

AUDITS

I. PURPOSE

- This chapter provides information relative to audit requirements including the necessary qualifications of auditors.
- DHCD has adopted these requirements for all general revenues funded contracts. Fixed-price sub-recipients are excluded from these requirements unless otherwise stipulated in their contract.

II. GENERAL AUDIT REQUIREMENT

DHCD requires that an audit be performed on an organization-wide basis, covering the organization's fiscal year. (The document that must be used to engage an auditor is an attachment to Chapter on Procurement) This audit shall be in accordance with appropriate regulations and the Generally Accepted Audit Standards Guide. It must test the fiscal integrity of financial transactions, determine whether the sub-recipient has complied with the terms and conditions of DHCD's contract, has established adequate accounting procedures, and has arrived at an opinion as to the adequacy of the sub-recipient's internal control systems.

III. AUDITING STANDARDS**GENERAL**

- The auditor's review must include the selection and testing of a representative number of charges in accordance with generally accepted auditing standards. The selection and testing of transactions should be based on the auditor's professional judgment considering such factors as the amount of program expenditures; prior program experience, particularly as revealed in audits and other evaluations; the extent to which the activity is carried out by sub-recipients; the level to which the program is already subject to program reviews or other forms of independent oversight; the adequacy of the controls for ensuring compliance; and the potential impact of adverse findings.
- OMB Circular A-133 revised June 26, 2007, "Audits of States, Local Governments, and Nonprofit Institutions" is the federal regulation covering independent audits of sub-recipients. Agencies receiving \$500,000 annually in Federal are required to follow A-133. All others will be advised by the County regarding Audit requirements.

- In order to meet federal requirements, the independent auditor shall determine whether:
 1. The financial statements of the sub-recipient present fairly its financial position and the results of its financial operations in accordance with generally accepted accounting principles;
 2. The sub-recipient has internal accounting and other control systems to provide reasonable assurance that it is managing federal funds in compliance with applicable laws and regulations; and
 3. The sub-recipient has complied with laws and regulations that may have material effect on its financial statements and on its federal funding source.

IV. AUDITOR QUALIFICATIONS

- U.S. HUD requires Independent Public Accountants (IPAs) performing audits of HUD programs to be either certified public accountant (CPA) or a licensed public accountant and they must meet any legal requirements concerning registration by the state in which the audited entity is located. The licensing requirement usually entails registering with appropriate authorities to conduct business within their jurisdictions.
- In Florida, audits may be performed by active CPA's licensed by the State Board and CPAs from other states who have secured temporary permits. U.S. HUD places a restriction state on non-CPAs performing audits if your contract is funded with CDBG monies: A public accountant must have been licensed on or before December 13, 1970 by a regulatory authority of a state or other political subdivision of the United States.
- DHCD will not make payment to or on behalf of any IPAs who are in violation of state licensing requirement& You are therefore strongly encourage to determine the eligibility of the firm or individual with whom you intend to subcontract for audit.
- The auditor selected may not be performing other accounting services for the sub-recipient or a related party where a conflict of interest - real or apparent - may be present. The independent audit requirements is not met when the audit is performed by an auditor (who is otherwise eligible) if the same individual or firm is also performing accounting services for the sub-recipient or the parent organization.

- Sub-recipients are obligated to make a positive effort to procure audit services from small businesses and minority-owned businesses.

V. AUDIT REPORT

Audit reports must be prepared at the completion of the audit. Sub-recipients shall submit a copy of the report, in triplicate, to DHCD within ninety days at the end of the organization's fiscal year.

The report shall be made up of at least:

1. The financial statements and a schedule of federal assistance, (which shows the total expenditures for each federal assistance program) and the auditor's report on these statements.
2. The auditor's report on the study and evaluation of internal control systems must identify the organization's significant internal accounting controls, and those controls designed to provide reasonable assurance that federal funds are being managed in compliance with law and regulations. It must also identify the controls that were evaluated, the controls that were not evaluated, and the material weaknesses identified as a result of the evaluation.
3. The auditor's report on compliance shall contain:
 - a statement of positive assurance with respect to those items tested for compliance, including compliance with law and regulations pertaining to financial reports and claims for advances and reimbursements
 - negative assurance on those items not tested
 - a summary of all instances of noncompliance;
 - identification of totals questioned, if any, for each award of federal funds, as a result of noncompliance
4. The three parts of the audit report are to be bound together into one document.
5. All fraud, abuse, illegal acts, or indications of such acts, including all questioned costs found as the result of these acts that auditors become aware of, should be covered in a separate written report.
6. In addition to the audit report, the sub-recipient shall provide comments on the findings and recommendations in the report, including a plan for

corrective action taken or planned, and comments on the status of corrective action taken on the preceding year's findings. If corrective action is not necessary, a statement describing the reasons it is not should accompany the audit the report.

7. In accordance with generally accepted audit standards, reports shall be submitted by the auditor to the sub-recipient; the sub-recipient is to submit three copies to DHCD.
8. Sub-recipients shall keep audit reports on file for three years from the date of resolution of all audit findings.

VI. AUDIT RESOLUTION

Resolution of findings will be the responsibility of the sub-recipient and shall be made within six months after receipt of the report. The sub-recipient's financial management system shall provide for a systematic method to assure timely and appropriate resolution of audit findings and recommendations.

VII. SANCTIONS

- Federal regulations mandate that no cost may be charged to federal programs for audits that are not made in accordance with federal requirements. In cases of continued inability or unwillingness to have a proper audit, DHCD will consider appropriate sanctions until the audit is completed satisfactorily, such as:
 - withholding a percentage of payments or all payments
 - suspending the sub-recipient's operation or payments
- DHCD will inform the sub-recipient of audits that have been found not to meet the requirements. The sub-recipient will be expected to work with the auditor to take corrective action. If corrective action is not taken, DHCD will notify the sub-recipient of required follow-up action. Major inadequacies or repetitive substandard performance of independent auditors shall be referred to appropriate professional bodies for disciplinary action.

VIII. PAYMENT FOR AUDITOR SERVICES

DHCD will not make payments to or on behalf of the sub-recipient for auditing services performed before the audit report is completed and a copy submitted to DHCD and found to be in accordance with federal and state requirements.

VII. RECORDKEEPING

OVERVIEW

- Accurate recordkeeping is crucial to the successful management of CDBG, HOME and ESG funded activities. Insufficient documentation is likely to lead to monitoring findings which will be more difficult to resolve if records are missing, inadequate or inaccurate.

- To assess strengths and weakness in this area, sub-recipients should think about the following:
 - Is there a clearly defined process for acquiring, organizing, storing, retrieving and reporting information about the funded activities?
 - How can the documentation and reporting systems be strengthened to meet the HUD requirements?
 - Who is responsible for the majority of the recordkeeping and reporting tasks, and are they properly trained and supported?
 - How can the recordkeeping and reporting process be streamlined by standardized procedures and the removal of duplicative records?
 - What types of records and reports could be automated (i.e., computerized)

ADMINISTRATIVE AND FINANCIAL RECORDS

- Administrative and financial recordkeeping is one of the primary areas subject to HUD reviews and one in which inadequate recordkeeping can lead to serious problems.

- Administrative and financial records to be maintained include:
 - Chart of accounts
 - Accounting journals and ledgers
 - Source documentation (purchaser orders, invoices, canceled checks, etc.)
 - Procurement files (including bids, contracts, etc.)
Administrative manual including personnel policies and procurement policies
 - Real property inventory
 - Bank account records (including revolving loan fund records, if applicable)

- Payment requests
- Payroll records and reports
- Financial reports
- Audit files; and
- Relevant financial and administrative correspondence

PROJECT/ACTIVITY RECORDS

- For each type of activity undertaken, the sub-recipient should determine what data must be maintained in individual case files and establish a system for ensuring that every file contains the necessary information.

- The list will vary from activity to activity, but each project/activity file should include the following documentation:
 - Eligibility of the activity
 - Evidence of meeting a national objective
 - Sub-contracts and/or agreements
 - Any bids or contracts
 - Characteristics and location of the beneficiaries
 - Compliance with special program requirements
 - Budget and expenditure information (including draw requests); and
 - the status of the project/activity

RECORDS OF SUB-RECIPIENTS

- The following is an overview of the types of records that must be maintained by sub-recipient for each funded activity:
 - Sub-recipient application
 - Written agreement
 - Financial statements and records
 - Audits
 - Progress reports
 - Payment requests (with supporting documentation)
 - Monitoring reports and correspondence
 - Davis Bacon
 - Environmentals
 - Resumes/personnel records
 - Contracts for other funding sources

RECORD RETENTION PERIOD

Under the uniform administrative requirements of the CDBG, HOME and ESG regulations, sub-recipients are required to retain program records for a period of not less than four years.

ACCESS TO RECORDS

DHCD, the Federal government agencies, have the right to access sub-recipient program records. This right is not limited to the retention period. The records should be available at all times during regular business hours and the attached records list made available or copies furnished as indicated.

NATIONAL OBJECTIVE CRITERIA RECORDS TO BE MAINTAINED:

CDBG 24 CFR Part 570

- Low/Mod - Area Benefit boundaries of the area income data of residents if less than 51% low/mod, exception criteria data.
- Low/Mod - Limited Clientele documentation that facility/service designed for or used exclusively by one of the eligible special needs groups documentation of nature and location of the facility/service such that it can be presumed to service low/mod or data on household size and income of each person receiving the benefit.
- Low/Mod - Housing copy of written agreement with landlord/developer with total number of units and number to be occupied by low/mod persons total cost of project (CDBG and non-CDBG funds) income and household size data for occupants/purchasers rent charged (rental housing only).
- Low/Mod - Job Creations if qualifying under jobs available to low/mod - copy of written agreement with required provisions - listing by job title of permanent jobs filled which were available low/mod and evidence of first consideration to low/mod if qualifying under "jobs held by low/mod - copy of written agreement with required provisions - listing by job title of permanent jobs filled and which were initially held by low/mod - for each low/mod person hired, household size and annual income prior to hiring Low/Mod - Job Retention evidence that without CDBG, jobs will be lost listing by job title of permanent jobs retained (include part-time and those held by low/mod) information on job turnover, including jobs to be available to and filled by low/mod for each job retained and held by low/mod, household size and income.

HOME-24 CFR 92 Eligible Activities including Affordability and Match.

ESG-24 CFR Part 576 - Assistance for Homeless Families and Individuals.

REQUIREMENT EXAMPLES OF KEY DOCUMENTATION

- Fair Housing Applicant and beneficiary data by race, ethnicity, gender and handicap tenant-based rental assistance plan (if applicable).
- Documentation of complaints and resolutions.
- Affirmative Marketing Reports detailing affirmative marketing activities and identifying actions to undertake to correct any noncompliance with affirmative marketing policies.
- If corrective measures have been identified, actions taken on such measures must be documented:
 - Numbers of persons that respond directly to any affirmative marketing efforts
 - Number of persons residing in or planning to reside in units advertised through local affirmative marketing efforts
 - Section 504 Self evaluation forms, if required
 - List of interested persons consulted during the self-evaluation process
 - Description of modifications made and remedial steps taken
 - Documentation regarding any policies and procedures adopted regarding Section 504 grievances
 - Minority Business Enterprise/Women Business Enterprise M/WBE plan for encouraging participation
 - Correspondence concerning contractor equal opportunity compliance
 - Records of M/WBE participation in program.
- Section 3 Handbooks, policies and procedures manuals, and resolutions or ordinances regarding equal opportunity employment - Sub-recipient certification of compliance with Section 3 Plan, or equivalent. Note: all contracts must contain appropriate Section 3 provisions.
- Environmental Review - Environmental Review. Record for each project or aggregation of projects.

Lead-Based Paint

- Evidence that notification was provided to prospective tenants and purchasers
- Records of inspections and testing
- Records of abatement activities, if any
- Records of complaints

REQUIREMENT EXAMPLES OF KEY DOCUMENTATION

Labor Standards - For each construction contract, maintain a file with the following documentation:

- Copy of Wage Rate Request
- Copy of Wage Rate, along with any additional classifications
- Bid/Contract Documents with labor Standards Provisions included
- Sub-contractor Eligibility Verification
- Ten-day Call Verification
- Pre-construction conference minutes/sign-in sheet
- Payrolls, with evidence of their review
- Notice of Start of Construction
- Employee interviews
- Evidence of violations and steps taken to resolve them
- Final Wage compliance reports
- Monthly employment utilization reports

MONITORING DOCUMENTS

Documents that should be copied and on file with DHCD:

- Insurance certificates
- Chart of accounts
- Most recent financial statements and certified audit
- Sales tax exemption permit (or letter of denial)
- Corporate annual report to Florida Department of State
- Form 990 - Return of Organization Exempt from Income Tax (most recent)
- Form 941 - Employees Federal Quarterly Payroll Tax (most recent quarter)
- Form 940 - Federal Unemployment Tax Act (FUTA) (most recent quarter)
- Current Board of Directors list
- Latest Board minutes
- List of staff along with salary schedule
- Agency budget with the year-to-date expenditures

- Documents that should be copied and on file or available for review by DHCD
 - Personnel Policies including all revisions
 - Accounting Policies and Procedures
 - Administrative Policies and Procurement Manual(s)
 - Ledgers, journals, payrolls, and timesheets
 - Bankbooks, checkbooks, bank statements, and reconciliations
 - Purchase orders, vouchers, receiving reports
 - Reimbursements and other records of income
 - Personnel records
 - Other funding agency reports (e.g., federal or state if applicable)
 - Complete sets of Progress Reports arranged by contract periods
 - Inventory Report

X. **AUDIT REQUIREMENTS**

A. Type/Level of Audit Required

- According to the General Accounting Office (GA), sub-recipients of awarded funds are required to ensure that federal funds are applied efficiently, economically and effectively to achieve the purposes for which the resources were furnished.
- States, local government and nonprofit organizations are required to comply with OMB Circular A-133 "Audits of States, Local Governments and Non-profit Organizations" which was revised June 26, 2007.

B. CURRENT STATUS OF OMB CIRCULARS GOVERNING AUDITS

- OMB Circular A-128, which applied to audits of states and local governments, has been rescinded. The audit requirements for states and local governments are now included in a revised OMB Circular A-133 which previously applied only to nonprofit organizations. Therefore, the audit requirements for states, local governments are now the same and are located all in one circular.

- ☐ Sub-recipients that expend \$500,000 or more in a year in federal awards must have a single or program. audit conducted for that year.
 - A program audit is an audit of one federal program (such as CDBG). A program-specific is allowed when the sub-recipient expends federal awards under only one federal program and the federal program's laws, regulations or grant do not require a financial statement of the auditee.
 - A single audit is an audit that includes both an entity's financial statements and its federal awards (from all applicants federal programs).
- ☐ If a sub-recipient receives less than \$500,000 a year in federal awards are exempt from the audit requirements for that year; however, records must be available for review or audit by appropriate officials of the federal agency, pass-through entity and the General Accounting Office.

C. WHAT IS CONSIDERED A "FEDERAL AWARD"?

- ☐ Federal award means federal financial assistance provided by a federal agency to a sub-recipient, or through a recipient to a sub-recipient, to carry out a program or activity. Such assistance may be in the form of:
 - Grants
 - Agreements
 - Loans
 - Property
 - Food commodities
 - Contracts
 - Loan guarantees
 - Insurance
 - Other assistance
 - Cooperative
 - Interest subsidies
 - Direct appropriations

- ☐ Also, the computation of federal financial assistance includes all federal funds received by the entire entity, not just the department or division receiving program funds.

D. Scope of Audits

- ☐ Audits performed for sub-recipients of federal funds must be performed by an independent auditor in accordance with Government Auditing Standards and must be conducted in accordance with the OMB circulars.

□ Specifically, the audit will cover three area:

1. Financial Statements

The auditor will determine whether the financial statements of the organizations being audited are presented- fairly in all material respects in conformity with generally accepted accounting principles.

The auditor will also determine whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the organization's financial statements.

2. Internal Control System

The auditor will issue a report on whether the organization or government entity has an internal control structure established to provide reasonable assurance that;

- Resources are used in compliance with applicable law and regulations
- Assets are safeguarded against waste, loss and misuse; and reliable data is obtained, maintained and fairly disclosed in financial reports

3. Compliance Testing

The auditor will perform tests of these controls to evaluate the effectiveness of the design and operation of the policies and procedures in preventing or detecting material noncompliance with applicable laws and regulations.

In compliance testing, the auditor will also examine a sample of transactions to determine whether:

- The amounts reported as expenditures were for allowable services, and the records show that those who received benefits or services were eligible to receive them
- Applicable matching requirements, levels of effort, and earmarking limitations (such as ceilings on administrative costs or funding for public services, as allocations for activities to principally benefit low-and moderate-income individuals) were met;

- Financial reports and claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statement have been prepared; and,
- The expenses claimed by the sub-recipient are in accordance with the applicable cost principles and uniform administrative requirements.

E. Audit Reports

Following the completion of the audit, an audit report must be prepared. The audit report must contain at least the following:

- An opinion on financial statements and schedule of federal assistance (showing total expenditures under each Federal grant program), as well as the auditor's report on these two components;
- An evaluation of the sub-recipient's internal control systems identifying the significant internal accounting controls and those controls designed to provide reasonable assurance that federal programs are being managed in compliance with applicable laws and regulations;
- A report on compliance containing an opinion as to whether each major federal program was being administered in compliance with applicable laws and regulations; a statement of positive assurance for those items tested; negative assurance for those items not tested; a summary of all instances of noncompliance; and identification of total amounts questioned; and
- A schedule of findings and questioned costs that includes a summary of the auditor's results.
- For governmental entities, the audit must be completed and report submitted within one year after the end of the period being audited, unless the sub-recipient approves a longer period.
 - For non-profits, the audit must be completed and the report submitted no later than 18 months after the end of the nonprofit's fiscal year, unless the sub-recipient approves a longer period.
- Copies of audit report must be kept on file for minimum of three years from the date of their issuance.

- Similarly, sub-recipients should ensure that auditors maintain copies of the audit work papers for a minimum of three years from the date of the report issuance.
- If there are unresolved audit issues at the end of this three-year period, the sub-recipient should notify the auditor in writing to extend the retention period.

F. Auditor selection/Procurement

- In arranging for audit services, sub-recipients must follow the procurement standards found in 24 CFR Part 85 or 84, as applicable.
- Small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals must have the maximum practicable opportunity to participate in (such audit) contracts.
- The individuals (s) or firm selected must be qualified and sufficiently independent of those representatives of the sub-recipient who authorize the expenditure of federal funds so as to produce unbiased opinions, judgments or conclusions.
- In evaluating prospective auditors, a recipient should consider the candidates' technical ability, past experience with audits of this type, and the qualifications of the specific staff to be assigned.
- Cost considerations should only be a selection factor when the other criteria have been met.
- For governmental entities, the standards provide that while such entities are encouraged to enter into intergovernmental agreements for audits (and other services), an analysis should be made to determine whether it would be more economical to purchase the services from private firms.
- Where the use of the inter-governmental agreements are required by state statute, however, such statutes take precedence.

G. Audit Costs

- The costs of audits made in accordance with the applicable regulations are allowable charges to federal assistance programs.
- These charges can be treated as either a direct cost or an allocated indirect cost.

- If charged as an indirect cost, generally the percentage of costs charged to federal assistance programs for a single organization-wide audit should not exceed the percentage that the sub-recipient's federal funds represent of total funds expended by the entity during the applicable year. (The percentage may be exceeded, however, if appropriate documentation demonstrates higher actual costs).

H. Audit Review and Resolution

- Sub-recipients must establish a system to ensure a timely and appropriate resolution to audit findings and recommendations.
- This system must address both independent audits performed relative to the Single Audit Act, and audits completed on the sub-recipient's operations by the HUD Office of the Inspector General (OIG), the U.S. General Accounting Office (GAO), or other governmental bodies.
- A first step in the resolution of an audit is the preparation of "Management's Response" to the findings and recommendations contained in the audit report.

In its response, a sub-recipient should provide:

- For findings/recommendations with which the sub-recipients agrees, information on the actions it has taken (or plans to take) to correct the specified non-compliance or financial system deficiencies; and,
 - For findings/recommendations with which the sub-recipient does not agree, the basis (including relevant documentation) for the sub-recipient's belief that an audit finding or recommendation is inaccurate or inappropriate.
- Typically, the Management's Response is due within thirty (30) days from the receipt of an audit report.
- If in its Management's Response the sub-recipient has disagreed with any of the audit findings or recommendations, the entities issuing and reviewing the audit report will re-examine the points in question to determine whether any revisions to the report's findings/recommendations are warranted.
- For those audit findings and recommendations with which the sub-recipient agrees, and for any disputed findings or recommendations in which the challenge is not upheld, the next step in the resolution process is the implementation of procedures to prevent the deficient conditions from re-occurring.

- In general, corrective action to correct findings or to implement recommendations must be completed within one year of the issuance of the audit report.
- The County** may perform a site visit or require documentation that the corrective action procedures have been implemented, or may require the sub-recipient's independent auditor to report whether the sub-recipient has implemented the prior year's corrective action and/or recommendations.
- A "repeat finding" (a deficiency or area of non-compliance which appears in more than one successive audit) will be viewed very seriously, and can often result in special conditions being attached to program funding, or other sanctions.
- Occasionally, the findings from an audit will result in the "questioned cost." Costs associated with its program funding may be questioned for the following reasons:
 1. There is inadequate documentation to support the expenditure or the amount of cost charged to the grant
 2. The expenditure does not appear to be related to the grant project
 3. The cost was incurred outside the effective period of the grant agreement, or was a program expense incurred before environmental review clearance was achieved
 4. The expense is unallowable under the program regulations and applicable cost principles; and
 5. The cost required the prior approval of the sub-recipient, and no prior approval was obtained.
- To resolve a questioned cost, the sub-recipient must:
 1. Provide the missing documentation to support the expenditure and amount
 2. Offer detailed explanations of how the cost relates to the grant program; and/or
 3. For an expense which required prior approval, seek retroactive approval (which the sub-recipient may or may not give).

- If a sub-recipient is not able to resolve a questioned cost to the satisfaction of the auditor and/or sub-recipient, the expense will be disallowed.
- A disallowed expense for which federal funds were originally used must be reimbursed from non-federal funds.
- On occasion, such reimbursements can be repaid on a payment schedule negotiated with the sub-recipient or the other relevant officials (e.g., HUD representatives).

I. SYSTEM OF AUTHORIZATIONS - A CLOSER LOOK

- The system of authorization should provide a way for management to ensure supervisory approval of transactions, and documentation of these transactions &or accounting purposes. A written system of authorizations should specify by job title the person who has the authority to initiate and approve a transaction, such as signing a contract or selling a piece of equipment.