

Compliance Supplement Training - Types of Compliance Requirements with an Auditor's Perspective

Danna J. Layne, CPA, CFE
Nunn, Brashear, & Uzzell, P.A.

1

Importance of the Compliance Supplement Provided by the State

- ▶ Familiarity with Programs
 - ▶ Frequency of testing (annually, tri-annually, significant funding)
 - ▶ Removal of direct benefit programs has resulted in testing of programs not tested in the past
- ▶ Staff Experience
 - ▶ Often inexperienced staff assigned to perform the field work
 - ▶ Turnover at the unit level

2

Types of Compliance Requirements

Federal	Compliance Requirement	State
CC	Cross Cutting Requirements	CC
A	Activities Allowed or Unallowed	1
B	Allowable Costs/Cost Principles	2
C	Cash Management	3
D	Reserved	
	Conflicts of Interest	4
E	Eligibility	5
F	Equipment/Real Property Mgmt	6
G	Matching, Level of Effort, Earmarking	7
H	Period of Availability of Funds	8
I	Procurement/Suspension/Debarment	9
J	Program Income	10
K	Reserved	11
L	Reporting	12
M	Subrecipient Monitoring	13
N	Special Tests and Provisions	14

3

Single Audit It Is Much More Than Eligibility

- ▶ Compliance Supplements tend to focus on eligibility and miss major requirements of the program
- ▶ Auditors still have a responsibility to address the major requirements

Supplement Number (Note A)	State Project/Program	State Subgranting Agency	Types of Compliance Requirements (Note B)														
			CC	A	B	C	D	E	F	G	H	I	J	K	L	M	N
93-568-2	Low-Income Energy Assistance	DHHS-DSS	Y	Y	Y	Y	N	Y	N	Y	Y	Y	N	N	Y	Y	Y
93-568-3	Crisis Intervention Program	DHHS-DSS	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y

4

Single Audit It Is Much More Than Eligibility

Applies To:			Types of Compliance Requirements (Note B)													
			A	B	C	n/a	E	F	G	H	I	J	L	M	N	
Supplement Number (Note A)	State Project/Program	In Section	1	2	3	4	5	6	7	8	9	10	12	13	14	
			Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Conflict of Interest	Eligibility	Equipment Real Property Management	Matching, Level of Effort, Effort Sharing	Period of Performance	Procurement	Suspensions & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
DOT-0 – Department of Transportation			N	N	Y	Y	N	Y	N	Y	Y	N	N	N	N	
20.507	Urbanized Area Formula Grant Program	B														
20.509	Community Transportation Program (Public Transportation for Urbanized Areas)	B														
20.526	Federal Transit Administration Capital Program	B														
20.600-CL	Governor Highway Safety Program	B														
DOT-4	Non-State System Street Aid Allocation (State Street Aid to Municipalities "Powell Bill")	C														
DOT-9	State Maintenance Assistance for Urban and Small Urban Program	C														
DOT-11	Rideshare	C														
DOT-16CL	Rural Operating Assistance Program (ROAP)	C														

5

Cross Cutting Requirements - CC

- ▶ Main Agencies in NC with CC Requirements
 - ▶ Department of Health and Human Services - Mental Health and Developmental Disabilities and Substance Abuse Services
 - ▶ Department of Health and Human Services - Social Services, Aging and Adult Services, Medical Assistance, Child Development and Early Education
 - ▶ Department of Public Instruction
- ▶ Purpose:
 - ▶ Specific testing on government unit as a whole with some specific tests not covered in a compliance supplement of a specific program
 - ▶ Allowable costs, matching, reporting, and special tests are the main requirements covered
- ▶ Perspective - probably the most specific supplement I have seen

6

Activities Allowed or Unallowed

- ▶ Activities Allowed or Unallowed - “A” or “1”
 - ▶ Almost always applies to awards
 - ▶ Specific requirements are unique to each program
 - ▶ State Departments can limit the activities
 - ▶ www.whitehouse.gov, Compliance Supplement gives examples for various federal programs which could be used to assist in writing your supplement. It even has suggested audit procedures!
 - ▶ Suggested audit procedure - inspect advertisement of outreach programs for various activities, ensure program activities are offered
- ▶ Perspective
 - ▶ Supplements mention funds used for some purpose but do not tell the auditor the level of testing needed
 - ▶ Is cross cutting work sufficient for this? - Probably not, as it has its own requirement “CC”
 - ▶ Does our knowledge of the activity of the entity suffice?

7

Allowable Costs/Costs Principles

- ▶ Allowable Costs/Cost Principles - “B” or “2”
 - ▶ Again, almost always apply, purchase of goods and services
 - ▶ Costs must be reasonable and necessary
 - ▶ Policies and procedures should exist and meet requirements of the program
 - ▶ UG Cost Principles list allowable costs (referenced in previous slide), very specific
 - ▶ Must have adequate documents
 - ▶ Suggested audit procedures - select sample throughout year, inspect invoices charged to program to ensure allowed
- ▶ Perspective
 - ▶ Most supplements state “All grantees...are required to comply with the cost principles...”. BUT do not put any suggested audit procedure
 - ▶ Do we need to go to the invoice level?
 - ▶ Links to manuals are often incorrect

8

Cash Management

- ▶ Cash Management, “C” - “3”
 - ▶ Management and handling of funds
 - ▶ Distribution to recipients and how managed until disbursement
 - ▶ Two types - advance and reimbursements
 - ▶ Need to test time lapses - time between draw downs and use of funds
 - ▶ If only reimbursed, then it is possible for section to be not applicable at local level
 - ▶ Suggested audit procedure - inspection of deposits and disbursements, observation of cash handling procedures
- ▶ Perspective
 - ▶ Limited guidance given to auditor
 - ▶ Suggestion - auditor can test the internal controls related to this program

9

Conflicts of Interest

- ▶ Conflicts of Interest, “4”
 - ▶ Only a State compliance requirement
 - ▶ State law prohibits public officers or employees from benefitting from public contracts
 - ▶ Suggested audit procedures - inspect conflict of interest statements
- ▶ Perspective
 - ▶ Suggestion to government units I audit that they have all employees/officers sign a conflicts of interest statement
 - ▶ Often conflict statements are years old and situations change

10

Eligibility

- ▶ Eligibility, “E” - “5”
 - ▶ Very specific and complex
 - ▶ Links should be given to assist the supplement
 - ▶ Some programs have issues attribute charts to assist the testing
 - ▶ Split eligibility determining requirements (some programs now tested outside of audit)
 - ▶ Emphasis on documents
 - ▶ Often large sample size
- ▶ Perspective
 - ▶ Compliance usually complete
 - ▶ Don’t understand why auditors don’t test denied cases
 - ▶ Larger programs provide eligibility review documents
 - ▶ Some clusters do not cover all parts of eligibility
 - ▶ Auditors often rely on supervisors/managers for guidance

11

Equipment/Real Property Management

- ▶ Equipment and Real Property Management, “F” - “6”
 - ▶ Guidance on how to manage equipment - use, disposal, how long unit must keep
 - ▶ Tangible equipment, life more than a year, \$5,000 capitalization
 - ▶ Suggested audit procedure - inspection of approval letters for capitalized asset purchases, inspection of assets/invoices, inspection of prior year asset purchases to confirm they still exist
- ▶ Perspective
 - ▶ Often marked not applicable but cross referenced to federal supplement states it is applicable
 - ▶ Very easy for auditor to test in most programs (general ledger review, invoices, and letters of approval)

12

Matching, Level of Effort, Earmarking

- ▶ Matching, Level of Effort, Earmarking, “G” - “7”
 - ▶ Often requirement met at State level and can be passed at auditor level
 - ▶ Three types of match:
 - ▶ Matching or in-kind - funds or contributions from third party
 - ▶ Level of effort - level or service, level of expenditures, or another funding source to supplement
 - ▶ Earmarking - percentage of program’s funding must be used for specific activity
 - ▶ Suggested audit procedures depend on type match, if any
- ▶ Perspective
 - ▶ No auditor guidance listed, just a statement of what the match is - cash, in-kind, maintenance of effort

13

Period of Availability of Funds

- ▶ Period of Availability of Federal Funds, “H” - “8”
 - ▶ Requirement often not passed to unit as State receives the funds and passes it along
 - ▶ Federal or State agency may limit the time or it may be for a specific short period that does not correspond to fiscal year
 - ▶ If surplus, auditor should have direction on what the unit’s expectation was with surplus
 - ▶ Suggested audit procedures depend on type of program
- ▶ Perspective
 - ▶ If funds received in advance of spending, auditor needs to know these are advance funds

14

Procurement/Suspension/Debarment

- ▶ Procurement and Suspension and Debarment, “I” - “9”
 - ▶ Almost always applies - goods/services purchased
 - ▶ Covers compliance when obtaining goods/services from vendor, supplier, or provider
 - ▶ Recent years with specific UG changes - five classes of purchases
 - ▶ Suspension/Debarment requirements, units should be verifying
 - ▶ Suggested audit procedures - testing the controls in place in payables department
- ▶ Perspective
 - ▶ Statements that grantees are to conform to federal agency codifications of the grants management common rule or required to comply with procurement standards described in NC General Statutes
 - ▶ No auditor guidance of type of testing to perform
 - ▶ Sometimes needs tested by auditor at Finance Office level

15

Program Income

- ▶ Program Income, “J” - “10”
 - ▶ Gross income - fees for services, rent funds, sales, payments of principal and interest from grant funds
 - ▶ Often used to meet matching requirements or used to substitute the original budget
 - ▶ Suggested audit procedures - review of deposit slips, general ledger details, tracing of source documents
- ▶ Perspective
 - ▶ Limited auditor guidance of type of testing to perform
 - ▶ Rarely seen, auditors need to know if the program usually has some form of payment so they know to test program income

16

Reporting

- ▶ Reporting, “L” - “12”
 - ▶ Section establishes what must be reported to monitor financial activities
 - ▶ Could be financial, performance-related, or specific nature
 - ▶ Should state deadlines
 - ▶ Almost always apply
 - ▶ Suggested audit procedures - deadline requirements, tracing of information
- ▶ Perspective
 - ▶ Often outdated reports listed or unit does not refer to report as same name of compliance supplement
 - ▶ If reporting is done by State, then it only confuses the auditor and the unit when mentioned

17

Subrecipient Monitoring

- ▶ Subrecipient Monitoring, “M” - “13”
 - ▶ Applies only if entity passes to subrecipient
 - ▶ Suggested audit procedure - test compliance with monitoring activities such as reviewing reports submitted by subrecipients, performing on-site visits, agreed upon procedures if necessary
- ▶ Perspective
 - ▶ Often smaller programs are passed to sub-recipients to manage, not usually the larger ones
 - ▶ Usually not a section to be tested by auditor

18

Special Tests and Provisions

- ▶ Special Tests and Provisions, “N” - “14”
 - ▶ Requirements should be specific and don’t fall in the other types
 - ▶ Special tests for State Agencies
- ▶ Perspective
 - ▶ Supplements usually give good direction to auditors
 - ▶ Special tests often fall in the other compliance requirements

19

Questions/Comments

Thank you for what you do, you do make my job easier!



20