LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM

State Project/Program: HEATING AND AIR REPAIR AND REPLACEMENT PROGRAM

U. S. Department of Health and Human Services


NC Department of Commerce
State Energy Office

Agency Contact Person – Program
Rita Joyner
Section Chief, NC WAP
4345 Mail Service Center
Raleigh, NC 27699-4345
919-733-2230

Agency Contact Person – Financial
Lynn Banks
Business Officer
North Carolina Department of Commerce
4345 Mail Service Center
Raleigh, NC 27699-4345
919-733-2230

Address Confirmation Letters To:
Ward Lenz
Director, State Energy Office
North Carolina Department of Commerce
4345 Mail Service Center
Raleigh, NC 27699-4345
919-733-2230

The auditor should not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current.

The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

Auditors may request documentation of monitoring visits by the State Agencies.
LOW INCOME HOME ENERGY ASSISTANCE

I. PROGRAM OBJECTIVES

The Low-Income Home Energy Assistance Program (LIHEAP) is a block grant program in which States (including territories and Indian tribes) design their own programs, within very broad Federal guidelines. There are four components of LIHEAP: (1) block grants, (2) energy emergency contingency funds, (3) leveraging incentive awards, and (4) the Residential Energy Assistance Challenge Option Program (REACH). The objectives of LIHEAP are to help low-income people meet the costs of home energy (defined as heating and cooling of residences) increase their energy self-sufficiency, and reduce their vulnerability resulting from energy needs. A primary purpose is meeting immediate home energy needs. The target population is low-income households, especially those with the lowest incomes and the highest home energy costs or needs in relation to income, taking into account family size. Additional targets are low-income households with members who are especially vulnerable, including the elderly, persons with disabilities, and young children.

Department Activities

The North Carolina Weatherization Assistance Program receives funds through LIHEAP to operate the Heating and Air Repair and Replacement Program (HARRP). The objectives of HARRP are to increase energy efficiency and reduce energy costs by cleaning, tuning, repairing and/or replacing inefficient heating and air condition systems in the dwelling units of low-income families.

II. PROGRAM PROCEDURES

LIHEAP Block Grants

The Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Office of Community Services, administers the LIHEAP program at the Federal level. LIHEAP block grant funds are distributed by formula to the States, the District of Columbia, and the territories. In addition, federally or State-recognized Indian tribes (including tribal consortia) have the option of requesting direct funding from ACF, rather than being served by the State in which they are located. Tribes that are directly funded by HHS statutorily receive a share of the funds that would otherwise be allotted to the States in which they are located, based on the number of eligible households in the tribal service area as a percentage of the eligible households in the State, or a larger amount agreed upon in a State/tribe agreement. Over half the States agree to give the tribes located within their State a larger amount than required by the statute.

Each grantee is required to submit a plan/application annually in order to receive block grant funding. State grantees are required to hold a public hearing each year. All grantees must allow for public participation in the development of their annual plans. A separate application is required for those LIHEAP grantees that wish to apply for a leveraging incentive award or a REACH grant.

Department Activities

In NC, WAP funds are made available to subrecipients for weatherization services and HARRP through Low Income Home Energy Assistance Program (LIHEAP) funds. LIHEAP funds utilized for weatherization activities and for HARRP are received from the North Carolina LIHEAP Block Grant Program. For fiscal year 2011 less than 5% of the LIHEAP funds obtained
are used for weatherization services with the remaining amount used for HARRP. Funds are allocated to subrecipients in WAP and HARRP on a formula basis. After allocation amounts are determined and distributed to subgrantees, applications are submitted by local subrecipients to the Energy Division, the applications are reviewed and contracts are issued. Each contract identifies the operating terms and conditions which include the purpose of the agreement, period of performance, line item budget, budget amendment provisions, accounting and program records requirements, subcontractor requirements, allowable costs provisions, audit requirements, honesty and fidelity bond requirements, travel requirements, publication and publicity requirements, discrimination prohibitions, property management standards, reporting requirements, expenditure limitations, training and technical assistance requirements, and number of units to be weatherized. Subrecipients are required to submit monthly financial expenditure reports and quarterly program reports during the grant period. Grant funds are disbursed by the state to subrecipients on a monthly basis. On-site assessment visits are made to subrecipients by state staff to examine financial records to determine compliance with federal, state, and local rules and regulations; to review programmatic documents to determine client eligibility and to evaluate the quality of the work performed on completed dwelling units. Correspondence summarizing the results of on-site monitoring visits is shared with subrecipient officials.

Energy Emergency Contingency Funds

In addition to appropriations for the LIHEAP block grant program, funds may be awarded to meet the additional home energy assistance needs of States for a natural disaster or other emergency. Contingency funds that are awarded generally must be used under the normal statutory and regulatory requirements that apply to the LIHEAP block grants, unless special conditions are placed upon their use at the time of the award.

Leveraging Incentive Awards

Of the funds appropriated for LIHEAP each year, HHS is required to earmark a portion to reward those LIHEAP grantees that have acquired non-Federal resources to help low-income persons meet their home heating and cooling needs, as an incentive to augment the Federal dollars. This could involve the grantee or private organizations putting some of their own funds into LIHEAP or similar State or private programs, buying fuel at reduced or discount prices through bulk purchases or negotiated agreements, obtaining donations of weatherization materials or fuels, waiving utility fees, or any number of other activities. Awards in the current year are based on leveraging activities carried out during the previous year.

Residential Energy Assistance Challenge Option Program

Up to 25 percent of the funds earmarked for leveraging incentive awards each year may be set aside for the REACH program to make competitive grants to LIHEAP grantees to help LIHEAP-eligible households reduce their energy vulnerability. The purposes of REACH are: (1) to minimize health and safety risks that result from high energy burdens on low-income households; (2) to prevent homelessness as a result of inability to pay energy bills; (3) to increase efficiency of energy use by low-income families; and (4) to target energy assistance to individuals who are most in need. REACH grants are to be administered through community-based organizations. REACH grants are subject to special terms and conditions, which are specified in the grant awards.
Source of Governing Requirements
The LIHEAP program is authorized under Title XXVI of the Omnibus Budget Reconciliation Act of 1981, as amended (Pub. L. 97-35, as amended, also known as OBRA 1981), which is codified at 42 USC 8621-8629. Implementing regulations for this and other HHS block grant programs authorized by OBRA 1981 are published at 45 CFR part 96. Those regulations include general administrative requirements for the covered block grant programs in lieu of CFR part 92 (the HHS implementation of the A-102 Common Rule). Requirements specific to LIHEAP are in 45 CFR sections 96.80 through 96.89. In addition, grantees are to administer their LIHEAP programs according to the plans that they have submitted to HHS.

Under the block grant philosophy, each State is responsible for designing and implementing its own LIHEAP program, within very broad Federal guidelines. States must administer their LIHEAP programs according to their approved plan and any amendments and in conformance with their own implementing rules and policies.

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, States are to use the fiscal policies that apply to their own funds in administering LIHEAP. Procedures must be adequate to assure the proper disbursal of and accounting for Federal funds paid to the grantee, including procedures for monitoring the assistance provided (42 USC 8624(b)(10); 45 CFR section 96.30).

Availability of Other Program Information
The ACF LIHEAP page on the Internet (http://www.acf.hhs.gov/programs/liheap) provides general information about this program.

III. COMPLIANCE REQUIREMENTS

A. Activities Allowed or Unallowed
The following guidelines apply to LIHEAP block grants and leveraging incentive award funds, unless noted otherwise. Energy emergency contingency funds generally are subject to the LIHEAP block grant requirements, but the contingency grant award letter should be reviewed to see if different requirements apply. REACH grants are subject to special rules described in the award.

1. LIHEAP funds may be used to assist eligible households to meet the costs of home energy, i.e., heating or cooling their residences (42 USC 8621(a) and 8624(b)(1)).

2. LIHEAP funds may be used to intervene in energy-related crisis situations, as defined by the grantee (42 USC 8623(c) and 8624(b)(1)).

3. LIHEAP funds may be used to conduct outreach activities (42 USC 8624(b)(1)).

4. Leveraging incentive awards must be used to increase or maintain heating, cooling, energy crisis, and weatherization benefits for low-income persons (45 CFR section 96.87(j)).

5. Leveraging incentive award funds may not be used for planning, developing, or administering the LIHEAP program (45 CFR section 96.87(j)).
6. LIHEAP funds may be used to provide low-cost residential weatherization and other cost-effective energy-related home repair (42 USC 8624(b)(1)).

7. LIHEAP grantees may use some or all of the rules applicable to the Department of Energy’s Weatherization Assistance for Low-Income Persons program (CFDA 81.042) for their LIHEAP funds spent on weatherization (42 USC 8624(c)(1)(D)).

8. LIHEAP funds may be used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance, including needs assessments, counseling, and assistance with energy vendors (42 USC 8624 (b)(16)).

9. LIHEAP funds (other than leveraging incentive award funds) may be used to identify, develop, and demonstrate leveraging programs (45 CFR section 96.87(c)).

10. No LIHEAP funds may be used for the purchase or improvement of land, or the purchase, construction, or permanent improvement (other than low-cost residential weatherization or other energy-related home repairs) of any building or other facility (42 USC 8628).

Audit Objective
1. Determine whether Federal awards were expended only for allowable activities.

Suggested Audit Procedures
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 LIHEAP.

2. When allowability is determined based upon summary level data, perform procedures to verify that:
   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.

B. Allowable Costs/Cost Principles
As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, LIHEAP is exempt from the provisions of the OMB cost principles circulars. State cost principles requirements apply to LIHEAP.

Audit Objectives
Determine whether the governmental unit complied with the provisions of A-87 as follows:
1. Direct charges to Federal awards were for allowable costs.

2. Charges to cost pools used in calculating indirect cost rates were for allowable costs.

3. The methods for allocating the costs are in accordance with the applicable cost principles, and produce an equitable and consistent distribution of costs (e.g., all activities that benefit from the indirect cost, including unallowable activities, must receive an appropriate allocation of indirect costs).

4. Indirect cost rates were applied in accordance with approved indirect cost rate agreements (ICRA), or special award provisions or limitations, if different from those stated in negotiated rate agreements.

**Suggested Audit Procedures**

The following procedures apply to direct charges to the Federal award as well as charges to cost pools that are allocated wholly or partially to the Federal award or used in formulating indirect cost rates used for recovering indirect costs from the Federal award.

1. Test a sample of transactions for conformance with:
   a. The criteria contained in the Basic Guidelines section of A-87, Attachment A, paragraph C.
   b. The principles to establish allowability or unallowability of certain items of cost contained in A-87, Attachment B.

2. If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.

**C. Cash Management**

The *OMB Circular A-133 Compliance Supplement* requires the State to follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. In addition, per *General Statute* 147-86.11 (f.3), North Carolina’s cash management policy requires federal and other expenditure reimbursements paid from state funds be paid immediately to the source of the state funds.

**Audit Objectives**

1. Determine whether for advance payments 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. Determine whether the State has complied with the terms and conditions of the Treasury-State Agreement or Subpart B procedures prescribed by Treasury.
3. Determine whether the pass-through entity implemented procedures to ensure that advance payments to subrecipients conformed substantially to the same timing requirements that apply to the pass-through entity.

4. Determine whether interest earned on advances was reported/remitted as required.

5. Determine whether an entity has awards funded on a reimbursement payment basis, as well as awards funded through advance payments. For such entities, determine whether program costs are paid for with entity funds before reimbursement is requested from the Federal government.

Suggested Audit Procedures

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.

States

1. For programs tested as major, verify which of those programs are covered by the Treasury-State Agreement in accordance with the materiality thresholds in 31 CFR section 205.5, Table A).

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 205.12, 205.20, and 205.22).

3. Select a sample of Federal cash draws and verify that:
   a. The timing of the Federal cash draws was in compliance with the applicable funding techniques specified in the Treasury-State Agreement or Subpart B procedures, whichever is applicable (31 CFR sections 205.11 and 205.33).
   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 (2 CFR section 215.22).

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 205.12(b)(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. Trace amounts used in the calculation to supporting documentation.
Recipients Other than States and Subrecipients

1. For those programs that received 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 disbursement 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 (2 CFR section 215.22).

3. When awards are funded on a reimbursement basis, 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.

E. Eligibility

1. Eligibility for Individuals

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

   For NC WAP, A single-family dwelling unit is eligible for HARRP if it is occupied by a family unit whose combined income does not exceed 150 percent of the Office of Management and Budget (OMB) defined poverty level.

2. Eligibility for Group of Individuals or Area of Service Delivery- Not Applicable

3. Eligibility for Subrecipients

   To the extent it is necessary to designate local administrative agencies, the grantee is to give special consideration to local public or private non-profit agencies (or their successor agencies) which were receiving energy assistance or weatherization funds under the Economic Opportunity Act of 1964 or other laws,
Audit Objectives

1. Determine whether required eligibility determinations were made, (including obtaining any required documentation/verifications), that individual program participants or groups of participants (including area of service delivery) were determined to be eligible, and that only eligible individuals or groups of individuals participated in the program.

2. Determine whether subawards were made only to eligible subrecipients.

3. Determine whether amounts provided to or on behalf of eligibles were calculated in accordance with program requirements.

Suggested Audit Procedures

1. Eligibility for Individuals

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. 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. Perform calculations to assist in determining who is eligible and the amount of benefits
   b. Pay benefits (e.g., write checks)
   c. Maintain eligibility records, including information about each individual and benefits paid to or on behalf of the individual (regular payments, refunds, and adjustments)
   d. Track the period of time during which an individual is eligible to receive benefits, i.e., from the beginning date of eligibility through the date when those benefits stop, generally at the end of a predetermined period, unless there is a redetermination of eligibility
   e. Perform matches with other computer data bases to verify eligibility (e.g., matches to verify earnings or identify individuals who are deceased)
   f. Control 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)
   g. Produce exception reports indicating likely errors that need follow-up (e.g., when benefits exceed a certain amount, would not be appropriate for a particular classification of individuals, or are paid more frequently than normal)
Because of the diversity of computer systems, both hardware and software, it is not practical for the OMB Circular A-133 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. 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 and controls of computer systems, the auditor may choose to perform these tests of the computer systems as part of testing the internal controls for eligibility.

2. **Split Eligibility Determination Functions**

   a. **Background** – Some non-Federal entities pay the Federal benefits to the eligible participants but arrange with another entity to perform part or all of the eligibility determination. For example, a State arranges with local government social services agencies to perform the intake function (e.g., the meeting with the social services client to determine income and categorical eligibility) while the State maintains the computer systems supporting the eligibility determination process and actually pays the benefits to the participants. In such cases, the State is fully responsible for Federal compliance for the eligibility determination, as the benefits are paid by the State. Additionally, the State shows the benefits paid as Federal awards expended on the State’s Schedule of Expenditures of Federal Awards. Therefore, the auditor of the State is responsible for meeting the internal control and compliance audit objectives for eligibility. This may require the auditor of the State to perform, coordinate, or arrange for additional procedures to ensure compliant eligibility determinations when another entity performs part of the eligibility determination functions. The responsibility of the auditor of the State for auditing eligibility does not relieve the auditor of the other entity (e.g., local government) from responsibility for meeting those internal control and compliance audit objectives for eligibility that apply to the other entity’s responsibilities. An exception occurs when the auditor of the other entity confirms with the auditor of the State that certain procedures are not necessary.

   b. Ensure that eligibility testing includes all benefit payments regardless of whether another entity, by arrangement, performs part of the eligibility determination functions.

   c. 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).
d. Select a sample of individuals receiving benefits and perform tests to ascertain if

1. The required eligibility determinations and redeterminations, (including obtaining any required documentation/verifications) were performed and the individual was determined to be eligible. Specific individuals were eligible in accordance with the compliance requirements of the program. (Note: Some programs have both initial and continuing eligibility requirements and the auditor should design and perform appropriate tests for both. Also, some programs require periodic redeterminations of eligibility, which should also be tested.)

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 expired.

e. In some programs, the non-Federal entity is required to use a quality control process to obtain assurances about eligibility. Review the quality control process and perform tests to ascertain if it is operating to effectively meet the objectives of the process and in compliance with applicable program requirements.

3. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable

4. Eligibility for Subrecipients

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.

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.

G. Matching, Level of Effort, Earmarking

1. Matching – Not Applicable

2. Level of Effort – Not Applicable

3. Earmarking

The following limitations apply to LIHEAP block grants and leveraging incentive award funds, as noted. Energy emergency contingency funds generally are subject to the requirements applicable to LIHEAP block grant funds, but the contingency grant award letter should be reviewed to see if different requirements were applied. REACH grants are subject to special rules described in the award.

a. Planning and Administrative Costs

(1) No more than 10 percent of the LIHEAP funds payable to the State for a Federal fiscal year may be used for planning and administrative costs, including both direct and indirect costs. This
limitation applies, in the aggregate, to planning and administrative costs at both the State and subrecipient levels (42 USC 8624(b)(9)(A); 45 CFR section 96.88(a)).

(2) A tribal or territorial grantee may spend up to 20 percent of the first $20,000 and 10 percent of the amount above $20,000 for administration and planning (45 CFR section 96.88(b)).

(3) Leveraging incentive award funds may not be used for planning and administrative costs. However, either in the award year or the following fiscal year, they may be added to the base on which the maximum amount allowed for planning and administration is calculated (45 CFR section 96.87(j)).

b. **Weatherization**

(1) No more than 15 percent of the greater of the funds allotted or the funds available to the grantee for a Federal fiscal year may be used for low-cost residential weatherization or other energy-related home repairs. The Secretary may grant a waiver, and the grantee may then spend up to 25 percent for residential weatherization or energy-related home repairs (42 USC 8624(k)).

(2) Leveraging incentive award funds may be used for weatherization without regard to the weatherization maximum in the statute. However, they cannot be added to the base on which the weatherization maximum is calculated (45 CFR section 96.87(j)).

(3) Administrative costs for HARRP, which is 100% LIHEAP funded, are limited to 5%.

c. **Energy Need Reduction Services** – No more than five percent of the LIHEAP funds payable to the grantee may be used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance. Such services may include needs assessments, counseling, and assistance with energy vendors (42 USC 8624(b)(16)).

d. **Identifying and Developing Leveraging Programs**

(1) The greater of 0.08 percent of a State’s LIHEAP funds (other than leveraging incentive award funds) or $35,000 may be spent to identify, develop, and demonstrate leveraging programs, without regard to the limit on planning and administering LIHEAP (42 USC 8626a(c)(2); 45 CFR section 96.87(c)(2)).

(2) Indian tribes/tribal organizations and territories may spend up to the greater of two percent or $100 on such activities (45 CFR section 96.87(c)(1)).
Audit Objective

1. **Earmarking** – Determine whether minimum or maximum limits for specified purposes or types of participants were met.

Suggested Audit Procedures

1. **Earmarking**
   
   a. Identify the applicable percentage or dollar requirements for earmarking.
   
   b. Perform procedures to verify that the amounts recorded in the financial records met 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 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).
   
   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.
   
   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 for other than administrative costs to identify administrative costs which were improperly classified elsewhere and cause the maximum percentage or amount to be exceeded).
   
   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.
   
   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.

H. **Period of Availability of Federal Funds**

   At least 90 percent of the LIHEAP block grant funds payable to the grantee must be obligated in the fiscal year in which they are appropriated. Up to 10 percent of the funds payable may be held available (or “carried over”) for obligation no later than the end of
the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned to ACF. There are no limits on the time period for expenditure of funds (42 USC 8626).

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

LIHEAP emergency contingency funds are generally subject to the same obligation and expenditure requirements applicable to the LIHEAP block grant funds, but the contingency award letter should be reviewed to see if different requirements were imposed.

Audit Objective

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

Suggested Audit Procedures

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 transactions charged to the Federal award after the end of the period of availability to verify that the—
   a. underlying obligations occurred within the period of availability, and
   b. liquidation (payment) was made within the allowed time period.

3. Test transactions that were recorded during the period of availability and verify that the underlying obligations occurred within the period of availability.

4. Test adjustments (i.e., manual journal entries) to the Federal funds and verify that these adjustments were for transactions that occurred during the period of availability.

As long as the auditor obtains sufficient, appropriate evidence to meet the period of availability audit objectives, the auditor may test period of availability using the same test items used to test other types of compliance requirements (e.g., activities allowed or unallowed or allowable costs/cost principles). However, if this approach is used, the auditor should exercise care in designing the sample to ensure that sample items are suitable for testing the stated objectives of compliance requirements covered by the sample.

I. Procurement and Suspension and Debarment

Procurement

States, and governmental subrecipients of States, 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.

Local governments and Indian tribal governments which are not subrecipients of States will use their own procurement procedures provided that they conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule.

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.

All non-Federal entities shall follow Federal laws and implementing regulations applicable to procurements, as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular A-110.

**Source of Governing Requirements - Procurement**

The requirements for procurement are contained in the A-102 Common Rule (§____.36), OMB Circular A-110 (2 CFR sections 215.40 through 215.48), program legislation, *Section 1605 of ARRA, 2 CFR part 176*, Federal awarding agency regulations, and the terms and conditions of the award (including those required by ARRA). The specific references for the A-102 Common Rule and OMB Circular A-110, respectively, are given for each suggested audit procedure indicated below. (The first number listed refers to the A-102 Common Rule and the second refers to A-110.)

**Suspension and Debarment**

Governmentwide requirements for nonprocurement suspension and debarment are contained in the OMB guidance in 2 CFR part 180, which implements Executive Orders 12549 and 12689, Debarment and Suspension. The OMB guidance, which superseded the suspension and debarment common rule published November 26, 2003, is substantially the same as that rule.

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 those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the governmentwide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300). The information contained in the EPLS is available in printed and electronic formats. The printed version is published monthly. Copies may be obtained by purchasing a yearly subscription from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402.
or by calling the Government Printing Office Inquiry and Order Desk at (202) 783-3238. The electronic version can be accessed on the Internet (http://epls.arnet.gov).

**Source of Governing Requirements – Suspension and Debarment**

The requirements for suspension and debarment are contained OMB guidance in 2 CFR part 180, which implements Executive Orders 12549 and 12689, Debarment and Suspension; Federal agency regulations in 2 CFR implementing the OMB guidance; the A-102 Common Rule (§____.36); OMB Circular A-110 (2 CFR section 215.13); program legislation; Federal awarding agency regulations; and the terms and conditions of the award. Most of the Federal agencies have adopted this guidance and relocated their associated agency rules in Title 2 of the CFR as final rules. For any agency that has not completed its adoption of 2 CFR part 180, pending completion of that adoption, agency implementations of the common rule remain in effect. Appendix II includes the current CFR citations for all agencies. In either case, the applicable requirements are specified in the terms and conditions of award.

**Audit Objectives**

1. 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.

2. For covered transactions determine whether the non-Federal entity verified that entities are not suspended or debarred or otherwise excluded.

**Suggested Audit Procedures**

*(Procedures 1 - 4 apply only to institutions of higher education, hospitals, and other non-profit 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 (§____.36(b)(1) and 2 CFR section 215.43).

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 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 (§____.36(c)(2) and 2 CFR section 215.43).

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 (§____.36(c)(3) and 2 CFR section 215.44(a)(3)).

   b. There is a written policy pertaining to ethical conduct (§____.36(b)(3) and 2 CFR section 215.42).

4. Select a sample of procurements 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 (§____.36(b)(9) and 2 CFR section 215.46).

b. Verify that procurements provide full and open competition (§____.36(c)(1) and 2 CFR section 215.43).

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 (§____.36(b)(1) and (d)(4); and 2 CFR sections 215.43 and 215.44(e)).

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 (§____.36(f) and 2 CFR section 215.45).

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 (§____.36(g)(1) and 2 CFR 215.44(e)) may require prior Federal awarding agency approval.

f. Verify compliance with other procurement requirements specific to an award.

(Procedure 5 only applies to States and Federal awards subgranted by the State to a local government or Indian tribal government.)

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.

(Procedure 6 applies to all non-Federal entities)

6. Select a sample of procurements and subawards and—

a. Test whether the non-Federal 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

b. Test the sample of procurements and subawards against the EPLS, and ascertain if covered transactions were awarded to suspended or debarred parties.

L. Reporting

1. Financial Reporting

a. SF-269A, Financial Status Report (Short Form) – Applicable.

b. SF-270, Request for Advance or Reimbursement – Not Applicable
c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable


e. SF-425, *Federal Financial Report* – Applicable for financial status; Not Applicable for cash status

2. Performance Reporting – Not Applicable

3. Special Reporting

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

4. Section 1512 ARRA Reporting – Not Applicable

Audit Objective

1. 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 governing requirements.

Suggested Audit Procedures

Financial Reports

*Note: For recipients using PMS to draw Federal funds, the auditor should consider the following steps numbered 1 through 5 as they pertain to the PSC 272 (SF-425A), PSC 272-A (SF-425), PSC 272-B, and PSC 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 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 subrecipient, instructions for completing the reports.

   a. Ascertain the accounting basis used in reporting the data (e.g., cash or accrual).

2. Perform appropriate analytical procedures and ascertain the reason for any unexpected differences. Examples of analytical procedures include:

   a. Comparing current period reports to prior period reports.

   b. Comparing anticipated results to the data included in the reports.
c. Comparing information obtained during the audit of the financial statements to the reports.

*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 the financial reports:

   (1) Ascertain if the financial reports are complete and accurate, were prepared in accordance with the required accounting basis, and were submitted timely to the pass-through entity or the Federal agency, as applicable.

   (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.

   (3) For any discrepancies noted in PSC-272 (or SF-425) reports, review subsequent PSC-272 (or SF-425) reports to ascertain if the discrepancies were appropriately resolved with HHS’ DPM.

4. Test the financial reports for accuracy and completeness.

   a. 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).

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, HHS’ DPM for recipients using the Payment Management System, or pass-through entity in the case of a subrecipient.

**M. Subrecipient Monitoring**

The *OMB Circular A-133 Compliance Supplement* states that subrecipients should be monitored to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

**Audit Objectives**

1. Determine whether the pass-through entity properly identified Federal award information and compliance requirements to the subrecipient, and approved only allowable activities in the award documents.

2. Determine whether the pass-through entity monitored subrecipient activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.
3. Determine whether the pass-through entity ensured required audits are performed, issued a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report, and ensures that the subrecipient takes timely and appropriate corrective action on all audit findings.

4. Determine whether in cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity took appropriate action using sanctions.

5. Determine whether the pass-through entity evaluates the impact of subrecipient activities on the pass-through entity.

6. Determine whether the pass-through entity identified in the Schedule of Expenditures of Federal Awards (SEFA) the total amount provided to subrecipients from each Federal program.

7. If for-profit subawards are material, determine the adequacy of the pass-through entity’s monitoring procedures for those subawards.

Suggested Audit Procedures

(Note: The auditor may consider coordinating the tests related to subrecipients performed as part of Cash Management (tests of cash reporting submitted by subrecipients), Eligibility (tests that subawards were made only to eligible subrecipients), and Procurement (tests of ensuring that a subrecipient is not suspended or debarred) with the testing of Subrecipient Monitoring.)

1. Gain an understanding of the pass-through entity’s subrecipient procedures through a review of the pass-through entity’s subrecipient 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 subrecipients, including, as applicable, subawards to for-profit entities.

2. Test award documents and agreements to ascertain if: (a) at the time of award the pass-through entity made subrecipients 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.

3. 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 subrecipients used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements, and achieved performance goals.

4. Review the pass-through entity’s follow-up to ensure corrective action on deficiencies noted in during-the-award monitoring.

5. Verify that the pass-through entity:
a. Ensured that the required subrecipient audits were completed. For subrecipients 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 § 320(e)), the pass-through entity may use the information in the Federal Audit Clearinghouse (FAC) database (available on the Internet at http://harvester.census.gov/sac) as evidence to verify that the subrecipient had—no audit findings and that the required audit was performed. This FAC verification would be in lieu of reviewing submissions by the subrecipient to the pass-through entity when there are no audit findings.

b. Issued management decisions on audit findings within 6 months after receipt of the subrecipient’s audit report.

c. Ensured that subrecipients took appropriate and timely corrective action on all audit findings.

6. Verify that in cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity took appropriate action using sanctions.

7. Verify that the effects of subrecipient noncompliance are properly reflected in the pass-through entity’s records.

8. Verify that the pass-through entity monitored the activities of subrecipients not subject to OMB Circular A-133, including for-profit entities, using techniques such as those discussed in the —Compliance Requirements—provisions of this section with the exception that these subrecipients are not required to have audits under OMB Circular A-133.

9. Determine if the pass-through entity has procedures that allow it to identify the total amount provided to subrecipients from each Federal program.

IV. OTHER INFORMATION

As described in Part 4, Social Services Block Grant (SSBG) program (CFDA 93.667), III.A, “Activities Allowed or Unallowed,” a State may transfer up to 10 percent of its annual allotment under SSBG to this and other specified block grant programs.

Amounts transferred into this program are subject to the requirements of this program when expended and should be included in the audit universe and total expenditures of this program when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amounts transferred in should be shown as expenditures of this program when such amounts are expended.