the following parts:

Part 1 - Background, Purpose, and Applicability

Part 2 - Matrix of Compliance Requirements

Part 3 - Compliance Requirements

Part 4 - Agency Program Requirements

Part 5 - Clusters of Programs

Part 6 - Internal Control

Part 7 - Guidance for Auditing Programs Not Included in This Compliance Supplement

Appendices

In determining the compliance requirements to test for programs not included in this Supplement, the auditor must refer to parts 3 and 5. Part 3 identifies and describes the 12 types of compliance requirements where noncompliance may have a direct and material effect on a federal program and provides audit objectives and suggested audit procedures. The 12 types of compliance requirements are:

- A. Activities Allowed or Unallowed
- B. Allowable Costs/Cost Principles
- C. Cash Management
- D. (Reserved) (**Note:** Some agencies have made Davis-Bacon Act (Wage Rate Requirements) a Special Test and Provision; see 20.001 in Part 4 for a cross-cutting section addressing Wage Rate Requirements.)
- E. Eligibility
- F. Equipment and Real Property Management
- G. Matching, Level of Effort, Earmarking
- H. Period of Performance
- I. Procurement and Suspension and Debarment
- J. Program Income
- K. (Reserved)
- L. Reporting
- M. Subrecipient Monitoring
- N. Special Tests and Provisions

Part 5 enumerates those programs that are considered to be clusters of programs as defined in 2 CFR section 200.1. A cluster of programs means federal programs with different Assistance Listing (CFDA) numbers that are defined as a cluster of programs because they are closely related programs and share compliance requirements. Part 5 identifies research and development (R&D) and Student Financial Assistance (SFA) as clusters, as well as certain other clusters.

For programs not included in this Supplement, the auditor must determine the applicable compliance requirements. While a federal program may have many compliance requirements, normally there are only a few key compliance requirements that could have a direct and material effect on the program. Since the single audit process is not intended to cover every compliance requirement, the auditor's focus must be on the 12 types of compliance requirements enumerated in Part 3 of the Supplement. The following are suggested procedures to assist the auditor in making this determination.

Although the focus of this Supplement is on compliance requirements that could have a direct and material effect on a major program, auditors also have responsibility under *Generally Accepted Government Auditing Standards* (GAGAS) for other requirements when specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on a major program.

Steps for Identifying Compliance Requirements

Determining what compliance requirements to test involves several steps. The auditor should address the following questions:

1. *What are the program objectives, program procedures, and compliance requirements for a specific program?*

The first step is to gain an understanding of how the program works (e.g., the program objectives and procedures) and determine what laws, regulations, and provisions of the federal award (compliance requirements) apply to the program. The auditor should consider the following steps:

- a. Discuss the program with the non-federal entity and, if necessary, the federal agency or, in the case of a subrecipient, the pass-through entity.
- b. Review the federal award and referenced laws and regulations applicable to the program, including any amendments or closeout agreements. The documents or agreements may identify the name and telephone number of a federal contact person or, if a subaward, the contact person for the pass-through entity whom the auditor may wish to contact for additional information.

Note: The auditor should be aware that a particular non-federal entity or federal award may be subject to provisions that are unique to that entity or award. For example, previous noncompliance by a non-federal entity may result in additional requirements to which the non-federal entity must adhere, in order to continue its participation in the federal program. Such provisions generally would not be based on laws and regulations applicable to all awards under the federal program. Reasonable procedures to identify such compliance requirements would be inquiry of non-federal entity management and review of the federal award. Any such requirements identified that could have a direct and material effect on a major program must be included in the audit.

- c. Review the Assistance Listing. The Assistance Listing provides summary information about each program and includes the name and telephone number of a federal contact person. A searchable copy of the Assistance Listing is available at <https://beta.sam.gov>.
- d. If there is a program-specific audit guide or other audit guidance issued by the federal agency's Office of the Inspector General (OIG), the auditor may consider that guidance in identifying the program objectives, program procedures, and compliance requirements. See Part 6 of the Supplement for the availability of program-specific audit guides.

- e. Consider other audit guidance, including previously issued guidance, pertaining to the program that has continuing relevance.

2. *Which of the compliance requirements could have a direct and material effect on the program?*

Generally Accepted Government Auditing Standards require that the auditor plan the audit to provide reasonable assurance that the financial statements are free of material misstatement resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts. The 2 CFR section 200.514(d) requires the auditor to perform procedures to determine whether the non-federal entity has complied with laws, regulations, and the provisions of the federal award that could have a direct and material effect on each major program. Therefore, the auditor must determine which compliance requirements could have a direct and material effect on each major program.

In assessing materiality, the auditor should consider that materiality is based on qualitative as well as quantitative aspects. Also, the auditor should consider whether to set materiality at lower levels in audits of federal programs than private sector audits of financial statements due to the visibility and sensitivity of such programs. Examples of characteristics indicative of compliance requirements that could have a direct and material effect on a major program include:

- a. Noncompliance could likely result in questioned costs.
- b. The requirement affects a large part of the federal program (e.g., a material amount of program dollars).
- c. Noncompliance could cause the federal agency, or pass-through entity, in the case of a subrecipient, to take action, such as seeking reimbursement of all or a part of the award and suspending the recipient's or subrecipient's participation in the program.

3. *Which of the compliance requirements are susceptible to testing by the auditor?*

The auditor is expected to test compliance only for those requirements that are susceptible to testing by the auditor (i.e., the requirements can be evaluated against objective criteria, and the auditor can reasonably be expected to have sufficient basis for recognizing noncompliance). Further, the auditor would not be expected to test for compliance with requirements that the federal agency should have the ability to verify in the normal course of administering the program (e.g., if the requirement is that the non-federal entity must file a report by a certain date, the federal agency should know whether it received the report on time). Characteristics of compliance requirements that auditors are typically expected to test include those:

- a. That are practical to test.
- b. With objective criteria available for the auditor to assess compliance.

- c. Where an audit objective can be written that supports an opinion on compliance.
 - d. When testing adds value, for example:
 - (1) It is likely that the auditor could document the noncompliance in a manner that (a) permits the federal or pass-through entity to take action, or (b) gives the federal or pass-through entity an early warning to initiate a monitoring visit or other contact with the non-federal entity.
 - (2) The federal or pass-through entity does not otherwise have information that verifies compliance.
4. *Into which of the 12 types of compliance requirements does each compliance requirement fall?*

Note: In performing this step, the auditor may find it helpful to prepare a matrix similar to the matrix included in Part 2 for programs included in this Supplement.

The auditor must use the 12 types of compliance requirements listed for identifying which requirements applicable to the program are subject to testing. Not all compliance requirements apply to all programs. Conversely, certain types almost always apply.

- A. **Activities Allowed or Unallowed** almost always applies to federal programs. The auditor should look at the program requirements and federal award documents for what constitutes allowable or unallowable activities.
- B. **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.
- C. **Cash Management** almost always applies to federal programs.
- E. **Eligibility** applies to most federal programs which provide benefits to individuals, groups of individuals, or make subawards. For programs with eligibility requirements, the auditor should review the program laws, regulations, and provisions of federal awards to determine the specific eligibility requirements. Eligibility involves not only individuals but also possibly groups of individuals, geographical areas, or subrecipients. Additionally, the auditor should consider whether continuing, as well as initial, eligibility requirements apply. Furthermore, eligibility involves both who is eligible and the amount of benefits provided to those who are eligible.
- F. **Equipment and Real Property Management** requirements apply to federal programs that allow for purchase equipment or real property.

- G. **Matching, Level of Effort, Earmarking** is not universal, and, if applicable, would be specific to the federal program and often the non-federal entity. Therefore, the auditor will have to review the laws, regulations, and federal awards applicable to the program to determine specific requirements for matching, level of effort, and/or earmarking.
- H. **Period of Performance** almost always applies to federal programs. The federal award often indicates the period during which the funds are available for obligation under the program. The auditor should also look for program requirements regarding carry-over of unused funds to future funding periods, and whether pre-award costs are allowable, to what extent, and under what circumstances.
- I. **Procurement and Suspension and Debarment** applies, in the case of procurement, any time the entity procures goods or services. Suspension and debarment applies to certain procurements and to all subawards.
- J. **Program Income** applies to any program that generates program income (primarily related to the disposition of the income). Program regulations or the federal award may specify additional criteria.
- L. **Reporting** almost always applies to federal programs. The standard financial reports are described in Part 3; however, the federal agency or the pass-through entity may have developed its own forms for financial reporting. These forms may be in addition to or in lieu of the standard federal financial reports and may include electronic submissions. The auditor should determine whether the standard reports are used, and if not, whether other forms are used to report the same or similar information. Information collections (which, as defined in 5 CFR section 1320.3(c), involve 10 or more respondents) by federal agencies must be approved by OMB in accordance with the Paperwork Reduction Act of 1995 (44 USC 3501-3520) and assigned an OMB control number. A federal agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a valid control number.

For performance reporting and special reporting, if there is a program in this Supplement funded by the same federal agency that requires the same performance or special reporting required by the program for which the auditor is seeking to identify compliance requirements, and this Supplement requires testing of those data, then the auditor should use such guidance in identifying compliance requirements to test. Otherwise, the auditor is only required to test financial reporting. When applicable, the auditor is required to test compliance with the subaward reporting requirement under the Federal Funding Accountability and Transparency Act (FFATA).

- M. **Subrecipient Monitoring** applies when federal awards are passed through to a subrecipient. If the entity is not a pass-through entity, this requirement does not apply.

- N. **Special Tests and Provisions** include those compliance requirements that do not fit the description of the types of compliance requirements discussed above. These will generally be the most difficult type of compliance requirement to identify because, by definition, with the exception of Wage Rate Requirements (previously the Davis-Bacon Act), they are unique to each program. In addition to reviewing the program's federal awards and referenced laws and regulations, the auditor also should make inquiries of the non-federal entity to help identify and understand Special Tests and Provisions.

For each of the types of compliance requirements listed above, except for Special Tests and Provisions, the auditor must consider the compliance requirements and related audit objectives in Part 3. In making a determination not to test a compliance requirement, the auditor must conclude that the requirement either does not apply to the particular non-federal entity or that noncompliance with the requirement could not have a direct and material effect on a major program (e.g., the auditor would not be expected to test Procurement if the non-federal entity charges only small amounts of purchases to a major program). The suggested audit procedures in Part 3 are provided to assist auditors in planning and performing tests of non-federal entity compliance with the requirements of federal programs. Auditor judgment is necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objective and whether additional or alternative audit procedures are needed.

Internal Control – Consistent with the requirements of 2 CFR Part 200, Subpart F, 200.514 (c) Part 6 includes audit objectives and suggested audit procedures to test internal control. However, the auditor must determine the specific procedures to test internal control on a case by case basis considering factors such as the non-federal entity's internal control, the compliance requirements, the audit objectives for compliance, the auditor's assessment of control risk, and the audit requirement to test internal control as prescribed in 2 CFR Part 200, Subpart F.

5. *For Special Tests and Provisions, what are the applicable audit objectives and audit procedures?*

For each of the types of compliance requirements discussed above, Part 3 includes audit objectives and suggested audit procedures, except for Special Tests and Provisions. As noted above, Special Tests and Provisions (except for Wage Rate Requirements) are sufficiently unique to every program that including audit objectives and suggested audit procedures is not practicable. Therefore, the auditor will have to develop audit objectives and audit procedures for each identified Special Test and Provision (other than those related to Wage Rate Requirements, which are found in Part 4, 20.001 Wage Rates Cross Cutting Section)) using the guidance described in Part 3 under Special Tests and Provisions.