

## CHAPTER 15 – AUDIT

### AUDIT REQUIREMENTS

All audits of governmental entities receiving Community Development Block Grant (CDBG) Program funds must be prepared in accordance with requirements stated in the Single Audit Act of 1997. The federal act and 2 CFR 200 Part F (Sections 200.501 thru 200.521) require entities that expend \$750,000 or more during the entity's fiscal year in federal funds (from all Federal sources) conduct a single audit for that fiscal year by an independent public accountant.

The subrecipient calculates the total amount of federal expenditures based on the dates that invoices paid by the subrecipient and later reimbursed through CDBG resources using the draw down process.

### NOTIFICATION OF ANNUAL AUDIT (NAA)

The subrecipient is responsible for tracking these federal expenditures and required to complete a Notification of Annual Audit Form. The Form must be completed and returned to DED within **60 days** of the subrecipient's fiscal year-end. The Notification of Annual Audit form is available through DED's grant management system.

The Notification of Annual Audit Form **CANNOT** be submitted before the end of the fiscal year but must be submitted no later than **60 days** after the end of the subrecipient's fiscal year.

Subrecipients must complete the form completely and provide information related to the following:

- The subrecipient's fiscal year end date;
- The sources of all appropriate federal expenditures that have been made by the subrecipient, including all grants (and grant numbers) received from DED;
- Information on whether or not the subrecipient must complete a single audit;
- Contact information of the primary person responsible for arranging the audit; and
- Ensuring the form has been certified by a subrecipient official.

### THE AUDIT

If the subrecipient meets the criteria (\$750,000 in federal expenditures in the previous fiscal year) for a single audit, it must also submit the audit report to DED. The audit report must be provided to DED within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a different period identified in the specific audit guide (2 CFR 200.507 (c) (1) Subpart F. Failure of the subrecipient to provide the necessary audit information may result in sanctions that include suspension of payments to the subrecipient from DED until the audit information is received.

All Notifications of Annual Audit (NAA) forms and Single Audits must be submitted within the grant management system.

The subrecipient must ensure the following guidance is followed when completing an audit.

- Audits must be conducted in accordance with Generally Accepted Government Auditing Standards and 2 CFR 200 Subpart F. The auditor's responsibilities are described in Subpart E.

- The appropriate Assistance Listings (formerly CFDA) on SAM.gov identifier 14.228 for CDBG number must be used in the Schedule of Expenditures of Federal Awards (2 CFR 200.510 (b)). The CDBG grant number and amount must also be identified in this schedule. Local expenditures (matching funds, etc.) **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.

Upon completion of the audit report each subrecipient must also complete the following:

- Submit a copy of the single audit to the Department of Economic Development; or
- Submit to the Federal Clearinghouse in accordance with 2 CFR 200.512 Subpart F, one copy of a signed data collection form (SF-SAC), and one copy of the reporting package for the clearinghouse to retain as an archival copy, and one copy for each federal awarding agency when the schedule of findings and questioned costs disclosed audit findings relating to federal awards that the federal awarding agency provided directly to the entity. (Awards from DED come to the entity as pass-through awards, not directly from the United States Department of Housing and Urban Development).

#### **AUDITOR PROCUREMENT**

Subrecipients that are required to have a single audit must follow federal procurement procedures in selecting an auditor to perform the audit. If a single audit is to be performed, subrecipients must select an auditor in accordance with the procurement procedures detailed in 2 CFR 200.509 Subpart F.

The use of a Request for Proposal (RFP) is generally the most appropriate method of procurement since auditor qualifications are critical to having a proper audit performed. Criteria for selection of an auditor may include previous experience with audits of CDBG or other federal programs and single audits. Obtain additional information to assure that the auditor is a CPA or licensed public accountant. Verification of the completion and timeliness of previous audits should be made and an assurance that the auditor is independent.

#### **SINGLE AUDIT COSTS**

If a subrecipient is required to have a single audit, they may charge each open federal grant a portion of the audit costs for the fiscal year audited. The allowable portion of audit costs to be charged to each grant is determined by dividing the expenditures of a federal grant in a fiscal year by the total federal expenditures of the local government in that year. The resulting percentage is then multiplied by the total audit cost to determine the allowable audit cost for that grant.

Audit costs may only be charged to the Subrecipient's general administration activity.

#### **AUDITS OF CONTRACTORS**

Many CDBG subrecipients contract with other entities to carry out project activities. These entities are defined as public or private non-profit agency, faith-based organization, or for-profit businesses that receive CDBG funds by the subrecipient for specific project activities.

The subrecipient is responsible for obtaining a copy of the contractor's audit. Further, the subrecipient is responsible for reviewing the contractors' audit reports and for resolving any findings shown in the audit reports.

The subrecipient must:

- Ensure that contractors follow the audit requirements of 2 CFR 200 Subpart F.
- See that all contractors submit the required audit(s) to the subrecipient within the required timeframe.
- Review the contractor's audit reports and follow up on all audit findings. Audit reports must be reviewed, and the findings resolved in a management letter sent to the contractor within six months of receipt of the audit.
- If an audit finding results in corrective action to be taken by the contractor, the contractor must identify which corrective action will be implemented and the target date for the implementation.