

To: work2future Staff & Subrecipients
From: work2future Director
Effective Date: May 2020
SUBJECT: Auditing and Audit Resolution Policy
Pages 1 -11

OPERATIONAL DIRECTIVE

Purpose:

The purpose of this policy is to implement the audit resolution policy for entities receiving *Workforce Innovation and Opportunity Act (WIOA)* funds and/or entities meeting 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).

This policy includes many procedures and processes that are required content by the state Employment Development Department. Generally, work2future does not include procedures in policy. work2future believes that the procedural components listed below provide better context to the overall responsibilities of subrecipients.

Scope:

The information in this policy applies to all subrecipients receiving WIOA funds.

Effective Date:

This directive is effective upon date of issue.

REFERENCES:

- Title 2 Code of Federal Regulations (CFR) Part 200, Subpart F – Audit Requirements
- Title 20 CFR Sections 667.200(b) and 667.500(a)
- Title 29 CFR Section 95.26, 96.53, 97.26
- Office of Management and Budget (OMB) Circular A-133, Subject: Audit of States, Local Governments and Non-Profit Organizations (June 24, 1997)
- WIOA Section 184
- Workforce Investment Act (WIA) Directive WIAD05-17 (May 25, 2006)

On December 26, 2013, a new Super Circular was issued by the Office of Management and Budget (OMB) at 2 CFR Part 200, Subpart F Audit Requirements. The Super Circular generally requires that single audits be performed annually.

The following summarizes the requirements (and in certain circumstances, changes).

- 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 now based on dollar threshold of awards received, not by 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 performs 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 (\$500,000 before December 26, 2014) 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.

AUDITING ASSURANCES:

If exceeding the threshold of expenditures of the award received, subrecipients must have an independent financial and compliance audit performed annually of 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 Silicon Valley Workforce Investment Network (work2future) 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 work2future, 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 cost 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 cost limitation as set forth in the relevant Federal Act, Regulations and state of California.

D. Eligibility Compliance Requirement

RESPONSIBILITIES FOR AUDIT RESOLUTION

A. The work2future Finance Committee

The work2future Finance Committee is designated as the official body responsible for ensuring that audit recommendations are resolved in a timely manner. In addition, it is also responsible for ensuring that determinations made on audit recommendations are actually accomplished.

B. The work2future Director

The work2future Director is responsible for exercising executive level oversight of and advising the work2future Finance Committee on audit resolution activities. The work2future Director will:

1. Review and make recommendations to the work2future Finance 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 work2future Finance 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 work2future 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 work2future's policies and procedures; implementing audit policies and procedures and providing advice and assistance to the work2future Director on audit resolution matters.
4. Accounting, and controlling, monetary audit disallowances; and monitoring the collection status of these disallowances.

The work2future 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 should be pursued under the following circumstances:

- a. The report contains information which indicates that a serious problem may exist;
- 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 work2future Finance Manager has specific knowledge of serious problems from other sources.

Where the additional problems appear to exist, the work2future 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 work2future Director as soon as they are discovered.

AUDIT RESOLUTION STANDARDS:

A. Scope of Resolutions

The audit resolution process shall include all actions required to fully resolve all issues. Depending on the nature of the problems involved, each resolution shall include:

1. Timely correction of management, system and program deficiencies;
2. Monitoring the subrecipient to ensure that the corrective actions on significant deficiencies have been adequately implemented and that the system is operating effectively;
3. Establishing safeguards when necessary to protect the work2future's interest where subrecipients are unwilling or unable to institute timely corrective actions, or subsequently fail to comply with previous agreements on corrective actions; and

4. Recovery (or other settlement in accordance with City's collection procedures) of any amounts paid but not properly allowable as WIOA program expenditures.

B. Timeliness of Resolution

All audit findings shall be resolved within six months after the release or issuance of the audit report. For this purpose, resolution is normally deemed to occur when a final decision on the amount of any monetary recovery has been reached; a satisfactory plan of corrective action, including time schedules, to correct all deficiencies has been established; and the report has been cleared from the work2future tracking system. Reports containing material monetary exceptions that are not resolved within six months will be turned over to the City Attorney's Office for resolution.

It is recognized, however, that in a small number of non-monetary cases, a satisfactory plan of corrective action cannot be obtained from the auditee within the six-month period despite of the conscientious efforts the work2future Finance Manager. In those cases, the finding may be cleared based upon issuance of a final determination on the finding and the corrective action required. The work2future Finance Manager must vigorously continue his/her efforts to reach agreement with the subrecipient on a satisfactory plan of corrective action, including time schedules. If they are unable to reach an agreement within a reasonable period of time. The work2future Finance Manager must initiate the safeguard process discussed below in Section F (Safeguard). Accomplishment of these agreements or placement of appropriate safeguards must be tracked.

It should be noted that the definition of "resolution" for the purpose of applying the six-month time standard is different than the definition of this term for purposes of above Sections A and B of this section. For the purpose of applying the six-month standard, "resolution" does not include monitoring the implementation of corrective actions on significant deficiencies or the collection of disallowances. These actions, however, are considered part of the resolution process.

C. Documentation

The work2future shall maintain an audit resolution file(s) or other appropriate records to fully document and justify all actions taken to resolve all the findings. This document must describe the action taken on each finding and explain the basis for each nonconurrence with any finding or recommendation. The documentation must also identify the target dates for implementation of corrective actions or management and system deficiencies, and identify the procedures followed on, and results of, follow-up reviews on the implementation of the actions.

This information must be in sufficient in detail to satisfy a reviewer that the findings have been fully, effectively, and appropriately resolved.

D. Procedures Applicable to All Audit Findings

Based on the contract between the subrecipient and the work2future, the subrecipient is responsible for submitting to the work2future an audit report if total Federal Funding expended is \$750,000 (\$500,000 or more before December 26, 2014). The audit report shall be submitted no later than nine months after the close of the fiscal year or within 30 days in the event the contract is terminated, voluntarily or involuntarily, before the end of the term.

1. Upon receipt of an audit report, the work2future will review both the current and previous reports on the subrecipient as well as the actions taken on the prior findings. This review should identify:

- a. The finding and recommendations, including the amounts recommended for disallowance;
 - b. Whether the report includes full and sufficient information needed to proceed with the resolution with the audited subrecipient;
 - c. Whether previous agreements on corrective actions have been properly implemented;
 - d. Whether staff responsibility has been properly assigned; and
 - e. Whether the reported information may be indicative of additional areas requiring attention.
2. work2future shall maintain an audit resolution file(s) or other appropriate records to fully document the disposition of reported questioned costs and corrective actions taken for all findings. This audit file shall be assembled for ease of reference in the event of future action. The file will be tabulated with the most current and will include the following:
 - Final Determination and proof of receipt by the 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 subrecipient
 - Response to the final audit report
 - Final Audit Report
3. work2future shall establish and maintain an audit control log containing the date of the audit, the period covered by the audit, the date the audit was received, the auditor, the questioned costs, the administrative findings, the date or dates of the Initial and Final determinations, and documentation of decisions regarding the disallowed costs and administrative findings.
4. work2future shall issue a letter of Initial Determination based on the audit review. The initial Determination letter includes:
 - a. A list of all questioned costs
 - b. Whether the costs are allowed or disallowed, including the reasons with appropriate citations for such actions
 - c. Acceptance or rejection of any corrective action taken to date, including corrective action on administrative findings
 - d. Sanctions
 - e. The opportunity for informal resolution of no more than 60 days from the date of Initial Determination
5. During the informal resolution the subrecipient may provide documentation to support allowability of costs and proposed corrective action of administrative findings. Informal resolution discussions may be held by telephone, if necessary, but in person is preferable. 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.

6. The auditor's letter transmitting the report to the audited subrecipient will either advise the subrecipient to respond to the work2future within 30 days on the findings in the report or advise the subrecipient that it will be contacted by the work2future.

In either case, the work2future shall promptly contact the subrecipient, and, as appropriate, remind it to respond, request any needed information, or offer the subrecipient an opportunity to provide further information it might wish to provide on the report. All of the following information is needed:

- a. Its specific concurrence or non-concurrence with each finding and recommendation;
- b. If it agrees with a finding or recommendation, a description of the specific actions taken or planned, including time schedules, to settle the finding or implement the recommendation; and
- c. If disagrees with a finding or recommendation, its specific reason(s) for the position.
- d. If work2future determines that the subrecipient's response is incomplete or deficient, the subrecipient will be requested to provide the needed information within a reasonable time.
- e. The contacts with the subrecipient will be confirmed in a letter to the responsible official of the subrecipient. This letter will specify a reasonable due date for submission of the information and will advise the subrecipient that a unilateral determination will be made if the information or an acceptable justification for an extension is not submitted by a specific date. If the information or an acceptable justification for an extension is not submitted by this date, the work2future Finance Manager will make a unilateral determination on the findings and advise the subrecipient of its right to appeal.
- f. The subrecipients are entitled to full and fair consideration of any arguments and information submitted in support of their positions. However, the work2future Finance Manager must exercise caution in evaluating information which conflicts with information contained in the audit report or documentation, which was not provided to the auditor. When such information is significant, it should be discussed with the auditor and, where needed referred to the auditor for review and comments.

E. Determinations

The resolution of management or system deficiencies should be directed at determining whether a deficiency exists, the nature and effect of the deficiency, and the specific actions required to correct it. In order to make these determinations, the staff responsible must have a clear understanding of the applicable regulations, the findings, the subrecipient's system, and the subrecipient's proposed corrective actions (if any). In some cases, this may be accomplished by a review of the audit report and the subrecipient's response, coupled, to the extent necessary, with a desk review of additional information submitted by the subrecipient, discussions with the subrecipient and the auditor, etc. In other cases, however, particularly where the deficiencies are serious or complex, it may be necessary to make a site visit to the subrecipient to gain a fuller understanding of its system, the findings, and the proposed corrective actions. In evaluating the proposed corrective actions, the staff assigned for the audit resolution should obtain and review copies of any new or revised policies, procedures and forms that will be used to implement corrective action.

1. Negotiations

If the work2future Finance Manager concludes that a deficiency exists, he/she should attempt to reach agreement with the subrecipient on the required corrective actions and timetable. If a formal conference is held, the auditor should be asked to attend the conference, in an advisory capacity, if the work2future Finance Manager feels that the auditor's attendance would be beneficial.

2. Final Determination

When an agreement on the corrective actions is reached, work2future must issue a written Final Determination.

The Final Determination includes:

- a. Reference to Initial Determination
- b. Summation of the informal resolution meeting, if held
- c. Decisions regarding the disallowed costs, listing each disallowed cost and noting the reasons for each disallowance
- d. Questioned costs that have been allowed by the work2future and the basis for the allowance
- e. Demand for repayment of the disallowed costs
- f. Description of the debt collection process and other sanctions that may be imposed if payment is not received
- g. Rights to a hearing
- h. The status of each administrative finding

F. Safeguard

1. If the subrecipient is unwilling or unable either to agree to correct, or to adequately correct, the deficiencies within a reasonable time period, the work2future must immediately initiate a process leading to the establishment of safeguards to protect the work2future's interests. Depending on the nature and seriousness of the deficiencies, these safeguards may include (but are not limited to) special restrictions, limitations, or controls; a change from advance funding to after-the- fact reimbursement; more frequent and detailed financial reporting; a requirement for submission of documentation to support reimbursement claims prior to payment; and in extreme cases, termination of current contract or denial of future awards.
2. When safeguards are considered necessary, the work2future Finance Manager shall attempt to reach an agreement with the subrecipient on the safeguards that are to be applied and shall arrange for the application-of those safeguards. This agreement shall be confirmed in a letter to the responsible official of the contracting agency, and the official shall be required to sign and return a copy of the letter.
3. If the work2future is unable to reach an agreement with the subrecipient on appropriate safeguards, it shall recommend the safeguards to the work2future Director to review and decide on the recommendations.
 - a. The decision of the work2future Director shall be final except that
 - (1) decisions to suspend or debar a subrecipient from receiving future awards are subject to further review; and (2) decisions to terminate awards are subject to appeal under applicable appeals procedures.
 - b. Final decisions of the work2future Director will be communicated to the subrecipient by registered mail, return receipt requested, with a copy to the work2future Finance

Manager. The work2future Finance Manager will arrange for the implementation of these decisions (or decisions by higher authorities in the case of suspensions, debarments, or determinations).

- c. When a safeguard is established it must be applied consistently to all programs to which it applies, unless the work2future Director approves a deviation.

G. Follow-Up on Corrective Actions

1. The work2future Finance Manager will monitor the subrecipient's implementation of actions to correct deficiencies until the deficiencies have been corrected. Resolution of significant deficiencies will not be considered complete until the work2future Finance Manager has determined, based on a follow-up review, that the actions have, in fact, been taken and have resulted in correction of deficiencies.
2. The work2future Finance Manager may conduct the follow-up review personally or may request that it be conducted by the others who possess the capability to perform the review. In either case, the work2future Finance Manager is ultimately responsible for assuring that the review is conducted and for determining whether the deficiencies have been adequately corrected. The review must be initiated as soon as possible after the implementation date of the corrective actions, and except as provided in paragraph 5 of this Subsection, no later than six months after that date. In addition, if the corrective actions will take a significant amount of time to implement, the work2future Finance Manager should monitor the subrecipient's progress by review of progress reports and, where necessary, interim site visits.
3. If the follow-up review shows that the subrecipient has not completed all actions needed to fully correct the deficiencies, the work2future Finance Manager will negotiate the further actions needed and completion dates. The work2future Finance Manager will continue to follow-up until he/she is satisfied that the subrecipient has fully and effectively corrected the deficiencies.
4. If any time work2future Finance Manager finds, through review of progress reports, follow-up review or other means, that the subrecipient is not complying with the resolution agreement to a significant degree, he/she will immediately initiate the "safeguard" procedures described in Section F.
5. This six-month period for initiating follow-up reviews may be extended for a reasonable period of time where;
 - a. A follow-up review by work2future which will include a review of the implementation of the corrective actions will commence soon after the six-month period;
 - b. The nature of the corrective measures is such that six months is not sufficient for the approved system to have run enough of its cycle to allow a meaningful review.

H. Hearing

The work2future Finance Committee would act as the hearing body to resolve all audit issues. 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 recorded mechanically or by court reporter.

The 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, a written notice of the date and site of the hearing must be provided to the subrecipient. The 10-day may be shortened with written consent of both parties. The subrecipient may withdraw the hearing request; the withdrawal request must be submitted in writing.

A decision must be issued by the work2future Finance Committee within 60 days of the request filing date.

A subrecipient has 10 days from receipt of the adverse decision to file an appeal of the work2future hearing body's adverse decision to the State Review Panel. If a local hearing is not held or the decision is not rendered timely, the 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 the subrecipient appeals the decision of the work2future local hearing body, work2future will send EDD the complete audit for review by the State Review Panel. Within 30 days of receipt by the CRD of the subrecipient's 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.

There is no administrative appeal beyond this level.

work2future shall determine the status of the unresolved administrative findings through its monitoring process and determine that appropriate 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.

I. Stand-In Costs

During the audit resolution process, the subrecipient may propose the use of stand-in costs to substitute for the disallowed costs. 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, accounted for in the subrecipient's financial system. The stand-in cost must have been expended in support of the same title and program year as the costs they propose to replace, and the costs must not cause a violation of the cost limitations and requirements. Stand-in costs must be actual expenses paid with nonfederal funds. Cash match in excess of the required match may also be considered for use as stand-in costs.

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.