

STATE ACCOUNTING OFFICE
(COMPLIANCE AND RISK MANAGEMENT GROUP)

COMPLIANCE TEST PROGRAM

AMERICAN RECOVERY AND REINVESTMENT ACT

1. Audit Objectives:

- 1.1. To verify that agency management establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements, including internal control designed to ensure compliance with American Recovery and Reinvestment Act (ARRA) requirements.
- 1.2. To verify that there is compliance with accountability, transparency and other program requirements of ARRA including additional cross-cutting requirements imposed by ARRA under the following compliance areas:
 - Activities Allowed or Unallowed;
 - Davis-Bacon Act;
 - Procurement and Suspension and Debarment;
 - Reporting;
 - Sub-recipient Monitoring; and
 - Special Tests and Provisions.

2. Compliance requirements:

	Done By	W/P Ref.
2.1. ACTIVITIES ALLOWED OR UNALLOWED		
<ul style="list-style-type: none"> • Audit Notes <p>This type of compliance requirement specifies the activities that can or cannot be funded under a specific program. The specific requirements for activities allowed or unallowed are unique to each Federal program and are contained in the program legislation or, as applicable, ARRA, Federal awarding agency regulations, and the terms and conditions of the award.</p>		
<ul style="list-style-type: none"> • Audit Objectives <p>1. Obtain an understanding of internal control, assess risk, and test internal control as</p>		

<p>required by OMB Circular A-133.</p> <p>2. Determine whether Federal awards were expended only for allowable activities.</p>		
<ul style="list-style-type: none"> • Suggested Audit Procedures – Internal Control <ol style="list-style-type: none"> 1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program. 2. Plan the testing of internal control to support a low assessed level of control risk for activities allowed or unallowed and perform the testing of internal control as planned. 3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance. <ul style="list-style-type: none"> • Suggested Audit Procedures – Compliance <ol style="list-style-type: none"> 1. Identify the types of activities which are either specifically allowed or prohibited by the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. 2. When allowability is determined based upon summary level data, perform procedures to verify that: <ol style="list-style-type: none"> a. Activities were allowable. b. Individual transactions were properly classified and accumulated into the activity total. 3. 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. 4. The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities. 		
<p>2.2. <i>DAVIS-BACON ACT</i></p>		
<ul style="list-style-type: none"> • Audit Notes <p>State entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and other applicable DOL regulations.</p>		
<ul style="list-style-type: none"> • Audit Objectives <ol style="list-style-type: none"> 1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular. 2. Determine whether the state entity notified contractors and subcontractors of the requirements to comply with the Davis-Bacon Act and obtained copies of certified payrolls. 		
<ul style="list-style-type: none"> • Suggested Audit Procedures – Internal Control <ol style="list-style-type: none"> 1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program. 2. Plan the testing of internal control to support a low assessed level of control risk for Davis-Bacon Act and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in OMB Circular A-133, including assessing the 		

<p>control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.</p> <p>3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</p>		
<ul style="list-style-type: none"> • Suggested Audit Procedures – Compliance <p>1. Select a sample of construction contracts and subcontracts greater than \$2000 that are covered by the Davis-Bacon Act and perform the following procedures:</p> <ol style="list-style-type: none"> a. Verify that the required prevailing wage rate clauses were included. b. Verify that the contractor or subcontractor submitted weekly the required certified payrolls. 		
<p>2.3. PROCUREMENT AND SUSPENSION AND DEBARMENT</p>		
<ul style="list-style-type: none"> • Audit Notes <p>Procurement:</p> <p>State entities shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.</p> <p>Institutions of higher education, hospitals, and other non-profit organizations shall use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110.</p> <p>Section 1605 of ARRA prohibits the use of ARRA funds for a project for the construction, alteration, maintenance, or repairs of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. ARRA provides for waiver of these requirements under specified circumstances. An award term is required in all awards for construction, alteration, maintenance, or repair of a public building or public work.</p> <p>Suspension and Debarment:</p> <p>State 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.</p>		
<ul style="list-style-type: none"> • Audit Objectives <ol style="list-style-type: none"> 1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133. 2. 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. 3. Determine whether an award using ARRA funding includes a Buy-American award term and, if so, whether the recipient is complying with the Buy-American provisions of ARRA or if any waivers have been granted. 4. For covered transactions determine whether state entity verified that entities are not suspended or debarred or otherwise excluded. 		

<ul style="list-style-type: none"> • Suggested Audit Procedures – Internal Control <ol style="list-style-type: none"> 1. 1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program. 2. 2. Plan the testing of internal control to support a low assessed level of control risk for procurement and suspension and debarment and perform the testing of internal control as planned. 3. 3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance. 		
<ul style="list-style-type: none"> • Suggested Audit Procedures – Compliance <p><i>Procedures 1 – 4 - Higher education, hospitals, and other non-profit organizations:</i></p> <ol style="list-style-type: none"> 1. Obtain entity’s procurement policies. Verify that the policies comply with applicable Federal requirements and Section 1605 of ARRA. 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 or proposals. If yes, verify that these limitations were not applied to federally funded procurements except where applicable Federal statutes expressly mandate or encourage geographic preference. 3. Examine procurement policies and procedures and verify the following: <ol style="list-style-type: none"> 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. b. There is a written policy pertaining to ethical conduct. 4. Select a sample of procurements and perform the following: <ol style="list-style-type: none"> 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. b. Verify that procurements provide full and open competition. 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. 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. e. Verify that the Federal awarding agency approved procurements exceeding \$100,000 when such approval was required. Procurements (1) awarded by noncompetitive negotiation, (2) awarded when only a single bid or offer was received, (3) awarded to other than the apparent low bidder, or (4) specifying a “brand name” product may require prior Federal awarding agency approval. f. Verify compliance with other procurement requirements specific to an award. 		

<p><i>Procedure 5 – Other state entities</i></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 non-Federal funds.</p> <p><i>Procedure 6 - Other state entities</i></p> <p>6. Select a sample of procurements and subawards and —</p> <p style="padding-left: 40px;">a. Test whether the state entities performed a verification check for covered transactions, by checking the EPLS, collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity; and</p> <p style="padding-left: 40px;">b. Test the sample of procurements and subawards against the EPLS, and ascertain if covered transactions were awarded to suspended or debarred parties.</p> <p>7. Select a sample of ARRA-funded procurements for activities subject to Section 1605 of ARRA and—</p> <p style="padding-left: 40px;">a. Test whether the non-Federal entities requested and received any exceptions to Buy-American requirements; and</p> <p style="padding-left: 40px;">b. Test the sample of procurements to ascertain if entities are otherwise in compliance with the ARRA requirements.</p>		
<p>2.4. REPORTING</p>		
<ul style="list-style-type: none"> • Audit Notes <p><i>Financial Reporting</i></p> <p>Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form).</p> <p><i>Performance Reporting</i></p> <p>Recipients shall submit performance reports at least annually but not more frequently than quarterly.</p> <p><i>Special Reporting</i></p> <p>State entities may be required to submit other reporting which may be used by the Federal agency for such purposes as allocating program funding.</p> <p><i>American Recovery and Reinvestment Act Reporting</i></p> <p>Section 1512 of ARRA includes reporting requirements applicable to awards under ARRA Division A.</p> <p><i>Reporting Under the Payment Management System</i></p> <p>Many recipients utilize the Payment Management System (PMS) operated by the Division of Payment Management (DPM) within the Department of Health and Human Services’ Program Support Center.</p>		
<ul style="list-style-type: none"> • Audit Objectives <p>1. Obtain an understanding of internal control, assess risk, and test internal control as</p>		

<p>required by OMB Circular.</p> <p>2. Determine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.</p>		
<p style="text-align: center;">• Suggested Audit Procedures – Internal Control</p> <p>1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.</p> <p>2. Plan the testing of internal control to support a low assessed level of control risk for reporting and perform the testing of internal control as planned.</p> <p>3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</p>		
<p style="text-align: center;">• Suggested Audit Procedures – Compliance</p> <p>1. Review applicable laws, regulations, and the provisions of contract 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 sub-recipient, instructions for completing the reports.</p> <p>a. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual).</p> <p>b. For performance and special reports, determine the criteria and methodology used in compiling and reporting the data.</p> <p>2. Perform appropriate analytical procedures and ascertain the reason for any unexpected differences. Examples of analytical procedures include:</p> <p>a. Comparing current period reports to prior period reports.</p> <p>b. Comparing anticipated results to the data included in the reports.</p> <p>c. Comparing information obtained during the audit of the financial statements to the reports.</p> <p>Note: The results of the analytical procedures should be considered in determining the nature, timing, and extent of the other audit procedures for reporting.</p> <p>3. Select a sample of each of the following report types:</p> <p>a. Financial reports</p> <p>(1) Ascertain if the financial reports were prepared in accordance with the required accounting basis.</p> <p>(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. If reports require information on an accrual basis and the entity does not prepare its accounting records on an accrual basis, determine whether the reported information is supported by available documentation.</p> <p>(3) For any discrepancies noted, review subsequent reports to ascertain if the discrepancies were appropriately resolved.</p> <p>b. Performance and special reports</p> <p>(1) Trace the reported data to records that accumulate and summarize data.</p> <p>(2) Perform tests of the underlying data to verify that the data were accumulated</p>		

<p>and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.</p> <p>c. When intervening 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.</p> <p>d. Test mathematical accuracy of reports and supporting worksheets.</p> <p>4. Test the selected reports for accuracy and completeness.</p> <p>a. For financial reports, review accounting records and ascertain if all applicable accounts were included in the sampled reports (e.g., program income, expenditure credits, loans, interest earned on Federal funds, and reserve funds).</p> <p>b. For performance and special reports, review the supporting records and ascertain if all applicable data elements were included in the sampled reports.</p> <p>c. For each type of report—</p> <p>(1) When intervening 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.</p> <p>(2) Test mathematical accuracy of reports and supporting worksheets.</p> <p>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' DPM for recipients using the Payment Management System, or pass-through entity in the case of a sub-recipient.</p>		
<p>2.5. SUBRECIPIENT MONITORING</p>	<p>Done By</p>	<p>W/P Ref.</p>
<p>• Audit Notes</p> <p>The requirements for sub-recipient monitoring are contained in the Single Audit Act Amendments of 1996, OMB Circular A-133 and A-102 Common Rule and OMB Circular A-110, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.</p>		
<p>• Audit Objectives</p> <p>1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular.</p> <p>2. Determine whether the state pass-through entity properly identified Federal award information and compliance requirements to the sub-recipient and approved only allowable activities in the award documents.</p> <p>3. Determine whether the state pass-through entity monitored sub-recipient activities to provide reasonable assurance that the sub-recipient administers Federal awards in compliance with Federal requirements.</p> <p>4. Determine whether the state pass-through entity ensured required audits are performed, issued a management decision on audit findings within 6 months after receipt of the sub-recipient's audit report, and ensures that the sub-recipient takes timely and appropriate corrective action on all audit findings.</p> <p>5. Determine whether in cases of continued inability or unwillingness of a sub-recipient to have the required audits, the pass-through entity took appropriate action using</p>		

<p>sanctions.</p> <p>6. Determine whether the state pass-through entity evaluates the impact of sub-recipient activities on the state pass-through entity.</p> <p>7. Determine whether the state pass-through entity determined that sub-recipients have current CCR registrations prior to making subawards and performed periodic checks to ensure that sub-recipients are updating information, as necessary.</p>		
<p style="text-align: center;">• Suggested Audit Procedures – Internal Control</p> <p>1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.</p> <p>2. Plan the testing of internal control to support a low assessed level of control risk for sub-recipient monitoring and perform the testing of internal control as planned.</p> <p>3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.</p>		
<p style="text-align: center;">• Suggested Audit Procedures – Compliance</p> <p>1. Gain an understanding of the state pass-through entity’s sub-recipient procedures through a review of the pass-through entity’s sub-recipient monitoring policies and procedures (e.g., annual monitoring plan) and discussions with staff. This should include an understanding of the scope, frequency, and timeliness of monitoring activities and the number, size, and complexity of awards to sub-recipients.</p> <p>2. Test the pass-through entity’s subaward review and approval documents to determine whether, before award, the pass-through entity checked CCR to determine whether sub-recipients were registered.</p> <p>3. Test award documents and agreements to ascertain if: (a) at the time of award, the pass-through entity made sub-recipients aware of the award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and requirements imposed by laws, regulations, and the provisions of contract or grant agreements; and (b) the activities approved in the award documents were allowable.</p> <p>4. Review the pass-through entity’s documentation of during-the-award monitoring to ascertain if the pass-through entity’s monitoring provided reasonable assurance that sub-recipients used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements, and achieved performance goals.</p> <p>5. Review the pass-through entity’s follow-up to ensure corrective action on deficiencies noted in during-the-award monitoring.</p> <p>6. Verify that the state pass-through entity:</p> <p style="padding-left: 20px;">a. Ensured that the required sub-recipient audits were completed. For sub-recipients that are not required to submit a copy of the reporting package to a pass-through entity because there were “no audit findings” (i.e., because the schedule of findings and questioned costs did not disclose audit findings relating to the Federal awards that the pass-through entity provided and the summary schedule of prior audit findings did not report the status of audit findings relating to Federal awards that the pass-through entity provided, as prescribed in OMB Circular A-133, the pass-through entity may use the information in the Federal Audit Clearinghouse (FAC) database (available on</p>		

<p>the Internet at http://harvester.census.gov/sac) as evidence to verify that the sub-recipient had “no audit findings” and that the required audit was performed. This FAC verification would be in lieu of reviewing submissions by the sub-recipient to the pass-through entity when there are no audit findings.</p> <p>b. Issued management decisions on audit findings within 6 months after receipt of the sub-recipient’s audit report.</p> <p>c. Ensured that sub-recipients took appropriate and timely corrective action on all audit findings.</p> <p>6. Verify that in cases of continued inability or unwillingness of a sub-recipient to have the required audits, the pass-through entity took appropriate action using sanctions.</p> <p>7. Verify that the effects of sub-recipient noncompliance are properly reflected in the pass-through entity’s records.</p> <p>8. Verify that the pass-through entity monitored the activities of sub-recipients not subject to OMB Circular A-133,.</p>		
<p>2.6. SPECIAL TESTS AND PROVISIONS</p>		
<ul style="list-style-type: none"> • Audit Notes <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 contract or grant agreements pertaining to the program.</p>		
<ul style="list-style-type: none"> • Audit Objective <ol style="list-style-type: none"> 1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133. 2. Determine whether accounting records for ARRA funds provide for the separate identification and accounting required for ARRA awards and activity. 3. Determine whether the entity met the requirements for reporting expenditures of ARRA awards on the SEFA and that reported amounts are supported by the accounting records and fairly presented in accordance with ARRA and program requirements. 		
<ul style="list-style-type: none"> • Suggested Audit Procedures – Internal Control <ol style="list-style-type: none"> 1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program. 2. Plan the testing of internal control to support a low assessed level of control risk for special tests and provisions and perform the testing of internal control as planned. 3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance. 		
<ul style="list-style-type: none"> • Suggested Audit Procedures – Compliance <ol style="list-style-type: none"> 1. Ascertain if expenditures of ARRA awards are accounted for separately from expenditures of non-ARRA awards. 2. Perform tests to verify that the SEFA properly identifies and reports expenditures of ARRA awards and reported expenditures are supported by accounting records. 3. Perform tests to ascertain that the financial management system permits the 		

preparation of required reports and tracing of funds adequate to establish that funds were used for authorized purposes and allowable costs.		
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