

To: work2future Staff & Subrecipients
From: work2future Director
Effective Date: May 2020
SUBJECT: Audit Requirements
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OPERATIONAL DIRECTIVE

Purpose:

The purpose of this policy is to update the audit requirements for entities receiving *Workforce Innovation and Opportunity Act (WIOA)* funds and meet the requirements of the Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; Final Rule (Uniform Guidance).

Scope:

The information in this policy applies to all subrecipients receiving \$750,000 or more in federal funds in any fiscal year of award grants beginning on or after December 26, 2014.

Effective Date:

This directive is effective upon date of issue.

REFERENCES:

- Title 2 Code of Federal Regulations (CFR) Part 200
- Title 20 CFR, WIA Final Rule, Section 667
- Title 29 CFR Part 95 and/or 97
- WIA Section 184
- Title 31 United States Code (USC) Chapter 75
- WIAD 05-16 Audit Requirements

BACKGROUND:

2 CFR Part 200, Subpart F requires non-Federal entities that expend \$750,000 or more in Federal awards during their fiscal year have either a single audit or program-specific audit conducted for that year in accordance with the Uniform Guidance. Non-Federal entities that expend federal awards under more than one federal program must have a single audit.

Title 31 USC Section 7502 (f)(2) further requires each pass-through entity to:

- Monitor the subrecipient's federal awards through site visits, limited scope of audits, or other means;
- Review audits of subrecipients to determine if prompt and appropriate corrective action has been taken with respect to audit findings; and
- Require each of its subrecipients of federal awards to permit, as a condition of receiving federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary.

Exemption when Federal awards expended are less than \$750,000. A non-Federal entity that expends less than \$750,000 during the non-Federal entity's fiscal year in Federal awards is exempt from Federal audit requirements for that year, except as noted in §200.503 Relation to other audit requirements, but records must be available for review or audit by appropriate officials of the Federal agency, pass-through entity, and Government Accountability Office (GAO).

POLICY AND PROCEDURES:

Auditor Selection

- A. *Auditor procurement.* In procuring audit services, the San Jose Silicon Valley Workforce Development Board (SJ/SVWDB) and its subrecipients must follow the procurement standards. When procuring audit services, the objective is to obtain high-quality audit services. In requesting proposals for audit services, the objectives and scope of the audit services must be made clear and the non-Federal entity must request a copy of the audit organization's peer review report which the auditor is required to provide under GAGAS.

- B. *Restriction on auditor preparing indirect cost proposals.* An auditor who prepares the indirect cost proposal or cost allocation plan may not also be selected to perform the audit required by this part if the indirect costs applied during the prior year exceeded \$1 million. This restriction applies to the base year used in the preparation of the indirect cost proposal or cost allocation plan and any subsequent years in which the resulting indirect cost agreement or cost allocation plan is used to recover costs.

- C. *Use of Federal auditors.* Federal auditors may perform all or part of the work required under this part if they comply fully with the requirements of this part.

Schedule of Expenditures of Federal Awards (SEFA)

In order to accurately reflect WIOA financial activity within the scope of the audit report, grantees are required to have the audit expand the Schedule of Federal Expenditures (SEFA) to disclose the grant amount and cumulative expenditures by contract number and period. Grantees can provide a supplemental schedule in lieu of an expanded SEFA. Furthermore, work2future and its subrecipients may consider ensuring that this provision is included as part of the bidding requirements. The City of San Jose procures the audit services for the City, of which work2future is a part.

If the entity uses a fiscal year that is different from WIOA program year (July 1 through June 30), the auditor must complete the Statement of WIOA Expenditures by contract number and year as provided in this Financial Management Guide or provide a suitable expanded supplemental schedule. The expanded Schedule of Expenditures and/or the Statement of WIOA Expenditures will allow for verification of WIOA expenditures. The form is to be prepared based on WIOA Program Year, i.e., July 1 through June 30, regardless of the entity's fiscal reporting period.

Audit Report Submission

work2future will not issue letters of final determination if the SEFA is not properly formatted. In order to accurately reflect the WIOA financial activity within the scope of the audit report, subrecipients are required to have the auditors expand the SEFA to break out the grant amounts and cumulative expenditures by contract number.

The auditee shall prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited. The auditee shall also prepare a SEFA for the period covered by the auditee's financial statements. work2future requires the auditee to provide information for each award by contract number for each program year awards are made.

The single audit reporting package must be submitted as detailed in the section titled 'Audit Requirements' below.

Questioned Costs

Known questioned costs that are greater than \$25,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by an auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs). The auditor must also report known questioned costs are greater than \$25,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor must include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.

Known questioned costs that are greater than \$25,000 for a Federal program which is not audited as a major program. Except for audit follow-up, the auditor is not required under this part to perform audit procedures for such a Federal program; therefore, the auditor will normally not find questioned costs for a program that is not audited as a major program. However, if the auditor does become aware of questioned costs for a Federal program that is not audited as a major program (e.g., as part of audit follow-up or other audit procedures) and the known questioned costs are greater than \$25,000, then the auditor must report this as an audit finding.

LWDB Grants, Subrecipient or Cooperative Agreements

Each grant, subrecipient agreement or cooperative agreement, of SJ/SVWDB or its subrecipients, shall contain the following requirement:

As a condition of receiving WIOA funds, the independent auditor or monitor of the LWDB, and the Employment Development Department (EDD) auditors, investigators, monitors and their representatives, shall at all times during the period that the grant is in force and for a period of three (3) years thereafter, have access to all related records and financial statements and to individuals with knowledge of the records and financial statements as may be necessary to ensure compliance with the WIOA statute, regulations, and directives.

Audit Requirements

work2future will conduct and ensure that each of its subrecipients expending \$500,000 or more of federal funds in fiscal years ending on or before December 26, 2014, or \$750,000 or more of federal funds in fiscal years ending after December 26, 2014, conducts an audit in accordance with Title 2 CFR Part 200 Subpart F, Title 29 CFR Part 95 or 97 (as applicable), and Title 31 USC Chapter 75.

Governmental entities will continue to submit copies of their Single Audit Reports to the State Controller.

Copies of Non-Profit Organizations' Single Audit Reports are to be submitted to EDD as follows:

**Audit & Evaluation Division, MIC 78
Employment Development Department
P.O. Box 826880**

ADDITIONAL REQUIREMENT:

work2future subrecipients must submit copies of Single Audit reports to work2future as follows:

work2future
5730 Chambertin Drive
San Jose CA 95118
Attn. Fiscal Unit

Subrecipients are also required to submit electronic copies of Single Audit Reports through the City of San Jose's Web Grants system, per their contractual agreements with the City of San Jose.

ACTION:

Bring this policy to the attention of all affected staff and subrecipients.

INQUIRIES:

If you require further information regarding this policy, please contact the work2future Finance Manager at 408-794-1146.