

6 AUDIT

6.1 POLICY OVERVIEW

This chapter defines the terminology and responsibilities related to the CDBG-DR auditing process and outlines the steps and requirements related to a successful auditing process. Additionally, this chapter describes the pre-award audit procedures for those deemed eligible, and the audit procedures focused on single audits, and describing the associated requirements.

This chapter details the audit requirements in 2 CFR Part 200 Subpart F. Subrecipients and Non-profit Successful Applicants are held responsible for all funds expended. 2 CFR Part 200 Subpart F outlays the federal requirements for audits for governmental entities and nonprofit organizations. As the HUD Grantee, DED has responsibilities for oversight of these requirements.

The Audit Tracking Management Procedures described below provide an overview of the recordkeeping requirements related to auditing and records database. The Audit Findings Procedures described below detail the outcome of the process. The following associated letters, forms, and checklists can be found on the DED website to aid the Subrecipient or non-profit Successful Applicant in meeting their auditing requirements:

- Notification of Annual Audit Form
- Single Audit Letter Template
- Pre-Audit Checklist

6.2 ROLES AND RESPONSIBILITIES

Applicant: Applicants are advised these auditing policies and procedures are not applicable unless they are subsequently awarded CDBG-DR Program assistance.

DED: DED is responsible for the financial management of all CDBG-DR related funds which includes overseeing eligible activities and conducting required auditing.

Subrecipient: A governmental entity that is serving as a Subrecipient shall ensure that an audit is performed in accordance with 2 CFR § 200.501 and 200.514 on any non-Federal entity that receives more than \$750,000 in federal resources (not exclusive to CDBG-DR) in that entity's fiscal year. See also Applicant.

Successful Applicant: An awarded *non-profit* non-governmental applicant is responsible for the same Federal funds oversight responsibilities as a Subrecipient, including the Single Audit. *For-profit* Successful Applicants (e.g., housing developers) are subject to separate auditing standards. See **Section 6.4.2: For-Profit Successful Applicant Audit** for additional details.

Oversight Audit Agency: HUD is the Federal awarding agency for CDBG-DR funds as established in 2 CFR § 200.1 Definitions: *Oversight agency for audit*. A Federal agency with oversight for an auditee may reassign oversight to another Federal agency that agrees to be the oversight agency for audit.

State Auditor of Public Accounts (State Auditor or APA): As one of five elected constitutional officers, the State Auditor provides an independent and objective assessment of the State of Nebraska's governmental operations. The office of the APA regularly reviews government operations to ensure compliance with State and Federal laws.

6.3 AUDIT PROCEDURES

6.3.1 AUDIT REQUIREMENTS

Audit requirements for non-Federal entities are set forth in 2 CFR 200 Subpart F. Pursuant to 2 CFR § 200.501, audits are required where non-Federal entities, including units of local government and non-profit organizations, **expend \$750,000 in Federal awards in that organization's fiscal year**. Subrecipients and non-profit Successful Applicants are considered "non-Federal entities" and are required to adhere to 2 CFR § 200.501.

For example, in their fiscal year 2021-2022, where Anytown expended \$151,000 in Coronavirus State and Local Fiscal Recovery Funds via the American Rescue Plan Act (ARPA) and is also a Subrecipient under DED's CDBG-DR Affordable Housing Construction Program having expended all of a \$600,000 award, Anytown would be subject to a Single Audit for FY21-22.

DED will comply with all applicable State and Federal audit requirements, which includes filing its own Single Audit each fiscal year. To ensure all applicable entities that participate in DED programs follow these regulations, DED created the **Notification of Annual Audit (NAA) Form** for completion by entities having received Federal awards through DED-administered programs. Completion of the NAA identifies if an audit is triggered. In the Subrecipient Agreement, Subrecipients are required to certify that they will give HUD and DED access to and the right to examine all records, papers, documents, and other materials related to the use of grant funds, regardless of whether the Subrecipient is subject to the single audit. Funding Agreements with non-profit Successful Applicants will contain similar requirements.

DED will work with all Subrecipients and non-profit Successful Applicants to ensure the NAA form is correctly submitted and any questions answered. DED will also monitor any auditor's findings to ensure Federal funds are being spent responsibly (See **Chapter 17: Monitoring and Compliance** for additional information). In addition, the HUD Office of Inspector General provides guidance¹ and a Consolidated Audit Guide on Single Audits and audits of for-profit program participants and is also available to answer questions. HUD provides assistance to independent public accountants who have questions on HUD program requirements and procedures. HUD

¹ <https://www.hudoig.gov/library/single-audit-guidance>.

Office of the Inspector General's (OIG) Single Audit Coordinator provides technical assistance on questions about audit procedures for HUD-required and single audits.

6.4 SINGLE AUDIT

If the expenditures threshold is met per **Section 6.3.1: Audit Requirements**, an audit must be completed. In most cases, this is a single audit.

6.4.1 SINGLE AUDIT REQUIREMENTS

The single audit report must be provided to DED within thirty (30) days after the Subrecipient or non-profit Successful Applicant receives the auditor's report or nine (9) months after the end of the audit period, unless a different period is identified. The Subrecipient or non-profit Successful Applicant must ensure the following guidance is followed when completing a single audit:

- Audits must be conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and [2 CFR 200 Subpart F](#).² The auditor's responsibilities are described in [Subpart E](#).
- The appropriate Catalog of Federal Domestic Assistance (CFDA) number must be used in the Schedule of Expenditures of Federal Awards, 14.228 for CDBG-DR. The CDBG-DR grant number and amount must also be identified in this schedule. Any local expenditures (i.e., matching funds) should not be included in this schedule.
- The entity is responsible for follow-up and corrective action on all audit findings. At the completion of the audit, the auditee shall prepare a corrective action plan to address each audit finding included in the current year auditor's report. The corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date.

For all completed single audit reports:

- Submit a copy to DED. Audits must be submitted in the form or manner prescribed by DED.
- Submit to the Federal Audit Clearinghouse in accordance with [2 CFR § 200.512](#):
 - One (1) copy of a signed data collection form (SF-SAC);
 - One (1) copy of the reporting package for the clearinghouse to retain as an archival copy; and

² Such requirements include, but are not limited to, proper procurement for audit services as further described in 2 CFR § 200.509. It is considered best practice to conduct auditor procurement every five (5) years.

- One copy (1) for each federal awarding agency mentioned in the audit. Entities subject to the Single Audit should send their audits to DED. They do not need to send them to HUD.

Failure of the Subrecipient or non-profit Successful Applicant to provide the necessary audit information may result in sanctions that include suspension of payments to the Subrecipients or non-profit Successful Applicants from DED until the audit information is received.

6.4.2 FOR-PROFIT SUCCESSFUL APPLICANT AUDIT

Profit-motivated program participants, such as HUD-approved lenders, mortgage-backed security issuers, multifamily project owners, and others, are subject to HUD uniform financial reporting standards set forth in 24 CFR Part 5, Subpart H; and 24 CFR § 202.5(g) and related mortgagee letters. In such cases, HUD requires an audit that consists of two (2) components: a financial statement audit of the entity and a compliance audit of the entity's major HUD programs. All such audits should be submitted to DED once completed.

The audit, conducted by an independent certified public auditor, must be performed in accordance with Generally Accepted Auditing Standards (GAAS), issued by the American Institute of Certified Public Accountants (AICPA), and GAGAS, issued by the Comptroller General of the United States. For Securities and Exchange Commission registrants, the financial statement audit may be performed in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) and GAGAS.

The compliance audit is to be conducted in accordance with the HUD Consolidated Audit Guide, which requires that the auditor perform procedures that enable the auditor to opine on whether the entity has complied with laws, regulations, and the provisions of contracts or grant agreements applicable to its major HUD programs.

6.4.3 PROGRAM-SPECIFIC AUDIT

Pursuant to 2 CFR §200.501, a program-specific audit has limited applicability. Most entities that trigger the need for an audit will complete a single audit. Please consult DED prior to completing a program-specific audit.

6.4.4 AUDIT COSTS

Single audit-related costs are not reimbursable as Project Costs or Activity Delivery Costs., and such costs should be considered by the Applicant at the time of their application for funding.

6.5 AUDIT TRACKING MANAGEMENT PROCEDURES

6.5.1 NOTIFICATION OF ANNUAL AUDIT (NAA) FORM

The NAA form (see [Notification of Annual Audit Form](#) on the DED website or AmpliFund) is completed to summarize all Federal expenditures within an organization's fiscal year. During a

fiscal year, Subrecipients and Non-Profit Successful Applicants are responsible for tracking **all** Federal expenditures and required to complete a NAA Form. Subrecipients and Non-Profit Successful Applicants who receive funds under multiple DED-administered programs need only complete a single NAA form. This form must be submitted in the form or manner as prescribed by DED.

6.5.2 AUDIT TRACKING DATABASE

DED tracks in EnterpriseOne which entities may be subject to audit requirements to ensure all of those entities file their NAA form and, if triggered, audit report.

2 CFR § 200.73 states “when there is no direct funding, the Federal awarding agency which is the predominant source of pass-through funding must assume the oversight responsibilities.” HUD is the oversight audit agency for CDBG-DR funds, and **DED is responsible for monitoring CDBG-DR funds in the State of Nebraska and providing technical assistance.** The duties of the oversight agency for audit and the process for any reassignments are described in 2 CFR § 200.513(b) which include:

1. Providing technical advice to auditees and auditors as requested.
2. Assuming all or some of the responsibilities normally performed by a cognizant agency for audit.

6.6 AUDIT FINDINGS PROCEDURES

6.6.1 REVIEW OF AUDIT REPORTS

The audit reports are reviewed by DED’s Chief Financial Officer (CFO) to determine whether or not significant findings have been identified by the single audit. A letter must be sent to each Subrecipient or Non-Profit Successful Applicant notifying them of either acceptance of the audit report or the presence of an audit finding that should be corrected. This letter is normally sent to the Subrecipient’s or Non-Profit Successful Applicant’s chief elected official (e.g., mayor, village board chair) or similar. The letter must be sent within 180 days, or timeframe as mutually agreed, after DED’s receipt of the actual audit report. The spreadsheet used to track audit information will be provided to Federal and State auditors conducting on-site reviews. DED retains copies of these letters for each yearly cycle. If the Subrecipient or non-profit Successful Applicant does not responsibly submit a corrective action plan, then DED may issue a management decision for all findings in a single audit report that includes Federal awards granted by DED. Other findings in the single audit may present concerns related to internal controls/grant management.

6.6.2 CORRECTIVE ACTION PLAN SUBMISSION REQUIREMENTS

During the 105th legislative session in 2017, the Nebraska Legislature passed into law LB151, requiring State agencies subject to a report or management letter by the Nebraska Auditor of

Public Accounts to submit corrective action plan(s). This law does **not** apply to non-governmental entities.³

Agencies are required to submit the action plan(s) no more than six (6) months after the report or management letter was issued.

As required by [Neb. Rev. Stat. § 84-304](#)(3)(b) (Supp. 2017), and amended by [LB 151](#) (2017):

Any entity, excluding the State colleges and the University of Nebraska, that is audited or examined pursuant to subdivision (3)(a) of this section and that is the subject of a comment and recommendation in a management letter or report issued by the Auditor of Public Accounts shall, on or before six months after the issuance of such letter or report, provide to the Auditor of Public Accounts a detailed written description of any corrective action taken or to be taken in response to the comment and recommendation. The Auditor of Public Accounts may investigate and evaluate the corrective action. The Auditor of Public Accounts shall then electronically submit a report of any findings of such investigation and evaluation to the Governor, the appropriate standing committee of the Legislature, and the Appropriations Committee of the Legislature. The Auditor of Public Accounts shall also ensure that the report is delivered to the Appropriations Committee for entry into the record during the committee's budget hearing process.

Failure to complete corrective action plan(s) as required by State law would result in noncompliance with Nebraska State law and subsequent action from the Legislature.

Corrective action plans will be verified during subsequent audits, and the results of such audits will be reported to the Governor, the appropriate standing committee of the Legislature, and the Appropriations Committee of the Legislature upon issuance of the audits.

³ This law gives the Nebraska Auditor of Public Accounts power to audit financial records of all state officers, state bureaus, state boards, state commissioners, the state library, societies and associations supported by the state, state institutions, state colleges, and the University of Nebraska. (Neb. Rev. Stat. § 84-304(3)(a))

TOOLKIT LIST

The following document for **Chapter 6: Auditing** is available on the [Toolkit Section of DED's website](#):

- Notification of Annual Audit Form
- Single Audit Letter Template
- Pre-Audit Checklist