

## AUDITING AND AUDIT RESOLUTION POLICY

### EXECUTIVE SUMMARY

This policy provides the auditing requirements and the audit resolution process for entities receiving Workforce Innovation and Opportunity Act (WIOA) funds to meet the Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). This policy applies to all subrecipients receiving WIOA funds.

### REFERENCES

- Public Law 128, The Workforce Innovation and Opportunity Act, Sec. 184, Fiscal Controls and Sanctions
- Title 2 Code of Federal Regulations (CFR) Part 200: Uniform Guidance
- Title 2 CFR, Chapter II, Subpart F, 200.501
- Title 2 CFR, Chapter II, Subpart F, 220.521 (c)
- Title 2 CFR Part 2900: DOL Exceptions
- Title 20 CFR Sections 667.200(b), 667.500(a), 667.510, 683.210, and 683.420
- Title 29 CFR Section 38.9, 95.26, 96.53, and 97.26
- Training and Employment Guidance Letter (TEGL) 15-14, *Implementation of the New Uniform Guidance Regulations* (December 19, 2014)
- One-Stop Comprehensive Financial Management Technical Assistance Guide
- Title 22 CCR Division 1, Subdivision 2, Chapter 2, Section 5050-5070
- Employment Development Department (EDD) Workforce Services Directive (WSD) 22-07, *Debt Collection* (November 14, 2022)
- WSD20-23, *Audit Requirements*
- WSD16-05, *WIOA Closeout Requirements* (July 29, 2016)

### BACKGROUND

On December 26, 2013, the new Super Circular was established through 2 CFR Part 200, Subpart F Audit Requirements, which generally requires that single audits be performed annually. In certain limited situations,

biennial audits are allowed. The following section summarizes the requirements and significant changes of the revised circular.

- a. Audit threshold increased from \$500,000 to \$750,000 expended. (\$750,000 after December 26, 2014)
- b. Determination of high-risk programs no longer based solely on level of expenditures. The auditor now determines these based on the following:
  1. Current and prior audit experience
  2. Oversight performed by the Federal agency and others
  3. Inherent risk of the Federal program
- c. Assignment of Federal agency is now based on dollar threshold of awards received, not by the Office of Management and Budget (OMB).
- d. Subrecipient Responsibilities
  1. Identify and account for Federal awards
  2. Maintain internal controls over Federal funds
  3. Comply with laws, regulations and contracts
  4. Prepare required financial statements, etc.
  5. Ensure that requirements are met per Title 2 CFR Part 200, Subpart F
  6. Follow-up and resolve audit findings
- e. Auditors
  1. The auditor that does the audit shall not prepare the subrecipient's indirect cost proposal or cost allocation plan, when indirect costs exceed \$1 million in the prior year.
  2. The Single Audit Act amendments will require the auditor to express an opinion on whether the schedule of expenditures of Federal award is fairly presented in all material aspects in relation to the financial statements.
- f. Reporting
  1. Reports must be submitted no later than nine months after the end of the year audited, or within 30 days after issuance of the auditor's report to the subrecipient, whichever is earlier.
  2. Subrecipient Reporting Requirements
    - a) Financial Statements
    - b) Schedule of Federal awards expenditures
    - c) Summary schedule of prior audit findings:

Includes status of all audit findings included in the auditor's prior year schedule of findings and questioned costs of Federal award. Additionally, includes the status of findings reported in the subrecipient's prior year summary schedule of prior findings until resolved or no longer valid. To be considered no longer valid, the following must apply:

      - 1) Two years have passed since the audit report in which the finding occurred was submitted;
      - 2) Federal agency or grantor is not currently pursuing an audit finding; and
      - 3) No management decision was issued
    - d) Corrective action plan, where the auditor identifies audit findings for:
      - 1) Material noncompliance with individual compliance requirements for a major program; or
      - 2) Material weaknesses in the subrecipient's internal controls
    - e) Data collection form – Title 2 CFR Part 200, Subpart F requires completion of a data collection form. The Federal government intends the Data Collection Form to be a tool that summarizes single audit related data. (This form for the most part is filed by the auditor for

and on behalf of the auditee.)

- 1) When a program-specific audit guide is available, the auditee must electronically submit to the Federal Audit Clearinghouse (FAC) the data collection form prepared in accordance with §200.512 Report submission, paragraph (b), as applicable to a program-specific audit, and the reporting required by the program-specific audit guide.
- 2) When a program-specific audit guide is not available, the reporting package for a program-specific audit must consist of the financial statement(s) of the Federal program, a summary schedule of prior audit findings, and a corrective action plan as described in paragraph (b)(2) of this section, and the auditor report(s) described in paragraph (b)(4) of this section. The data collection form prepared in accordance with §200.512 Report submission, paragraph (b), as applicable to a program-specific audit, and one copy of this reporting package must be electronically submitted to the FAC.

g. Audit Costs

1. Single Audit Act amendments establish a requirement that the percentage of the audit costs charged to Federal Awards generally cannot be greater than the ratio of the entity's Federal awards expended to its total expenditures.
2. A greater percentage can be charged only if the entity can demonstrate that the cost of auditing the Federal awards was higher.
3. If an entity expends less than \$750,000 in Federal awards, they may not charge single audit costs to the Federal awards. They may be allowed to charge the cost of limited scope audits to monitor subrecipients.

## DEFINITIONS

---

*Administrative finding* – a finding that is non-monetary and related to procedural or administrative matters.

*Auditee* – a non-federal entity that expends federal awards which must be audited under Uniform Guidance Subpart F – Audit Requirements. (Uniform Guidance Section 200.6)

*Auditor* – an auditor who is a public accountant or a federal, state, local government, or Indian tribe audit organization that meets the general standards specified for external auditors in generally accepted government auditing standards (GAGAS). The term auditor does not include internal auditors of nonprofit organizations. (Uniform Guidance Section 200.7)

*Awarding agency* – means (1) with respect to a grant, Department of Labor (DOL); and (2) with respect to a subgrant or contract, the entity that awarded the subgrant or contract.

*Disallowed costs* – those charges to a federal award that the federal awarding agency or pass-through entity determines to be unallowable according to the applicable federal statutes, regulations, or the terms and conditions of the federal award.

*Federal award* – federal financial assistance that a non-federal entity receives either directly from a federal awarding agency or indirectly from a pass-through entity. (Uniform Guidance Section 200.38)

*Final Determination* – the awarding agency's final decision to disallow the cost and the status of nonmonetary findings.

*Informal resolution* – a reasonable period of time (not more than 6 months) from the date of issuance of the initial determination to informally resolve matters in which the recipient/contractor disagrees with the decisions of the awarding agency on the allowability of questioned costs or activities.

*Initial Determination* – a preliminary decision on whether to allow or disallow questioned costs and resolve any non-monetary (administrative) findings. The initial determination is based on applicable statutes, regulations, administrative directives, or terms and conditions of the grant/contract award instrument. It offers the auditee/subrecipient an opportunity for informal resolution, not a formal hearing.

*Non-federal entity* – a state, local government, Indian tribe, institution of higher education, or nonprofit organization that carries out a federal award as a recipient or subrecipient. (Uniform Guidance Section 200.69)

*Pass-through entity* – a non-federal entity that provides a subaward to a subrecipient to carry out part of a federal program (Uniform Guidance Section 200.74). The EDD is the pass-through entity for WIOA Title I Adult, Dislocated Worker, and Youth programs, and other federal grant awards.

*Program-Specific Audit* – an audit of an individual federal program rather than a single audit of an entity's financial statements and federal programs. When an auditee expends federal awards under only one federal program (excluding research and development), and the federal program's statutes, regulations, or the terms and conditions of the federal award do not require a financial statement audit of the auditee, the auditee may elect to have a program-specific audit conducted in accordance with Uniform Guidance Section 200.507. A program-specific audit may not be elected for research and development unless all of the federal awards expended were received from one federal agency, or one federal agency and one pass-through entity, and that federal agency, or pass-through entity in the case of a subrecipient, approves in advance a program-specific audit.

*Recipient* – a non-federal entity that receives a federal award directly from a federal awarding agency to carry out an activity under a federal program. The term recipient does not include subrecipients. (Uniform Guidance Section 200.86)

*Single Audit* – a comprehensive review of an organization's financial activity for a fiscal year. All single audits must be conducted by an independent auditor in accordance with GAGAS. In order to determine whether the \$750,000 threshold is met, a non-federal entity must count the amount of federal awards received directly from federal agencies and pass-through entities.

*Stand-In Costs* – costs paid from non-federal sources to substitute federal costs that have been disallowed as a result of an audit. *Stand-in costs must come from the same year as the costs that they are proposed to replace and they must not cause a violation of the administrative or other cost limitation. These costs must be included in the appropriate expenditure reports if they will be used at a later time.*

*Subaward* – an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract. (Uniform Guidance Section 200.92)

*Subrecipient* – a non-federal entity that receives a subaward from a pass-through entity to carry out part of a federal program but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency (Uniform Guidance Section 200.93). Local Workforce Development Boards, including other agencies are the subrecipients of WIOA funds and other federal grant awards, and may allocate funds to their subrecipients to carry out a part of the federal program. This directive refers to both the awarding agency subrecipient and their subrecipients.

# AUDIT REQUIREMENTS

---

## AUDITING ASSURANCES:

If exceeding the threshold of expenditures of the award received, subrecipients must have an independent financial and compliance audit performed annually for funds received by the subrecipient.

All audits must be conducted in accordance with applicable auditing standards set forth in the Functions developed by the Comptroller General of the United States and the requirements of the Single Audit Act, 2 CFR Part 200 (Subpart F), federal regulations, and state policy directives.

All draft reports will be treated in a confidential manner and only disseminated to the subrecipient's personnel with direct responsibilities towards the auditing process and program management. The audit report will be considered a public document upon official transmittal to the subrecipient.

To ensure that the audit responsibility is accomplished, the subrecipient shall have formal written policies established governing procedures for independent audits that include, but are not limited to:

- 1) Frequency of audits;
- 2) Procedures for debt collection and resolution of audits;
- 3) Audit bidding procedures;
- 4) Notification to subrecipients scheduled for audit;
- 5) Sanctions for non-performance by audit firms; and
- 6) Qualifications of the auditor

Subrecipients shall adhere to time frames established by the Monterey County Workforce Development Board, hereinafter referred to as the MCWDB, for the performance and resolution of independent audits.

All documents, records, work papers, etc. associated with the audit shall be retained for a minimum of three (3) years after the issuance of the audit report. If, prior to the expiration of the three year time period, any audit resolution, litigation, or a claim is instituted involving the grant covered by the records, the subrecipient shall retain the documentation beyond the period until the audit findings, litigation, or claim has been finally resolved.

Upon request, all subrecipients shall make available to MCWDB, its designated agents, federal and state access to all program documents and working papers. Access includes the right of designated agents to obtain copies of working papers, as is reasonable and necessary.

## AUDIT PROCEDURE SCOPE:

At a minimum, for major program or program specific audits, the scope must include the following:

### A. Allowable Costs

To be allowable, a cost must be necessary and reasonable for proper and efficient administration of the program and be allocable as such. Costs charged to the program must be consistent with those allowed in the Cost Principles.

### B. Classification of Costs

Allowable costs must be charged against the appropriate cost categories to the extent that benefits are received under that category and are consistent with the cost categories delineated in Federal regulations and OMB circulars.

### C. Cost Limitation by Category

The scope will include identification of cost limitations as set forth in the relevant Federal Act, Regulations and EDD directives.

D. Eligibility Compliance Requirement

Compliance requirements assist auditors to understand program objectives and procedures.

## AUDIT RESOLUTION

---

### LOCAL AREA RESPONSIBILITIES FOR AUDIT RESOLUTION

A. The MCWDB Executive Committee

The MCWDB Executive Committee is designated as the official body responsible for ensuring that audit recommendations are resolved in a timely manner. The Executive Committee acts as the hearing body to resolve all audit issues that require a hearing. In addition, it is also responsible for ensuring that determinations made on audit recommendations are actually accomplished.

B. The MCWDB Executive Director

The MCWDB Executive Director is responsible for exercising executive level oversight of and advising the MCWDB Executive Committee on audit resolution activities. The MCWDB Executive Director will:

1. Review and make recommendations to the MCWDB Executive Committee on the resolution of audits which have not been resolved within six months;
2. Monitor ongoing audit resolution performance;
3. Consider and, when necessary as a last resort, make recommendations to the MCWDB Executive Committee concerning safeguards that should be established where subrecipients refuse to adequately correct deficiencies within a reasonable period of time or fail to comply with agreement on corrective actions.

C. The MCWDB Finance Manager

The MCWDB Finance Manager is responsible for the following:

1. Resolving all audit findings (management and system deficiencies as well as monetary findings, which affect the WIOA programs.
2. Monitoring the completion of resolution actions on program specific findings, which are contained in audit reports.
3. Formulating the MCWDB's policies and procedures; implementing audit policies and procedures and providing advice and assistance to the MCWDB Executive Director on audit resolution matters.
4. Accounting and controlling monetary audit disallowances and monitoring the collection status of these disallowances.

The MCWDB Finance Manager's responsibility with respect to an individual audit report is generally limited to the findings contained in the report. However, issues which are not specifically cited as findings per se should be pursued under the following circumstances:

- a. The report contains information which indicates that a serious problem may exist even though it is not cited as a finding;
- b. Experience in dealing with a given type of subrecipient indicates that the findings contained in the audit report are frequently indicative of other problems not covered in the report; or
- c. The MCWDB Finance Manager has specific knowledge of serious problems from other sources.

Where additional problems appear to exist, the MCWDB Finance Manager, prior to raising them with the audited subrecipient, should discuss them with the auditor and, if necessary, ask the auditor for additional information or audit coverage to determine whether the problems do, in fact, exist. Although it may occasionally be necessary to raise the problems described above after an audit report is issued, these problems should be brought to the attention of the MCWDB Executive Director when discovered.

## PROCEDURES

### I. Subrecipient Standards

- The MCWDB, the “awarding agency subrecipient,” is the agency who is directly funded and in a subgrant with the EDD.
- The MCWDB’s subrecipients, discussed below as “their subrecipient,” are the agencies at the local level that receive funds from the MCWDB to carry out a portion of the federally funded program.

A. Awarding agency subrecipients must review the audit report of their subrecipients to ensure compliance with the requirements of Uniform Guidance 2 CFR Part 200, Subpart F. If there are no concerns, a copy of the single audit must be kept on file and added to the audit control log as being compliant. If there are concerns, follow the following steps.

1. Establish an audit resolution file to document the disposition of reported questioned costs and corrective actions taken for all findings. The audit file may be saved electronically, or in a physical file or binder.
2. *Complete an audit control log.* The log must contain: date of the audit, period covered by the audit, date audit was received, auditor name, questioned costs (number of findings and amounts), administrative findings (number of findings), assigned audit number, date or dates of Initial and Final Determinations, and documentation of decisions regarding administrative findings, disallowed costs, and appeals. This log should include the review of all single audits including those that are compliant.
3. Issue a letter of Initial Determination to their subrecipient based on the audit review. The Initial Determination letter includes the following:
  - A list of all questioned costs.
  - Whether the costs are allowed or disallowed, including the reasons with appropriate citations for such actions.
  - Acceptance or rejection of any corrective action taken to date, including corrective action on non-monetary administrative findings.
  - Possible sanctions.
  - The opportunity for informal resolution of no more than 60 days from the date of Initial Determination.
4. During informal resolution, their subrecipient may provide documentation to support allowability of costs and proposed corrective action of administrative findings.

Informal resolution discussions may be held by telephone, video conference or in person, if practicable. When a meeting is held, provide a sign-in sheet. *The sign-in sheet must be retained as part of the audit file. The meeting must be documented either with a voice recording or written notes.* Negotiations of repayments can be initiated at this time.

5. Issue a written Final Determination to their subrecipient and include the following:
  - Reference to the Initial Determination.
  - Summation of the informal resolution meeting, if held.
  - Decisions regarding the disallowed costs, listing each disallowed cost and noting the reasons for each disallowance.
  - Questioned costs that have been allowed by the awarding agency and the basis for the

allowance.

- Demand for repayment of the disallowed costs.
  - Description of the debt collection process and other sanctions that may be imposed if payment is not received. See the debt collection process in *Debt Collection* (WSD22-07)
  - Rights to a hearing.
  - The status of each administrative finding.
  - Identified areas of disagreement between the parties.
  - Advise their subrecipient that the determination is based on information that is currently available. If new information becomes available, the Final Determination may be reopened at the awarding agencies option.
- B. The audit resolution process must be completed within six months after receipt of their subrecipient's audit report and must ensure that their subrecipient takes appropriate and timely corrective action.
- C. The audit file must be assembled for reference in the event of future action. Electronic files must be saved in a logical order (generally chronological) and contain all supporting documentation. Physical files must be tabulated with the most current documentation first. All audit files should include the following:
- Final Determination and proof of receipt by their subrecipient.
  - Additional documentation submitted as part of the informal resolution process:
    - Notes related to the informal resolution.
    - Sign-in sheets from any informal resolution meetings.
  - Initial Determination and proof of receipt by their subrecipient.
  - Response to the final audit report.
  - Final audit report.
- D. The awarding agency subrecipient has established local-level hearing procedures and reserves the right to overturn the decision of a hearing officer (in Monterey County, the MCWDB Executive Committee serves as the hearing body) when it determines that noncompliance with the applicable act or its regulations still exists.

The hearing allows both parties the right to present either written or oral testimony, call and question witnesses in support of their position, present oral and written arguments, examine records and documents relevant to the issues, and be represented. The hearing shall be documented either with a voice recording, written notes, or by court reporter.

Their subrecipient has 30 calendar days after the Final Determination is issued to submit a written request for a hearing. At least 10 calendar days before the hearing, written notice of the date and site of the hearing must be provided to their subrecipient. The 10-day notice may be shortened with written consent of both parties. Their subrecipient may withdraw the hearing request; the withdrawal request must be submitted in writing.

The hearing officer must issue a decision within 60 days of the request filing date.

Their subrecipient has 10 days from receipt of an adverse decision to file an appeal of the local hearing officer's adverse decision to the State Review Panel. If a local hearing is not held or the decision is not rendered timely, their subrecipient has 15 days from the date on which the hearing should have been held or the decision should have been issued to file an appeal with the State Review Panel.

If their subrecipient appeals the decision of the awarding agency subrecipient's hearing officer to the state, the awarding agency subrecipient will send the Compliance Review Office (CRO) the complete audit file and hearing transcripts for review by the State Review Panel.



Within 30 days of receipt by the CRO of their subrecipients written appeal, the State Review Panel will be convened to review all evidence and issue a decision based on the evidence without consideration of any imposed sanctions.

- E. There is no administrative appeal beyond the State Review Panel.
- F. The awarding agency subrecipient shall ensure correction of any unresolved administrative findings and will determine the status of the unresolved administrative findings through its monitoring process and determine that appropriate corrective action has been taken. A copy of the monitoring report substantiating the implementation of the appropriate corrective action must be filed with the audit report.

## II. State Audit Resolution

- A. If there are no audit findings, no further action will be taken regarding the audit.
- B. If the audit identifies an administrative finding, questioned costs, or cost recommended for disallowance, the CRO will do the following:
  - Establish an audit resolution file to document the disposition of each finding and the corrective action taken to resolve each finding and may request additional documentation.
  - Issue a written Initial Determination after the audit is reviewed.
  - Provide an opportunity for informal resolution and submission of additional documents within 60 days from the date of the notification of Initial Determination to resolve questioned costs and/or administrative findings.
  - Issue a written Final Determination.

### State Hearings

All appeals of state audit determinations, including amendments and withdrawals, shall be in writing.

The state hearing officer will provide written notice to the concerned parties of the date, time, and place of the hearing at least 10 calendar days before the scheduled hearing. Both parties will have the opportunity to present oral and written testimony, call and question witnesses in support of their position, present oral and written arguments, examine records and documents relevant to the issue(s), and be represented. The state hearing officer will prepare a proposed decision and submit to the EDD Director or designee. The EDD reserves the right to overturn the decision of the hearing officer.

There is no administrative appeal beyond this level.

### Stand-in Costs Policy

During the audit resolution process, the auditee may propose the use of stand-in costs to substitute for the disallowed costs. Stand-in costs must be actual expenses paid with nonfederal funds. To be considered, stand-in costs must be incurred for allowable WIOA costs that were reported as uncharged WIOA program costs, included within the scope of the audit, and accounted for in the auditee's financial system. Cash match in excess of the required match may also be considered for use as stand-in costs. To be accepted, the stand-in costs must come from the same year as the costs they propose to replace, and they must not cause a violation of the administrative or other cost limitations.

## Records Retention Policy

Awarding agency subrecipients and their subrecipients must retain all records of each WIOA allocation for a period of three years from the date of their last expenditure report submitted to the EDD Central Office Workforce Services Division. If any litigation, claim, or audit is started before the expiration of the three-year period, ALL records must be retained until all findings have been resolved and final action taken (Uniform Guidance Section 200.333).

## INQUIRIES

---

If you have questions, please contact staff at (831) 796-3505.  
CHRISTOPHER DONNELLY, Executive Director  
Monterey County Workforce Development Board