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Audit & Audit Resolution

FINAL GUIDANCE

AUDIT AND AUDIT RESOLUTION RESPONSIBILITIES

OF INTEREST TO:

Workforce Florida Inc. (WFI), Regional Workforce Boards (RWBs), and other recipients and subrecipients of Federal and State funds that are administered by the Department Economic Opportunity (DEO).

SUBJECT:

Audit and Audit Resolution

PURPOSE:

To describe the audit and audit resolution process and the requirements imposed on both the State administering entity (DEO) and its recipients/subrecipients.

BACKGROUND AND FEDERAL/ STATE POLICIES:

The Federal Single Audit Act of 1984 (Public Law 98-502), the Federal Single Audit Act Amendments of 1996 (P.L. 104-156) and Office of Management and Budget (OMB) Circular A-133 require an independent financial and compliance audit of each non-Federal entity that is a recipient or subrecipient of Federal funding and has cumulative expenditures of Federal funds of **\$500,000** or more (**or the amount prescribed by the Federal Single Audit Act**) in a fiscal year (effective for all fiscal years ending after December 31,2003; the previous threshold was \$300,000). The Acts further state that the audits are to be conducted in accordance with applicable auditing standards set forth in the *Standards for Audit of Governmental Organizations, Programs, Activities and Functions* issued by the Comptroller General of the United States (known as *Government Auditing Standards*). Each entity is also responsible for complying with the Florida Single Audit Act

if applicable (215.97 F.S. and Chapter 10.650, Rules of the Auditor General and Chapter 69I-5, Rules of the Department of Financial Services). The requirements of the Florida Single Audit Act are similar to those of OMB Circular A-133, but do encompass some special provisions not mandated by the OMB Circular. The focus of the Florida Single Audit Act is audit coverage of financial assistance provided by the State (such as General Revenue) rather than by the Federal Government.

I. Audits of DEO

The State administering entity (DEO) is audited by the State Auditor General as part of the annual audit of Federal awards programs for all State agencies. As required by OMB A-133, the audit must be completed, and the audit report issued, within nine (9) months after the end of the audit period, i.e. the end of DEO's fiscal year, which is June 30. Upon completion of the audit, the Auditor General will ensure that the final audit report, which will also include DEO's corrective action plan for any audit findings, is transmitted to the Federal Audit Clearinghouse within the timeframe specified in OMB Circular A-133. The Federal Clearinghouse will distribute copies of the audit report to appropriate Federal grantor agencies.

Within a few months of report issuance, the U.S. Department of Labor (USDOL) and the U.S. Department of Health and Human Services (USDHHS) will contact DEO to initiate informal resolution of individual report findings, which usually requires submittal of additional information and evidence to support the satisfactory completion of corrective action. In addition, the U.S. Departments of Agriculture and Education are other Federal grantors that could conduct audit resolution activities with DEO.

II. General Audit Requirements for Federal Funds

The following General Audit Requirements apply to all non-Federal organizations receiving Federal awards, and having cumulative Federal expenditures of \$500,000 or more in a fiscal year. **The \$500,000 threshold is subject to change pursuant to the Federal Single Audit Act. Any references in this document to this threshold will automatically change to comply with Federal requirements.**

1. All non-Federal entities that expend \$500,000 or more in Federal awards (from all sources combined) in a fiscal year must have an organization-wide Single Audit conducted in accordance with Section .500 of OMB

Circular A-133. However, when an entity expends Federal awards under only one Federal program, and the Federal program's laws, regulations, or grant agreements do not require a financial statement audit, the entity may elect to have a Program Specific Audit conducted in accordance with Section .235 of OMB Circular A-133.

2. All audits must be conducted annually unless one of the exceptions noted in Section .220 of Circular A-133 applies.
3. The audit must be conducted by an independent auditor in accordance with Government Auditing Standards issued by the Comptroller General of the United States.
4. Audits must be conducted in accordance with grant governing regulations.

III. GENERAL AUDIT REQUIREMENTS for STATE FINANCIAL ASSISTANCE

State Financial Assistance is not as prevalent at the RWB level as Federal funding, but the appropriate audit planning must be done if such funding does exist.

1. Any non-state entity that expends a total amount of state financial assistance equal to or in excess of **\$500,000** in any fiscal year from all state sources combined, must have a state single audit conducted for that fiscal year. This \$500,000 expenditure threshold applies to all fiscal years ending after September 30, 2004; the threshold prior to September 30, 2004 was \$300,000. **The \$500,000 threshold is subject to change pursuant to the State Single Audit Act. Any references in this document to this threshold will automatically change to comply with any revisions to state requirements.**

Whenever state single audits are required, they must be done in accordance with section 215.97 Florida Statutes (*Florida Single Audit Act*) and Chapter 10.650, Rules of the Auditor General, and Chapter 69I-5, Rules of the Department of Financial Services. However, if the entity receives state financial assistance under only one state project, the recipient may elect to have only a state project-specific audit.

2. State financial assistance includes state resources, such as General Revenue, expended under a state project as defined by the Florida

Single Audit Act, but does not include Federal pass-through assistance or state matching for Federal awards.

3. These audits must be conducted annually in accordance with Government Auditing Standards.
4. An audit conducted in accordance with this section is in addition to any audit of Federal awards required by the Federal Single Audit Act. There are differences between Federal and Florida audit requirements as to what is to be audited. However, these two audits should be done in conjunction with one another when both are required.

IV. Audit Exemption

Non-Federal recipients and subrecipients that expend less than \$500,000 in a fiscal year in Federal awards are exempt from Federal Single Audit requirements for that year. Similarly, any entity that expends less than \$500,000 in a fiscal year in state financial assistance is exempt from Florida Single Audit requirements. However, in either case, records must be available for review or audit by appropriate Federal and State officials, which includes the Federal grantor agency, the U.S. General Accounting Office, the Department Economic Opportunity, Workforce Florida, Inc., the Florida Department of Financial Services, and the Florida Auditor General.

V. Audit Requirements for Commercial Organizations:

Although OMB Circular A-133 exempts commercial (for profit) organizations from single audit requirements, the pass-through entity has an obligation to ensure that for-profit subrecipients comply with Federal awards. Contracts should describe applicable compliance requirements under the Federal award(s) and for-profit subrecipients' compliance responsibility. Additionally, for-profits entities may be subject to certain specific audit requirements of individual Federal grantor agencies. For example, Section 667.200 (b)(2)(ii) of the Federal Regulations for WIA states, "Commercial organizations which are subrecipients under Workforce Investment Act (WIA) title I, and which expend more than the minimum level specified in OMB Circular A-133 (\$500,000) must have either an organization-wide audit conducted in accordance with A-133 or a program specific financial and compliance audit."

However, the Florida Single Audit Act **does not exempt for-profit organizations** from obtaining an audit of state financial assistance.

VI. DEO's Responsibilities In Regards to Recipients and Subrecipients

DEO must assist recipients and subrecipients in complying with the Federal and Florida Single Audit Acts and ensure that its duties as a pass-through entity (as defined in these Acts) are accomplished. The DEO offices directly involved with these duties include the Office of Inspector General, Grants Management, Finance and Accounting, and the Office of the General Counsel. DEO should perform six main responsibilities:

1. Ensuring that recipients and subrecipients are made aware of their responsibilities to obtain annual audits that are conducted in compliance with Federal and State audit requirements, and that audit reports are submitted to DEO within the required timeframe. This is accomplished in several ways:
 - Issuance of this Guidance Paper
 - Contracts issued by DEO will include a standard attachment describing the audit requirements under OMB Circular A-133 and the Florida Single Audit Act, as applicable.
 - The requirement that recipients and subrecipients prepare and submit written plans to DEO for obtaining the required audits and submitting the resulting reports to DEO in a timely manner.
 - Provide consulting and technical assistance to recipients/subrecipients and auditors regarding audit requirements and the programs being audited.
2. Providing recipients and subrecipients with necessary information regarding the programs that are being funded, along with the types and sources of funding (including identification of the program titles and numbers from the Catalog of Federal Domestic Assistance and the Catalog of State Financial Assistance) that will be needed in soliciting audit services. This information should be included in the contract (usually as part of the standard audit attachment) or other form of agreement with the recipients/subrecipients.
3. Conducting full and timely resolution of subrecipients' audits, including obtaining reasonable assurances that corrective actions have been implemented for all audit findings.
4. Collecting any debts resulting from costs that are disallowed in DEO's final Management Decision.

5. Ensuring that recipients/subrecipients have a system in place for receiving and resolving the audit reports of their subrecipients.
6. Adjusting its fiscal and programmatic records as necessary in response to subrecipient audit findings.

VII. Recipient and Subrecipient Responsibilities

In order for audits to successfully achieve their purpose, recipients and subrecipients of DEO must conscientiously carry out several specific functions in accordance with Federal and State law. In addition, Workforce Florida, Inc. and DEO have established special guidelines concerning audit quality that WDBs are expected to follow. These functions and special guidance topics are as follows:

1. Prepare and submit an Annual Audit Plan to the DEO Office of Inspector General: Subrecipients that are not audited by the State Auditor General and which expend Federal awards of \$500,000 or more, and recipients who expend State financial assistance of \$500,000 or more, must provide an Annual Audit Plan to the DEO not later than 45 days after the end of their fiscal year. The Audit Plan must explain how the recipient/subrecipient will ensure that all funds are audited in accordance with the appropriate sections of OMB Circular A-133, the Federal Single Audit Act, the Florida Single Audit Act, and other applicable regulations, State laws, and WFI/DEO instructions and guidance.

The Audit Plan must provide the following information:

- (a) The procedures to be used in procuring the audit firm, if procurement is necessary for the year in question. If the audit will be performed by the same company as used the year before, this should be indicated. (But, take note of the five-year retention policy discussed below under Special Guidance.) In arranging for audit services, subrecipients shall follow the procurement standards prescribed by OMB Circulars A-102 and A-110. Local procedures are to be followed if more restrictive.

SPECIAL GUIDANCE for Audit Procurement

Whether audit services are procured using an RFP process or some other means, it is essential to include certain steps in the evaluation process in order to help ensure that the auditor selected has the necessary qualifications.

- (1) When reviewing responses to an RFP or otherwise conducting a search for an auditor, the preferred approach is to rank potential candidates in order of qualifications, with price negotiation to be conducted beginning with the most qualified firm.
- (2) Require that prospective firms present their most recent peer review. Accounting firms that perform audits must obtain a peer review once every three years to comply with State licensing requirements.
- (3) Obtain client references for similar audit services. Contact these references for their opinions of the accounting firm.
- (4) Require that the company submit summaries of the qualifications for the auditors who would perform the engagement, including their experience in conducting single audits.
- (5) Require that the accounting firm disclose any disciplinary action taken by the State Board of Accountancy within the last three years.
- (6) When a firm is recruited and selected by the Executive Director (or the Director's designee) rather than by a committee of Board members, the Board should require that the Executive Director appear before the Board to explain the process by which the auditor was selected, including the criteria that were considered when evaluating the qualifications of the accounting firm. A representative of the proposed accounting firm should also meet with the Board to answer any questions.
- (7) The Board Chairperson should sign the audit engagement agreement, once legal counsel has reviewed it and after the Board has formally approved the selection of the auditor.
- (8) In addition, **RWBs must limit auditor retention to no more than five years**, at which time the RWB would have to follow its standard procurement process, plus the Special Guidance noted herein, to select a new qualified auditor. If an RWB believes that adherence to this five-

year limitation would create a hardship for the Region or otherwise not be prudent, the RWB can appeal to the WFI Finance Committee for a waiver of this policy. A request for exemption from this policy should be done as early as possible, and certainly early enough to allow for the proper and timely solicitation of another auditor if the request for waiver is denied. **Commencing with the 2005-06 audit period, regions that have retained an auditor for five or more consecutive years must seek a new auditor, unless a waiver is approved by the Finance Committee.**

- (b) Target dates for implementation of the plan, the completion of the audit and submission of the audit reports. **These target dates must ensure completion of the audit and issuance of the audit report within nine (9) months of the end of the fiscal year.**
- (c) Scope of audit to include identification of the funds to be audited by program title and Catalog of Federal Domestic Assistance (CFDA) No. and Catalog of State Financial Assistance (CSFA) No. if known.

SPECIAL GUIDANCE FOR AUDIT TESTING AND REPORTING

RWBs are required to communicate to their auditors the following procedures that must be performed:

- (1) It is essential that the audit firm test the RWB's reconciliation of its financial records to the One Stop Management Information System (OSMIS) maintained by DEO. The Auditor should include a note to the financial statements confirming whether such a reconciliation was done by the RWB in a satisfactory manner.
- (2) Auditors are required under Federal audit guidelines to test compliance with Federal cash management requirements and report any material problems. However, WFI/DEO have established state level guidance for cash management that also should be tested. The auditor should review the key guidelines contained in the OSMIS Manual produced by DEO concerning cash management, especially the criteria for Allowable Cash On Hand, and conduct the appropriate tests of compliance.
- (3) The audit must examine the status of compliance with state and federal laws governing structure, functions, and

mission of local workforce boards and report any material noncompliance.

- (4) Require that auditors always prepare and submit a Management Letter for those findings and observations not included in the audit report, as opposed to providing only a verbal briefing. The Management Letter should be addressed to the Board. Furthermore, the auditee must prepare a written statement of response to any Management Letter comments and this written response must be included in the audit report package that is submitted to DEO.
- (5) All funds administered by the Board must be included in the audit coverage. This includes funds that are provided to any auxiliary entity over which the Board exercises controlling influence, such as a Foundation. For purposes of this Guidance Document, all **Foundations or other similar entities** are considered to be affiliated organizations and, in some instances, may need to be classified as a component unit.

For any affiliated organization, at a minimum the audit report should disclose the entity's mission/purpose and summarized financial data including total assets, liabilities, net assets, revenues, expenditures, and the entity's relationship to the Board's activities. The auditor may need to provide other disclosures and presentations (such as consolidated financial statements) as appropriate after giving proper consideration of applicable accounting standards pronouncements regarding reporting of related entities (such as SOP 94-3).

- (6) **The auditor should state in the *Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Awards Program* that the audit was conducted in accordance with the special audit guidance provided by the Department Economic Opportunity.**
- (d) A listing of all contracts or grants issued by the recipient/subrecipient for the fiscal year to be audited. This list should indicate the name of the contractor/grantee, the amount of the contract or grant and whether or not the contractor/grantee is a subrecipient that must procure an audit of its own, or is a vendor that does not have to obtain an audit.

It is essential that RWBs (and other DEO recipients/subrecipients) determine individually whether each of their contractors/grantees should be classified as a "subrecipient" or a "vendor". This distinction is explained in OMB Circular A-133, section .210. Audits are not normally required of "vendors". This determination should be documented.

- (e) DEO recipients and subrecipients must monitor their service providers in addition to any audits that may be required. The Annual Audit Plan should describe how this monitoring is to be accomplished.
- (f) Procedures for audit coverage in the event a service provider that should be audited goes out of business or unilaterally terminates the contract. These procedures should provide for a designated custodian of records, immediate notification by the service provider and an immediate audit, which could be a grant-specific audit.

2. Implement the Audit Plan as submitted to DEO.
3. Once the audit is completed, each RWB should have its auditor appear before the Board, or an appropriate committee of the Board, to explain the opinions expressed by the auditor and to discuss the significance of any audit findings, including any findings contained in the Management Letter.
4. Recipients and subrecipients must submit **a copy** of the audit report, with required corrective action plan, Management Letter and audit transmittal letter, to DEO within the **earlier** of 30 days after receipt of the audit report from the audit firm, or nine (9) months after the end of the entity's fiscal year. The reporting package should be mailed to the following address:

Mr. Joseph K Maleszewski, Inspector General
Department Economic Opportunity
MSC # 130, Caldwell Building
107 East Madison Street
Tallahassee, Fl. 32399-4126
(The copy submitted to the Inspector General should be a hard copy.)

In addition, one electronic copy of the audit report, corrective action plan, and management letter should be emailed to:

Financial Monitoring & Accountability (FMA)
FMA-RWB@deo.myflorida.com

5. Auditors should submit copies of the audit report to WFI and the Chairperson of the Workforce Florida Finance Committee.
6. One paper copy and one electronic copy of the financial package with required submittal checklist shall be provided to the Auditor General's Office at the following addresses:

Auditor General
Local Government Audits/342
Claude Pepper Building, Room 401
111 West Madison Street
Tallahassee, FL 32399-1450

Email Address: flauden_localgovt@aud.state.fl.us

7. In addition, the data collection form and appropriate number of copies of the A-133 audit report should be submitted to the Federal Audit Clearinghouse as required. The Federal Audit Clearinghouse will receive and process the audits for the Federal awarding agencies. To satisfy audit submission requirements, auditees or their auditors must submit one copy of the audit report for the Federal Audit Clearinghouse 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. Single Audit reporting package for fiscal periods ending on or after January 1, 2008, must be submitted using the Federal Audit Clearinghouse's Internet Data Entry System at:

<http://harvester.census.gov/fac/collect/ddeindex.html>

8. Receive and resolve service provider/contractor audits in compliance with audit/audit resolution requirements outlined in this document, the Federal Single Audit Act, The Florida Single Audit Act, OMB Circular A-133, and all governing rules and regulations.

VIII. Workforce Florida, Inc., Responsibilities

WFI will arrange for training and education of Board members at both the local and state level regarding their fiduciary responsibilities. This training will cover the audit process and how to use the report results to evaluate the condition of the organization and the performance of those responsible for implementing the programs and financial systems being audited.

IX. Audit Resolution

DEO, through the Office of Inspector General, and its recipients/subrecipients shall engage in informal discussions (audit resolution) whenever an audit report contains administrative findings and/or questioned costs. These informal discussions must be completed no later than six months after receipt of the audit report by DEO pursuant to the requirements of the Federal Single Audit Act, the Florida Single Audit Act and OMB Circular A-133. The objective of the resolution process is to ensure that corrective action is implemented by the recipient/subrecipient as appropriate and that a determination is made as to whether any costs questioned by an auditor should be disallowed and reimbursement requested. By the end of the six-month period, the DEO Inspector General will issue a written Management Decision to the subrecipient stating whether or not corrective actions have been adequate. The Management Decision will also indicate whether any questioned costs have been formally disallowed and must be repaid.

Likewise, RWBs and other DEO recipients/subrecipients must resolve audit findings for their subrecipients. The audit resolution must adhere to the following standards:

1. RWBs and other recipients/subrecipients of DEO, should have written procedures for the resolution of audit findings pertaining to service providers/contractors. These procedures should describe the following steps:
 - (a) A process for tracking the status of audit reports due from all subrecipients. Subrecipients must submit audit reports within the earlier of 30 days after the receipt of the auditor's reports or nine months after the end of the audit period.
 - (b) A process for reviewing each audit report and determining the adequacy of corrective action proposed or taken by auditee management.

- (c) Issuance of a written Management Decision which states whether or not questioned costs are allowed or disallowed and whether or not corrective actions regarding any administrative findings are adequate. A statement must be included in the Management Decision that all findings are subject to State and Federal review. This Decision must be issued within six months of receipt of the audit report.
- (d) The establishment of a debt if applicable, and repayment options that are available to the service provider/contractor. Any method of repayment other than cash must have prior DEO approval.
- (e) Service provider/contractor appeal rights.
- (f) When there are no findings to be resolved, the RWB should forward a letter to the service provider/contractor stating that there are no findings to be resolved, and the audit is considered resolved for the funding passed through the RWB.
- (g) In addition to resolving the findings made by the auditor, the entire audit report should be carefully reviewed for other issues that may warrant discussion with the contractor.

X. DEO Hearing/Appeal Procedures:

Whenever a recipient or subrecipient of DEO, in accordance with the provisions of State and Federal regulations, requests a hearing to resolve any issue relating to an audit determination rendered by DEO or its agents, the following procedures shall be followed:

If DEO and the recipient or subrecipient cannot informally resolve disputed findings, the Office of Inspector General shall review all documentation and issue a Final Management Decision no later than six (6) months after the audit report was received by DEO pursuant to applicable laws and regulations. The Final Management Decision will be transmitted by certified mail, return receipt requested, and will discuss the status of each audit finding, such as: (a) findings that have been resolved through audit resolution activities; (b) findings for which corrective action is still in progress; (c) the disallowance of costs and a request for repayment; and (d) notice that the subrecipient may request a hearing pursuant to Section 120.57, Florida Statutes.

Within 21 calendar days of the receipt of the Inspector General's Final Management Decision, any affected recipient or subrecipient may request a hearing pursuant to section 120.57, Florida Statutes, by filing such request

by certified mail, return receipt requested, with: The Office of the Director, Department Economic Opportunity, ATTN: General Counsel, MSC # 150, Caldwell Building, 107 East Madison St., Tallahassee, Florida 32399-4128.

The request for a hearing shall state with specificity those provisions of the Final Agency Management Decision upon which a hearing is requested. Please refer to Rule 28-106.201, Florida Administrative Code, for the required contents of the petition (hearing) request. The request shall be considered filed upon receipt at the DEO General Counsel's office.

Those provisions of the Final Management Decision not specified for hearing, or the entire Final Management Decision when no hearing has been requested, shall be considered resolved and not subject to further review.

If within 21 days of receipt of the Final Management Decision, a request for hearing is not filed as required by certified mail, return receipt requested, the matter will be considered resolved as per the Final Management Decision of the Inspector General without issuance of further orders. The Inspector General shall thereafter take whatever actions are indicated by the Final Management Decision, which may include imposing sanctions, correcting operational procedures, collecting disallowed costs and terminating the contract.

Filings by mail of complaints, petitions, and any other requests for hearing shall be by certified mail, return receipt requested. A document is received and/or filed on date of delivery shown on the return receipt. If a copy of the document is sent to more than one representative of a contractor or subrecipient, the date shown on the earlier return is the date of the receipt. Unless otherwise stated, all documents shall be mailed to: Office of the Director, Department Economic Opportunity, ATTN: General Counsel, MSC # 150, Caldwell Building, 107 East Madison St., Tallahassee, Florida 32399-4128.

XI. Emergency Sanctions

When the Director of the Department Economic Opportunity determines there is an emergency situation and finds it necessary to protect the integrity of state or Federal funds, or to insure the proper operation of the programs, the Director shall, if deemed necessary, immediately terminate or suspend the authority of a contractor, whether subrecipient or vendor, to obligate and withdraw funds and make alternative temporary arrangements to carry out any programs under contract. The contractor will be notified of

the action, and advised of the opportunity to request an immediate hearing pursuant to this guidance paper.

XII. Debt Collection Procedures

A debt is established at the time the Final Management Decision is issued if there are unresolved questioned costs. A request for a hearing contesting the Final Management Decision will defer debt collection efforts pending the outcome of the hearing. A request for repayment will be included in the Final Management Decision which will be sent certified mail, return receipt requested. At least two debt collection letters will be sent at 30-day intervals demanding repayment of the disallowed costs. The debt will be referred to the DEO Office of General Council for appropriate legal action if the debt is not collected as a result of the actions taken by the Office of Inspector General. DEO's Bureau of Financial Management will be requested to set up an account receivable for any debt established.

XIII. Debt Repayment

Cash is the method of repayment that will be pursued and preferred over all other methods of repayment for debt collection actions. **When Federal grants are involved, repayment must be made from non-federal funds. Similarly, if the disallowed costs were State Financial Assistance under a State Project, repayment cannot be made from State Financial Assistance funds.**

DEO will follow the guidance provided in the One-Stop Comprehensive Financial Management Technical Assistance Guide issued by the U.S. Department of Labor in regards to the acceptability of proposed "stand-in" costs.

Directory

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