CHAPTER 14
AUDIT REQUIREMENTS

TABLE OF CONTENTS

Page

14.0 INTRODUCTION 2

14.1 TYPES OF AUDITS 2

14.1.1 PROGRAM-SPECIFIC AUDIT 2
14.1.2 SINGLE AUDIT 2
14.1.3 ANNUAL FINANCIAL STATEMENT AUDIT 3

14.2 CONDUCTING A SINGLE AUDIT AND PREPARING THE REPORT 3

14.3 AUDIT TRACKING AND RESOLUTION 6

14.3.1 SINGLE AUDIT REVIEW 6
14.3.2 SANCTIONS FOR DELINQUENT SINGLE AUDIT REQUIREMENTS 7
14.3.3 AUDIT COSTS 8

14.4 LAWS & REGULATIONS 8

RESOURCES 9

CHAPTER 14
SINGLE AUDIT REQUIREMENTS

14.0 Introduction

This chapter presents federal audit requirements set forth by Title 31, Chapter 75 of the United States Code. The Grant Recipient is responsible for all funds expended and may be required to undergo a Single Audit or Program Specific Audit under federal guidelines.[1].

TxCDBG funds are reported under Assistance Listing Number (ALN) 14.228 – this identifier was formerly known as the Catalog of Federal Domestic Assistance (CFDA) number.

14.1 Types of Audits

The type of audit required is based on the total federal financial assistance expended by the Grant Recipient in any given fiscal year and/or number of federal programs involved. Currently, any government or nonprofit entity that expends $750,000 or more in total federal awards within the Grant Recipient's fiscal year must have a Single Audit (SA) or a Program Specific Audit conducted for that year.[2] Note that similar single audit requirements apply to the expenditure of state awards, which are governed by the State of Texas Single Audit Circular contained in the Texas Grant Management Standards (TGMS) maintained by the Texas Comptroller of Public Accounts. The TxCDG program's single audit reporting requirements in this chapter apply only to federal grant expenditures which are subject to federal policies.

NOTE: For fiscal years prior to 2015, request technical assistance to determine the single audit threshold.

14.1.1 Program-Specific Audit

A program-specific audit is an audit of one federal program, such as CDBG. A program-specific audit is allowed when the recipient or sub-recipient expends $750,000 or more in total federal assistance under only one federal program and the federal program laws, regulations or Grant Agreements do not require a Single Audit of the Grant Recipient.

14.1.2 Single Audit

A single audit (SA) is an audit of:

- The Grant Recipient's entire financial statements referred to as a financial statement audit or Comprehensive Annual Financial Report (CAFR); and
- Federal awards from all applicable federal programs, referred to as the Single Audit Supplemental Reports (SAS). These reports include the Schedule of Expenditures of Federal Awards (SEFA).

A single audit is required when a Grant Recipient expends $750,000 or more in federal awards during the local government's fiscal year.

[1] 2 CFR §200.501-520
[2] Ibid.

14.1.3 Annual Financial Statement Audit

In comparison, an Annual Financial Statement audit is required for all municipalities and counties by the Local Government Code. All Grant Recipients should be in compliance with these requirements; TDA requires that the Grant Recipient submit the most recent fiscal year audit report at the time of application (see application guide for audit report requirements), or at any time that TDA deems it necessary to review the Grant Recipient's financial capacity. This state audit requirement is separate from the federal SA requirements.

14.2 Conducting a Single Audit and Preparing the Report

Step 1. Consider the Audit Threshold in TDA-GO
Grant Recipients with any TxCDBG grant that was open at any point during the fiscal year must submit an Organizational Compliance - Single Audit Report (OCSAR) in TDA-GO**.** For this purpose, "open" means that at least one day in the fiscal year is *after* the Grant Agreement start date, and *before* the Project Completion Report is submitted. The OCSAR can be prepared as soon as the day after the fiscal year end of the Grant Recipient's organization.

The OCSAR must be completed by the Grant Recipient's certifying officer, designee, or certified public accountant firm and officially affirmed as to its accuracy and completeness. In TDA-GO, the OCSAR is a document associated with the Grant Recipient organization, rather than a specific grant document for which a third-party administrator has been procured or selected; administrative service providers do not have access to complete or certify the OCSAR form on the Grant Recipient's behalf.

Detailed step-by-step instructions for completing and submitting an OCSAR in TDA-GO may be found on the TDA website.

NOTE: If the OCSAR indicates that a Single Audit is *not* required, skip to **Step 6**. Even if a Grant Recipient is exempt from single audit submission requirements for a particular fiscal year, records must be available for review or audit by appropriate officials of the federal agency, TDA, and the General Accounting Office (GAO).

Step 2. Procure an Auditor
If a single audit is required, the audit must be conducted by a Certified Public Accountant (CPA) who has a current license issued by the Texas State Board of Public Accountancy.

- The CPA must meet all of the general standards concerning qualifications, independence, due professional care and quality control as required by the current **Generally Accepted Government Auditing Standards,** including the requirements for continuing professional education and external peer reviews.
- Soliciting and contracting for professional auditing services are subject to all federal/state procurement requirements as discussed in *Chapter 5 Procurement Procedures*, see also *Sample Request for Proposals for Audit Services* **(Form A1402).**

Step 3. Review Financial Documents
The auditor must review the Grant Recipient's local financial records.

The primary objectives of the audit are:
Financial and Administrative Compliance

- To determine that the Grant Recipient has implemented and utilized appropriate financial and administrative systems and controls to effectively discharge management responsibilities and to accomplish program objectives;
- To determine that the Grant Recipient is in compliance with applicable uniform administrative requirements;
- To determine if the financial statements are fairly presented in accordance with generally accepted accounting principles; and
- To determine that the Grant Recipient is in compliance with cost principles.

Grant Agreement Compliance

- To determine that the Grant Recipient has complied with Grant Agreement requirements and with applicable state and federal laws, rules and regulations; and
- To determine whether the financial information and/or reports submitted to TDA—including annual Single Audit Compliance forms, financial status reports (i.e., the Certificate of Completion, Project Completion Reports, etc.), and claims for reimbursements—contain accurate, reliable, and complete financial data, and are presented in accordance with the terms of the TxCDBG Grant Agreement.

General Compliance

General compliance requirements include where the auditee has complied with federal statutes, regulations, and the terms and conditions of the federal award.

Internal Accounting Controls Compliance

Reports on the study and evaluation of internal accounting controls should contain a review of those controls designed to provide reasonable assurance that federal or state programs are being managed in compliance with applicable laws and regulations. Control deficiencies, significant deficiencies, and/or material weaknesses identified as a result of the evaluation should include recommendations to correct noted deficiencies in financial management and/or administrative controls. Management letters referenced and Grant Recipient's responses and planned corrective action to resolve the findings noted must also be submitted.

Statement of Assurance

The auditor's reports on compliance should contain statements of assurance with respect to compliance with contracts, laws, and regulations pertaining to financial reports and claims for advances and reimbursements and a summary of all instances of noncompliance or a statement if there are no findings.

Step 4. Prepare Opinion and Findings

The CPA must provide an opinion on the audit. TDA will not accept the submission of any audits containing a disclaimer of opinion from the auditor for the overall financial statement audit. If separate opinions are issued for various subsets of financial records, any subset that includes TxCDBG funds and the general financial statement audit must include an auditor's opinion. TDA may request additional information or place programmatic restrictions on current or future grant funds based on the type of opinion issued.

Findings and Recommendations

All audit findings and recommendations, in either the financial or compliance areas, should be fully addressed by the CPA firm with the Grant Recipient at the exit conference. This provides

- The Grant Recipient with advance information to initiate corrective action prior to receipt of the final audit report; and
- The auditor an opportunity to obtain additional information, explanations, or comments from the Grant Recipient which may have a bearing on the auditor's conclusions and should be incorporated in the audit report, if applicable.

Step 5. Submit Single Audit to the Federal Audit Clearinghouse
If the $750,000 expenditure threshold is met or exceeded, an SA report **must** be submitted to the Federal Audit Clearinghouse (FAC), not to TDA, within **nine (9) months** after the Grant Recipient's FYE.

The SA report must contain the following sections:

- General purpose financial statements including applicable schedules, notes and opinion;
- Management's Discussion and Analysis of financial activities including financial highlights, overview of the financial statements and government-wide financial analysis as recommended by Governmental Accounting Standards Board (GASB) Summary of Statements No.#34;
- Single Audit Supplemental Reports based on revisions to 2 CFR §§200.501-.520, including:
  - The Schedule of Expenditures of Federal Awards (with the appropriate opinion, and notes to this schedule) which must
    - Include the appropriate federal and pass-through grantor,
    - Identify each program under which the Grant Recipient had expended federal funds either directly or passed through a state agency, and
    - Include the contract or grant number, award amount, Assistance Listing Number, total amount expended per program, and total amount expended per federal funding source.

NOTE: Expenditures, while similar, are not the same as draws/grant payments. In general, expenditures are the actual money spent by the Grant Recipient during the fiscal year, whereas grant payments represent the amounts that have been disbursed to the Grant Recipient for eligible expenditures. For the SA report, only include recognized expenditures for that fiscal year based on the Grant Recipient's financial accounting system.

The Schedule of Findings and Questioned Costs including Corrective Action Plan (CAP) which states timeline and person responsible for corrective action; and:

- The reports on internal controls and compliance;
- The management letter issued by the CPA firm, if applicable; and
- The Grant Recipient's response to each finding listed in the management letter issued by the CPA firm.

NOTE: If the Control Deficiency Management letter and the Grant Recipient's response are not included with the SA report submitted to the Federal Audit Clearinghouse (FAC), TDA will require a copy of each document.

The SA reporting package **must** be electronically submitted to the FAC within thirty days of final presentation of the report by the CPA firm to the Grant Recipient, but no later than **nine** (**9) months** after the end of the Grant Recipient's fiscal year.[3]. A copy of the SA report must also be available for public inspection within thirty (30) days of its completion.

Accepted Practices Statement
Each audit must indicate that the audit was done in accordance with generally accepted government auditing standards. It must express an opinion as to whether the financial statements are fairly presented in accordance with generally accepted accounting principles and state the nature of any qualifications.

Once the audit is submitted, upload a copy of the emailed confirmation of acceptance from the Federal Audit Clearinghouse to the OCSAR.

[3] 2 CFR §200.512

Step 6. Submit OCSAR in TDA-GO
The OCSAR **must** be submitted in TDA-GO within nine months of the fiscal year end date.

Failure to submit the OCSAR within nine (9) months constitutes non-compliance with grant requirements and all grant funds pending or awarded to the Grant Recipient will be suspended until an acceptable OCSAR submitted.

TDA strongly encourages Grant Recipients that have not or exceeded the single audit reporting threshold to submit the OCSAR as soon as possible after the fiscal year ends.

Step 7. Retain Audit Work Papers

Audit work papers must be retained for a period of **three (3) years** from the date of submission of Form SF-SAC to the FAC. Audit work papers are subject to review by the U.S. Departments of Labor and Housing and Urban Development, GAO, TDA, and the State Auditor's Office.

NOTE: This requirement to retain documentation applies to the work papers of the auditor only. TxCDBG grant records, including any audit reports documenting TxCDBG expenditures, must be retained as described in the TxCDBG Grant Agreement and *Chapter 1 Administration and Reporting*.

14.3 Audit Tracking and Resolution

Audit resolution is the process by which the state:

- Resolves questioned costs by either allowing or disallowing such costs; and
- Reviews and approves action proposed by the Grant Recipient to correct administrative findings and/or deficiencies.

14.3.1 Single Audit Review

Once the Organizational Compliance form is submitted in TDA-GO, TDA staff will review and either accept the report as submitted or return the document for additional information. TDA may also obtain a copy of the SA report directly from the FAC's online database as necessary and will ensure the Grant Recipient has satisfactorily addressed all questioned costs or findings cited in the report.

- Reports that have been accepted, shown in TDA in the status *Organizational Compliance Accepted*, remain subject to review by HUD and/or TDA.
- Reports that require correction or additional information will be returned to *Organizational Compliance In Process* status, and details of the requested updates will be saved in the Notes tab of the document.

Audit Resolution
Single Audit review findings will address four specific areas:

1. Financial deficiencies that identify weaknesses in accounting systems or internal controls;
2. Program deficiencies which identify weaknesses in program operations or controls;
3. Cited instances of noncompliance with applicable laws and regulations; and
4. Cited instances of concern within the Management Letter involving either TxCDBG Grant Agreement(s) directly, or as Grant Recipient cross-cutting concerns that could have an ultimate impact on the TxCDBG agreement(s).

The Grant Recipient must resubmit the OCSAR including the Grant Recipient's response within thirty (30) days of TDA's notification that the original submission was not accepted. If the response is acceptable, the Grant Recipient will be notified through TDA-GO that the OCSAR is accepted.

- If a partial or incomplete response is received, TDA will request additional documentation for further review, or will request repayment of grant funds, based on a determination to

    - Allow or disallow the questioned costs; and
    - Accept or reject responses to administrative findings.
- If a written response is not submitted within thirty (30) days of the deficiency notification, the Grant Recipient is considered in non-compliance, and all current TxCDBG agreements and pending awards are suspended. Continued failure to respond and submit an acceptable OCSAR may result in escalating sanctions as determined by program management.

Findings and Determinations
Determinations, sent to the Grant Recipient after receipt of response to resolution correspondence, will include:

- Based on the resolution response, TDA may determine that:
    - Additional documentation is required;
    - The questioned are costs allowed or disallowed based on requirements of the Act, regulations and Grant Agreement terms;
    - Corrective action is necessary required for the Grant Recipient to resolve all weaknesses noted in administrative findings and ensure reporting compliance; and/or
    - Sanctions are necessary, when corrective actions are not performed and/or documentation is not provided.

A Grant Recipient will not be considered in compliance with the TxCDBG program until all issues are adequately addressed and considered acceptable by TDA.

14.3.2 Sanctions for Delinquent Single Audit Requirements

Grant Recipients are required to comply with all SA reporting requirements, including timely submission of the OCSAR. Failure to meet SA reporting requirements will result in the following sanctions until the Grant Recipient meets all audit requirements:

- All existing TxCDBG grant amendment and payment requests will be placed on hold/suspended;
- Any TxCDBG grants awarded but not yet executed will be placed on hold/suspended, and new awards may be withheld;
- Eligibility to submit an application for future funding will be restricted in accordance with the current action plan; and
- Unresolved delinquencies may ultimately be reviewed by the Attorney General's Office.

Suspension of funding due to non-compliance is not grounds for a grant period extension. The Grant Recipient is expected to continue work on the project in order to not fall behind schedule while ensuring compliance with Single Audit requirements.

Regaining Program Eligibility When an Audit Cannot be Completed
A Grant Recipient that has been delinquent in meeting SA reporting requirements by failing to submit an acceptable OCSAR is ineligible to receive any TxCDBG funds until the requirements are met, or for a period of five (5) years beginning on the date the audit was due. If more than one audit is delinquent, the five-year ineligibility period begins on the due date of the most recent delinquent audit.

After the five-year ineligibility period expires, TDA may, in its sole discretion, determine that the Grant Recipient is eligible to apply for and receive TxCDBG funding, provided the Grant Recipient submits the following:

- A certified, written explanation from the chief elected official that outlines the events that led to the Grant Recipient‘s inability to meet audit requirements, including any extenuating circumstances or force majeure that contributed to the failure. Inability to pay for a single audit will not constitute an extenuating circumstance.

- Documentation of the Grant Recipient's ability to meet future audit requirements, including the submission of annual audits conducted by a certified public accounting (CPA) firm or CPA for the most recent, consecutive three years prior to requesting eligibility for TxCDBG funding.
- Documentation that the Grant Recipient has retained a CPA firm or CPA with the expertise to assist the Grant Recipient with meeting single audit and OCSAR requirements.

The SA report submission requirement is not waived. If the Grant Recipient is able to submit the SA report (s) at a later time after becoming re-eligible to receive TxCDBG funding, it must immediately submit the single audit (s) to TDA.

14.3.3 Audit Costs

A Grant Recipient may request reimbursement of audit costs from grant administrative funds if:

- The threshold for requiring a Single Audit has been triggered through expenditures of federal funds (the costs of audits triggered by state funds are not eligible for audit cost reimbursement nor eligible as matching funds); and
- The audit is submitted in compliance with this chapter. Audit fees for delinquent audits are not eligible for reimbursement.

The percentage of costs charged to TDA for a Single Audit shall not exceed the percentage of TxCDBG expended funds to total expended grant funds from any agency during the fiscal year. This percentage is applied to the Single Audit portion of the Total Audit Cost.

Total audit costs = Basic audit cost + Single audit cost
CDBG % share = CDBG expended dollars ÷ Total federal expended dollars
CDBG allowable costs = Single audit cost x CDBG % share

When submitting a request for audit fees, the Grant Recipient shall submit an invoice that clearly shows the total cost of the single audit portion and the corresponding prorated charge per funding source. However, the Grant Recipient may request reimbursement for a higher percentage of the audit fees if appropriate documentation demonstrates a higher actual cost due to compliance testing or other factors.

If a Grant Agreement has expired, a request for reimbursement of audit costs must be made in accordance with all provisions of *Chapter 12 Grant Agreement Closeout* and the reserved funds for audit costs must be noted on the PCR, in order to be eligible for reimbursement under any TxCDBG Grant Agreement.

14.4 Laws & Regulations

The Single Audit Act of 1984 and Single Audit Amendments Act of 1996
The Act generally requires an annual, organization-wide audit of all state and local governments receiving federal or state funds. It requires that the audit be conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. These standards relate to the scope and quality of audit effort and to the characteristics of professional and meaningful audit reports.

2 CFR Part 200, Subpart F
Uniform Audit Requirements issued by OMB for federal awards, formerly found in OMB Circular A-133 were revised and codified in Title 2, Part 200, Subpart F, of the Code of Federal Regulations. The regulation requires that each local government expending $750,000 or more of federal assistance for fiscal years starting on December 26, 2014, or later (or for FYE ending on or after December 25, 2015) conduct a single audit. The regulation defines requirements pursuant to the Single Audit Act.

Additional Relevant Documents

- Generally Accepted Government Auditing Standards;
- Audits of State and Local Governmental Units, American Institute of CPAs (AICPA) Audit and Accounting Guide; and
- The TxCDBG Grant Agreement.

Resources

Resource Number	Description	URL
	U.S. Comptroller General	https://www.gao.gov/
	Office of Management and Budget	https://www.whitehouse.gov/omb/
	Federal Audit Clearinghouse	https://www.fac.gov/
	AICPA Guide	https://www.aicpa.org/
	Superintendent of Documents	https://www.gpo.gov/
	How to OCSAR	TDA Forms page
A1402	Sample Request for Proposals for Audit Services	TDA Forms page

*Note: these items will be updated as needed.