CHAPTER 14
AUDIT REQUIREMENTS

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CHAPTER 14
AUDIT REQUIREMENTS

14.0 Introduction

This chapter presents federal audit requirements set forth by Title 31, Chapter 75 of the United States Code. TDA holds each Grant Recipient responsible for all funds expended and may be required to undergo a Single or Program Specific Audit under federal guidelines found at 2 CFR 200.501-.520.

14.1 Types of Audits

The type of audit required is based on the total federal or total state financial assistance expended by the Grant Recipient in any given fiscal year and/or number of federal or state programs involved. Currently, any government or nonprofit entity that expends $750,000 or more in total federal or state awards within the Grant Recipient's fiscal year must have a Single Audit or a Program Specific Audit conducted for that year. See 2 CFR 200.501.

14.1.1 Program Specific Audit

A program specific audit is an audit of one federal program, such as CDBG, or one state program. A program-specific audit is allowed when the recipient or sub-recipient expends $750,000 or more in total federal or total state assistance under only one federal or one state program and the federal or state program laws, regulations or grant agreements do not require a Single Audit of the Grant Recipient. Note that the increased threshold of $750,000 applies to audits of fiscal years beginning on December 26, 2014, or later (see also section 14.2).

14.1.2 Single Audit (SA)

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 or state awards, from all applicable federal or state programs, referred to as the Single Audit Supplemental Reports (SAS). These reports include the Schedule of Expenditures of Federal and State Awards (SEFA).

A Single Audit is required when a Grant Recipient expends $750,000 or more during the fiscal year in federal or state awards. (See below)

14.1.3 Annual Financial Statement Audit

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 (per Chapter 2, "that ended at least nine months prior to the contract date") at the time of application, 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 Single Audit requirements. See Chapter 2 for additional information.

14.2 Conducting the Audit & Preparing the Report

The Audit Certification Packet **(**Form A1401) consists of the following four pages:

1. Audit Certification Form (ACF)(pg.1);
2. Audit Requirements (pg.2);
3. SA (Single Audit) Submission Checklist (pg.3); and
4. CPA Contact Information (pg.4).

Step 1 Submit Audit Certification Form

Within 60 days after the end of each fiscal year, each Grant Recipient with a TxCDBG contract that was open at any point during the fiscal year must submit an Audit Certification Form (ACF) which is included in the Audit Certification Packet **(Form A1401,** pg. 1**).**

The Catalog of Federal Domestic Assistance (CFDA) number to be used on the ACF for TxCDBG contracts is 14.228.

The ACF must be completed by the Grant Recipient's Certifying Officer, designee, or certified public accountant firm and signed off as to its accuracy and completeness. Administrative consultants are not eligible Certifying Officers. The ACF may be e-mailed, mailed, faxed, or submitted online through TDA's website.

New Single Audit threshold of $750,000 for fiscal years beginning on or after December 26, 2014, or stated another way for FYE on or after December 25, 2015:

- If the Grant Recipient expended less than $750,000 a year in federal or state awards:
  - no Single Audit is required to be submitted to TDA for that year; and
  - the ACF must list all open contracts (TxCDBG program and others) and corresponding expenditures (not draws) for the fiscal year.
  - No further action is required for the reported fiscal year unless additional information is requested by TDA staff.

- If the Grant Recipient expended $750,000 or more a year in federal or state awards, a Single Audit is required to be submitted. **Continue to Step 2.**

NOTE: Even if a Grant Recipient is exempt from the Single Audit 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

State law requires all communities to have an audit annually. However, when 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 **Generally Accepted Government Auditing Standards, 2011 Revision, Chapter 3**, GAO-12-331G, 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** of this manual. (A Sample Request for Proposal for Audit Services is Form **A1402**.)

Step 3 Review Financial Documents

The CPA must complete the SA (Single Audit) Report Submission Checklist which is included in the Audit Certification Packet (Form A1401, pg. 3), a checklist of reports and schedules required to be submitted that may also serve as a guide to the CPA and Grant Recipient. The checklist must be submitted to TDA along with the required audit reports.

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;
- To determine that the Grant Recipient is in compliance with cost principles;

Contract Compliance

- To determine that the Grant Recipient has complied with contract 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 ACFs, 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 Contract.

Contract Compliance

General compliance requirements include political activities, Davis-Bacon Act, civil rights, cash management, relocation assistance, real property acquisition, and federal financial reports. Specific compliance requirements include types of service, eligibility, matching, reporting requirements and any special provisions of the contract.

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 CPA 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 Package

If the $750,000 expenditure threshold is met or exceeded, the Single Audit Package should be submitted to TDA within 9 months after the end of the grant recipient's FYE.

The Grant Recipient must submit:

- *Single Audit Report Submission Checklist* **(Form A1401,** pg. 3**);**

- The Single Audit report:
  - 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 GASB #34;
  - Single Audit Supplemental Reports based on revisions to 2 CFR 200.501-.520, the Uniform Grant Management Standards (UGMS), and the Texas Single Audit Circular, including:
    - The Schedule of Expenditures of Federal (and/or State) 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 (or state) funds either directly or passed through a state agency, and
      - Include the contract or grant number, award amount, Catalog of Federal Domestic Assistance (CFDA) number (i.e. 14.228 see above), total amount expended per program, and total amount expended per federal funding source.
      - **Note:** Expenditures, while similar, are not the same as draws. In general, expenditures are the actual money spent by the Grant Recipient during the fiscal year, whereas draws represent the amounts that have been reimbursed to the Grant Recipient for eligible expenditures. For the Single Audit 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.

These documents must be submitted to TDA within thirty days of final presentation of the report by the CPA firm to the Grant Recipient, but no later than **nine** months after the end of the Grant Recipient's fiscal year. A copy of the Single Audit report must also be available for public inspection within thirty days of its completion. In addition to submission of the Single Audit Package to TDA, the auditee must complete and submit the Data Collection Form (Form SF-SAC) to the Federal Audit Clearinghouse (FAC).

Accepted Practices Statement
Each audit should indicate that the audit was done in accordance with generally accepted government auditing standards. It should 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.

Step 6 Retain Audit Work Papers

Audit work papers must be retained for a period of three 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 contract records, including any audit reports documenting TxCDBG expenditures, must be retained as described in the TxCDBG contract and Program Overview section of this manual.

14.3 Audit Tracking & 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

TDA staff will issue a management decision upon the review of the Single Audit package and will either notify the Grant Recipient that the audit has been accepted, subject to the HUD review and approval, or issue a resolution letter requesting a response to administrative findings and/or deficiencies as well as any questioned costs.

Audit Resolution
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 contract(s) directly, or as Grant Recipient cross-cutting concerns that could have an ultimate impact on the contract(s).

The Grant Recipient's response must be submitted to TDA within thirty (30) days of the date of the resolution letter. If the response is acceptable, the Grant Recipient will be notified in writing that the audit report is accepted, subject to the federal funding agency's (HUD) review and approval.

- 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 30 days of the resolution letter, the Grant Recipient is considered in non-compliance, which places all current TxCDBG contracts and pending awards on hold. TDA will send a second resolution letter, giving the Grant Recipient an additional fifteen (15) days to respond.

- Grant Recipients that do not respond to the first two resolution letters within the time period allowed will be in non-compliance and considered delinquent. TDA will then send a third "Final Demand" letter. If the Grant Recipient does not respond to the Final Demand letter within fifteen (15) days, sanctions will be imposed by program management.

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

- A summary of the matter in controversy;
- Those costs allowed or disallowed and the reason for the determinations based on requirements of the Act, regulations and contract terms;
- Necessary corrective action required for the Grant Recipient to achieve compliance;
- Acceptance or rejection of any corrective actions taken and the reasons for such action;
- A request for additional documentation to satisfactorily respond to findings, or a request for refund;
- Specific time frame to submit additional documentation; and
- Sanctions may be taken if corrective actions are not performed and/or documentation is not provided.

To ensure that corrective actions are taken by the Grant Recipient to resolve all weaknesses noted in administrative findings, TDA will require the Grant Recipient to submit a corrective action plan for review and approval.

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 single audit requirements, including timely submission of ACFs. Failure to meet single audit requirements will result in the following sanctions until the Grant Recipient meets all audit requirements:

- all existing TxCDBG contract amendment and drawdown requests will be placed on hold;
- any TxCDBG contracts awarded but not yet executed will be placed on hold, 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.

Regaining program eligibility when an audit cannot be completed

A Grant Recipient that has been delinquent in meeting single audit requirements by failing to submit an acceptable Single Audit Package or ACF is ineligible to receive any TxCDBG funds until the requirements are met, or for a period of five 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:

1. 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.
2. 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 3 years.
3. 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 ACF requirements.

<u>The single audit submission requirement is not waived.</u>

If the Grant Recipient is able to submit the single audit at a later time after becoming re-eligible to receive TxCDBG funding, it must immediately submit the single audit 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 contract has expired, a request for reimbursement of audit costs must be made in accordance with all provisions of **Chapter 12: Contract Closeout** and the reserved funds for audit costs must be noted on the PCR, in order to be eligible for reimbursement under any TxCDBG contract.

14.4 Laws & Regulations

The Single Audit Act

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 and the Texas Single Audit Circular

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 or state 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," AICPA Audit and Accounting Guide;
- State of Texas "Uniform Grant Management Standards"; and
- The TxCDBG Contract.

Reference Material

The federal reference materials cited above may be accessed on the websites referenced or requested from:

- The U.S. Comptroller General;
- The Office of Management and Budget, or
- The Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402

NOTE: AICPA Guide is not available from the Superintendent of Documents.