

program from being low-risk. The auditor shall consider: the criteria in § .525(c), § .525(d)(1), § .525(d)(2), and § .525(d)(3); the results of audit follow-up; whether any changes in personnel or systems affecting a Type A program have significantly increased risk; and apply professional judgment in determining whether a Type A program is low-risk.

(2) Notwithstanding paragraph (c)(1) of this section, OMB may approve a Federal awarding agency's request that a Type A program at certain recipients may not be considered low-risk. For example, it may be necessary for a large Type A program to be audited as major each year at particular recipients to allow the Federal agency to comply with the Government Management Reform Act of 1994 (31 U.S.C. 3515). The Federal agency shall notify the recipient and, if known, the auditor at least 180 days prior to the end of the fiscal year to be audited of OMB's approval.

(d) Step 3. (1) The auditor shall identify Type B programs which are high-risk using professional judgment and the criteria in § .525. However, should the auditor select Option 2 under Step 4 (paragraph (e)(2)(i)(B) of this section), the auditor is not required to identify more high-risk Type B programs than the number of low-risk Type A programs. Except for known reportable conditions in internal control or compliance problems as discussed in § .525(b)(1), § .525(b)(2), and § .525(c)(1), a single criteria in § .525 would seldom cause a Type B program to be considered high-risk.

(2) The auditor is not expected to perform risk assessments on relatively small Federal programs. Therefore, the auditor is only required to perform risk assessments on Type B programs that exceed the larger of:

(i) \$100,000 or three-tenths of one percent (.003) of total Federal awards expended when the auditee has less than or equal to \$100 million in total Federal awards expended.

(ii) \$300,000 or three-hundredths of one percent (.0003) of total Federal awards expended when the auditee has more than \$100 million in total Federal awards expended.

(e) Step 4. At a minimum, the auditor shall audit all of the following as major programs:

(1) All Type A programs, except the auditor may exclude any Type A programs identified as low-risk under Step 2 (paragraph (c)(1) of this section).

(2) (i) High-risk Type B programs as identified under either of the following two options:

(A) Option 1. At least one half of the Type B programs identified as high-risk under Step 3 (paragraph (d) of this section), except this paragraph (e)(2)(i)(A) does not require the auditor to audit more high-risk Type B programs than the number of low-risk Type A programs identified as low-risk under Step 2.

(B) Option 2. One high-risk Type B program for each Type A program identified as low-risk under Step 2.

(ii) When identifying which high-risk Type B programs to audit as major under either Option 1 or 2 in paragraph (e)(2)(i)(A) or (B), the auditor is encouraged to use an approach which provides an opportunity for different high-risk Type B programs to be audited as major over a period of time.

(3) Such additional programs as may be necessary to comply with the percentage of coverage rule discussed in paragraph (f) of this section. This paragraph (e)(3) may require the auditor to audit more programs as major than the number of Type A programs.

(f) Percentage of coverage rule. The auditor shall audit as major programs Federal programs with Federal awards expended that, in the aggregate, encompass at least 50 percent of total Federal awards expended. If the auditee meets the criteria in § .530 for a low-risk auditee, the auditor need only audit as major programs Federal programs with Federal awards expended that, in the aggregate, encompass at least 25 percent of total Federal awards expended.

(g) Documentation of risk. The auditor shall document in the working papers the risk analysis process used in determining major programs.

(h) Auditor's judgment. When the major program determination was performed and documented in accordance with this part, the auditor's judgment in applying the risk-based approach to determine major programs shall be

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presumed correct. Challenges by Federal agencies and pass-through entities shall only be for clearly improper use of the guidance in this part. However, Federal agencies and pass-through entities may provide auditors guidance about the risk of a particular Federal program and the auditor shall consider this guidance in determining major programs in audits not yet completed.

(i) Deviation from use of risk criteria. For first-year audits, the auditor may elect to determine major programs as all Type A programs plus any Type B programs as necessary to meet the percentage of coverage rule discussed in paragraph (f) of this section. Under this option, the auditor would not be required to perform the procedures discussed in paragraphs (c), (d), and (e) of this section.

(1) A first-year audit is the first year the entity is audited under this part or the first year of a change of auditors.

(2) To ensure that a frequent change of auditors would not preclude audit of high-risk Type B programs, this election for first-year audits may not be used by an auditee more than once in every three years.

**§ .525 Criteria for Federal program risk.**

(a) General. The auditor's determination should be based on an overall evaluation of the risk of noncompliance occurring which could be material to the Federal program. The auditor shall use auditor judgment and consider criteria, such as described in paragraphs (b), (c), and (d) of this section, to identify risk in Federal programs. Also, as part of the risk analysis, the auditor may wish to discuss a particular Federal program with auditee management and the Federal agency or pass-through entity.

(b) Current and prior audit experience. (1) Weaknesses in internal control over Federal programs would indicate higher risk. Consideration should be given to the control environment over Federal programs and such factors as the expectation of management's adherence to applicable laws and regulations and the provisions of contracts and grant agreements and the competence and experience of personnel who administer the Federal programs.

(i) A Federal program administered under multiple internal control structures may have higher risk. When assessing risk in a large single audit, the auditor shall consider whether weaknesses are isolated in a single operating unit (e.g., one college campus) or pervasive throughout the entity.

(ii) When significant parts of a Federal program are passed through to subrecipients, a weak system for monitoring subrecipients would indicate higher risk.

(iii) The extent to which computer processing is used to administer Federal programs, as well as the complexity of that processing, should be considered by the auditor in assessing risk. New and recently modified computer systems may also indicate risk.

(2) Prior audit findings would indicate higher risk, particularly when the situations identified in the audit findings could have a significant impact on a Federal program or have not been corrected.

(3) Federal programs not recently audited as major programs may be of higher risk than Federal programs recently audited as major programs without audit findings.

(c) Oversight exercised by Federal agencies and pass-through entities. (1) Oversight exercised by Federal agencies or pass-through entities could indicate risk. For example, recent monitoring or other reviews performed by an oversight entity which disclosed no significant problems would indicate lower risk. However, monitoring which disclosed significant problems would indicate higher risk.

(2) Federal agencies, with the concurrence of OMB, may identify Federal programs which are higher risk. OMB plans to provide this identification in the compliance supplement.

(d) Inherent risk of the Federal program. (1) The nature of a Federal program may indicate risk. Consideration should be given to the complexity of the program and the extent to which the Federal program contracts for goods and services. For example, Federal programs that disburse funds through third party contracts or have eligibility criteria may be of higher risk. Federal programs primarily involving staff payroll costs may have a high-risk for time and effort reporting, but otherwise be at low-risk.

(2) The phase of a Federal program in its life cycle at the Federal agency may indicate risk. For example, a new Federal program with new or interim regulations may have higher risk than an established program with

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time-tested regulations. Also, significant changes in Federal programs, laws, regulations, or the provisions of contracts or grant agreements may increase risk.

(3) The phase of a Federal program in its life cycle at the auditee may indicate risk. For example, during the first and last years that an auditee participates in a Federal program, the risk may be higher due to start-up or closeout of program activities and staff.

(4) Type B programs with larger Federal awards expended would be of higher risk than programs with substantially smaller Federal awards expended.

**§ 530 Criteria for a low-risk auditee.**

An auditee which meets all of the following conditions for each of the preceding two years (or, in the case of biennial audits, preceding two audit periods) shall qualify as a low-risk auditee and be eligible for reduced audit coverage in accordance with § 520:

(a) Single audits were performed on an annual basis in accordance with the provisions of this part. A non-Federal entity that has biennial audits does not qualify as a low-risk auditee, unless agreed to in advance by the cognizant or oversight agency for audit.

(b) The auditor's opinions on the financial statements and the schedule of expenditures of Federal awards were unqualified. However, the cognizant or oversight agency for audit may judge that an opinion qualification does not affect the management of Federal awards and provide a waiver.

(c) There were no deficiencies in internal control which were identified as material weaknesses under the requirements of GAGAS. However, the cognizant or oversight agency for audit may judge that any identified material weaknesses do not affect the management of Federal awards and provide a waiver.

(d) None of the Federal programs had audit findings from any of the following in either of the preceding two years (or, in the case of biennial audits, preceding two audit periods) in which they were classified as Type A programs:

(1) Internal control deficiencies which were identified as material weaknesses;

(2) Noncompliance with the provisions of laws, regulations, contracts, or grant agreements which have a material effect on the Type A program; or (3) Known or likely questioned costs that exceed five percent of the total Federal awards expended for a Type A program during the year.

Appendix A to Part \_\_ - Data Collection Form (Form SF-SAC)

[insert SF-SAC after finalized]

Appendix B to Part \_\_ - Circular A-133 Compliance Supplement

Note: Provisional OMB Circular A-133 Compliance Supplement is available from the Office of Administration, Publications Office, room 2200, New Executive Office Building, Washington, DC 20503.

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**Interagency Agreement between the Ohio Department of Human Services  
and the Ohio Department of Mental Retardation and Developmental Disabilities  
Interim Matching Funds Responsibility for Medicaid Programs Administered  
by the Ohio Department of Mental Retardation and Developmental Disabilities.**

Program	Government Agencies Responsible for Matching Funds			
	ODMR/DD	County Board of MR/DD	Local Education Agency	Children Service Board
CAFS	Refer to Attachment 1	Refer to Attachment 1	Local Education Agency provides match Ohio Dept. of Education provides match for Head Starts	Children Service Board provides match
Targeted Case Management (Service Coordination service code)	Refer to Attachment 1	Refer to Attachment 1	Local Education Agency provides match Ohio Dept. of Education provides match for Head Starts	Children Service Board provides match
HCBS Waiver	State Appropriation	Per Ohio Revised Code 5126.054	None	None
PASRR-Evaluation/Review	State Appropriation	None	None	None
State Operated ICF-MR Services Delivered by the ICF-MR	State Appropriation	None	None	None

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Matching funds responsibility is for individuals eligible for services in programs operated by the applicable government agency.

**Appendix B – Attachment #1**

**Interagency Agreement between the Ohio Department of Human Services and the Ohio Department of Mental Retardation and Developmental Disabilities**

**Interim Matching Funds Responsibility for the Ohio Department of Mental Retardation and Developmental Disabilities and County Boards of MR/DD (as sub-recipients) for CAFS and TCM (including Service Coordination) Services**

Method of Service Delivery And Method of Billing	Individuals Currently Enrolled in County Board Program <sup>1</sup>	New Enrollees in County Board Programs <sup>2</sup>
County Board provides service directly to individual County Board bills for service as Medicaid provider	County Board	County Board And ODMR/DD (when enrollment exceeds growth trend)*
County Board provides service through contract with non-gov't entity County Board bills for service as Medicaid provider	County Board <sup>3</sup>	County Board And ODMR/DD (when enrollment exceeds growth trend)*
Non-gov't entity provides service through new or existing contract with County Board Non-gov't entity bills for service as Medicaid provider, per terms of contract with County Board	County Board <sup>4</sup>	County Board And ODMR/DD (when enrollment exceeds growth trend)*
Non-gov't entity provides service through existing contract with OMR/DD Non-gov't entity bills for service as Medicaid provider, per terms of contract with ODMR/DD	ODMR/DD <sup>5</sup>	ODMR/DD

<sup>1</sup> Individuals enrolled in County Board programs as of 6/30/99, with update per October 1999 Average Daily Membership update process.

<sup>2</sup> Individuals enrolled in County Board programs after October 1999 Average Daily Membership update process.

<sup>3</sup> County Board's existing contractual arrangements for the provision of services to individuals enrolled in County Board programs would continue.

<sup>4</sup> County Board's existing contractual arrangements to supply local matching funds for the provision of Medicaid services to currently enrolled individuals would continue and new contracts would be entered into as applicable.

<sup>5</sup> ODMR/DD's existing contractual arrangements to supply state matching funds for the provision of Medicaid services to County Board eligible, but not enrolled, individuals would continue.

\* ODMR/DD will provide matching funds when enrollment exceeds the board's growth trend over the preceding five years, until the passage of the next local operating levy to support the new enrollment. ODMR/DD will collaborate with the boards on the methodology to determine the growth trend.

In the event of exceptional circumstances such as the repeated failure of an operating levy or the enrollment of private or state-operated ICFs/MR, ODMR will collaborate with the board to determine the availability of local and state matching funds.

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