

Northwest Workforce Service Area Letter Number 3

Subject: Audit Requirements

Issuance Date: 1 January 2004, Revised 1 July, 2008

Effective Date: 1 January 2004

Action: WIA program grantees and sub-grantees are to be aware of this policy concerning audit requirements, audit resolution and debt collection.

Who: WIA program sub-grantees.

Background: To transmit specific and updated information on audit requirements.

Chapter 509 of the DEED Policy and Procedure Manual, contains the appropriate policies for:

Audit requirements;
Audit resolution; and,
Debt collection.

Reference Section

Attachment A: Chapter 2, Section 2.8 of the DEED WIA Administrative Manual.

Attachment B: Chapter 509 of the DEED Policy and Procedure Manual.

Cites/References:

Chapter 2, Section 2.8 of the DEED WIA Administrative Manual

Chapter 509, DEED Policy and Procedure manual

WIA Sections 164 (d) and 164 (e) (1)

WIA Regulations 20 CFR 667.200(b), 667.500, and 667.510

OMB Circular A-133, <http://www.whitehouse.gov/omb/circlars/index.html>

Contact:

Amanda Grzadzielewski

NWPIC Executive Director

220 Pennington Avenue South, Suite B

Thief River Falls, MN 56701

Phone/TTY: (218) 683-5460

Fax: (218) 683-5461

E-Mail: agrzadzielewski@nwpic.net

ATTACHMENT A

CHAPTER 2, SECTION 2.8

OF THE DEED

WIA ADMINISTRATIVE MANUAL

Title I-B and Related Activities Policy Manual

Chapter 2: Fiscal Management
Section —2.8: Audit Requirements

Issue Date: July 1, 2005
Effective Date: July 1, 2005

Required Action

Action: WIA program grantees and sub-grantees are to adhere to this policy on audit requirements, audit resolution and debt collection.

Who:
WIA Title I-B Program Providers
Other Appropriate WorkForce Center System Staff

Background: The Minnesota Department of Employment and Economic Development (DEED) has specific policy and procedures on audit requirements, audit resolution, and debt collection.

DEED requires that grantee audits are received within 9 months after the grantee's fiscal year end.

Policy and Procedures

- Audit requirements;
- Audit resolution, and,
- Debt collection.

Recipients of WIA Title I-B funds are to adhere to the appropriate policies.

Reference Section

Cites/References:
Chapter 509, DEED Policy and Procedure Manual

WIA Law, Sections 164 (d) and 164 (e)(1)
<http://www.doleta.gov/usworkforce/wia/wialaw.pdf>

WIA Final Rules and Regulations - 20 CFR:

Sections

667.200 (b)

667.500

667.510

<http://www.dolega.gov/dinap/pdf/wiafinalsregsall/pdf>

Common Rule & OMB Circulars (Audit)

A-133 - Audits of States, Local Government, and Nonprofit Organizations

Grants Management Common Rule

<http://www.whitehouse.gov/omb/circulars/a133/a133.html>

Attachments:

Attachment 1 - Chapter 509, DEED Policy and Procedure Manual

http://www.positivelyminnesota.com/All_Programs_Services/Workforce_Investment_Act/WIA_Policies/Fiscal_Management.aspx

Contact for Information:

Tim Langlie

Voice: (651) 296-7071

Fax: (651) 296-0775

E-mail: Tim.Langlie@state.mn.us

ATTACHMENT B

CHAPTER 509

DEED

POLICY AND PROCEDURE MANUAL

AUDIT REQUIREMENTS

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Contact

Person:

Tim Langlie (Tim.Langlie@state.mn.us)

651.259.7071

INTRODUCTION

The Minnesota Department of Employment and Economic Development (DEED) has adopted the audit requirements explained in this chapter. Grantees must in turn use these requirements for their subgrantees. NOTE: See Policy and Procedures Manual (PPM) Chapter 508, "Grants/Audits and Income Agreements," for definitions of terms.

This chapter implements the Single Audit Act Amendments of 1996; and the Office of Management and Budget (OMB) Circular A-133 as amended.

Reference: Minnesota Department of Finance; Minnesota Accounting and Procurement System (MAPS) Operations Manual, Chapter 4, Section 0402-03.

POLICY

DEED grantees must be audited by the Office of the State Auditor or by independent Certified

Public Accountants (CPAs).

RESPONSIBILITIES

Division directors, as necessary, review and/or approve DEED and grantee audit recommendations and develop corrective action plans to audit findings, with assistance from Fiscal Management. Fiscal Management:

- Provides auditing advice, technical assistance, and audit resolution services as requested.
 - Coordinates audit activities with program managers, grantees, and auditing firms.
 - Provides financial information requested by auditors or grantees.
 - If necessary, prepares corrective action plans to implement DEED and/or grantee audit recommendations for approval of division director.
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GRANT AGREEMENT AUDIT LANGUAGE

DEED outlines its audit requirements in grant agreements with grantees. This may be accomplished by one of these methods:

- The sample "Grant Audit Requirements" language--shown below--may be copied in its entirety and included in the grant agreement, a grant agreement attachment, or a program operating manual; or
- The Grant Audit Requirements language shown below may be modified to fit program needs, and then included in the grant agreement, a grant agreement attachment, or a program operating manual; or
- Language citing the relevant federal requirements may be referenced within grant agreements.

Existing grant agreements that do not contain similar language should be amended. The terminology should be consistent with other grant agreement language. When a grantee gives funds to a subgrantee, these audit requirements may be included in the grant agreements with the subgrantee, and with all additional tiers of subgrantees.

June 1, 2006

GRANT AUDIT REQUIREMENTS FEDERAL AND STATE ASSISTANCE GRANTS

A. Grantees receiving federal assistance (in federal OMB Circular language, known as subrecipients) from the State of Minnesota must comply with the Single Audit Act Amendments of 1996 and OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations," as amended, for audits of fiscal years ending after December 31, 2003 (early implementation will *not* be permitted).

1. Audit requirements for state funds: Grantees who expend \$100,000 or more in state funds are required to have

an annual financial statement audit per generally accepted auditing standards (see Section E for due dates).

2. Audit requirements for federal funds (OMB A-133, as amended): The parts below (a, b, c, and d) are verbatim from A-133 (see Section E for due dates).

(a) Audit required. Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part. Guidance on determining Federal awards expended is provided in §__.205.

(b) Single audit. Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more a year in Federal awards shall have a single audit conducted in accordance with §__.500 except when they elect to have a program-specific audit conducted in accordance with paragraph (c) of this section.

(c) Program-specific audit election. When an auditee expends Federal awards under only one Federal program (excluding R&D) and the Federal program's laws, regulations, or grant agreements do not require a financial statement audit of the auditee, the auditee may elect to have a program-specific audit conducted in accordance with §__.235. A program-specific audit may not be elected for R&D unless all expenditures are for Federal awards received from the same Federal agency, or the same Federal agency and the same pass-through entity, and that Federal agency, or pass-through entity in the case of a subrecipient, approves in advance a program-specific audit.

(d) Exemption when Federal awards expended are less than \$300,000 (\$500,000 for fiscal years ending after December 31, 2003). Non-Federal entities that expend less than \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) a year in Federal awards are exempt from Federal audit requirements for that year, except as noted in §__.215(a).

3. The grantee agrees that the federal agency, the General Accounting Office, the grantor, the legislative auditor, the state auditor, and any independent auditor designated by the grantor, must have such access to grantee's records and financial statements as may be necessary for the grantor to comply with the Single Audit Act Amendments, OMB Circular A-133, and these requirements as applicable.

4. For-profit grantees and subgrantees. Since A2 above does not apply to for-profits, grantees must monitor their subgrantees through a compliance audit by one or more of the following: a) pre-award audits or surveys; b) monitoring during the contract; and c) post-awards audits as defined by DEED.

B. DEED requires that:

1. Federally funded performance-based contracts are included in the definition of federal assistance.

2. Grantees must repay DEED-disallowed costs in cash from non-DEED sources (state or federal) or as stated in the grant agreement.

3. Grantees must also submit comments on the findings and recommendations in the single audit report **AND management letter**, including a plan for corrective action taken or planned, and comments on the status of corrective action taken on prior findings.

4. Grantees that have a financial audit must also submit any management letter issued by their CPA firm and a written response to the items addressed in the letter.

5. Grantees (and all tiers of subgrantees except OJT contractors) must use the federal OMB Circulars A21, A87, A110, A122, Common Rule and others as applicable (including modifications) in the administration of all DEED federal and/or state funded grants. General modifications in the circulars:

a. DEED stands in the place of the federal agency in the language of the circulars.

b. Grantees may use their own rules and procedures if they meet the above standards or are more restrictive.

c. Where choices are available, the grant agreement must clearly indicate the required choice (i.e., program income

treatment).

d. Grantees' ethic codes must include real, apparent, or potential conflicts of interest regarding procurement.

6. Certain DEED grantees are required to have limited scope-specific compliance audits performed (requirements are separately transmitted) per generally accepted auditing standards. Examples are:

- The Extended Employment Program
- Grantees who are requested by DEED to have such an audit conducted.

7. Grantees of both federal and state funds must have a written cost allocation plan that clearly explains how joint costs are to be charged to each program that the organization operates, or a federally approved indirect cost rate.

C. DEED requires that the audit report contain, in the notes to the financial statements:

1. A brief summary of the methods used to allocate joint costs or a statement that the agency has a federally approved indirect cost rate.

2. A list of all organizations to which the grantee subgranted \$25,000 or more in DEED state or pass-through federal funds or a note that no DEED funds are subgranted.

D. DEED requires that auditors:

1. Make sure that subgrantee audit reports are being obtained and adequately reviewed.

2. Review cash management for both state and federal grants. Federal cash management guidelines also apply to state funds. Violations must be disclosed in the audit report.

3. Ensure that all **material-related party transactions** are disclosed in the notes to the financial statements. This includes separate corporations if they have been set up by a staff or board member of the grantee, if a staff or board member of the grantee is on the board of the corporation, or if a staff or board member of the grantee is actively involved in the day-to-day operations of the corporation. Example: related party ownership of buildings, equipment, services, etc.

E. Annual reports must be submitted:

1. For A-133 Audits (including financial statement audits that accompany the A-133 audits):

- An electronic copy (preferably pdf) of the single audit reporting package, as defined in A-133 section 320 (c), financial statement audits **and management letter (with responses)** must be submitted by the auditor and received by DEED Fiscal Services, via e-mail to Chris.Ortega@state.mn.us, within nine (9) months from fiscal year end. In addition, when requested by Fiscal Services, grantees must provide copies of all audits conducted even though the audits were not required.
- A copy of the reporting package must be filed by the auditor with the Office of the State Auditor (OSA) Single Audit Division, 555 Park Street, St. Paul, Minnesota 55103, within nine (9) months from fiscal year end.
- A copy of the reporting package must be sent within 30 days after issuance to: Federal Audit Clearinghouse, Bureau of the Census, Data Preparation Division, 1201 East 10th Street, Jeffersonville, Indiana 47132.

2. For Financial Statement Audits Only (A-133 audit not required):

- An electronic copy (preferably pdf) of the financial statement audits **and management letter (with responses)** must be submitted by the auditor and received by DEED Fiscal Services, via e-mail to

Chris.Ortega@state.mn.us, within six (6) months from fiscal year end. In addition, when requested by Fiscal Services, grantees must provide copies of all audits conducted even though the audits were not required.

F. DEED grantees who subgrant DEED funds, and all additional tiers of subgrantees, must:

1. Require their subgrantees to follow the audit requirements in this document. When requested by Fiscal Services or program staff, grantees must provide copies of all audits conducted even though the audits were not required.
2. Establish a subgrantee audit resolution, debt collection and monitoring system.

G. Allegations of fraud and abuse, and investigations initiated and completed by the grantee and its subgrantees, must be immediately reported, and a written report sent, to the DEED Program Director and to Fiscal Services (see item E1 for the address).

H. DEED has oversight responsibilities for employment and training activity of MFIP (TANF) programs even though the funds originally come through the Minnesota Department of Human Services. DEED is concerned about all levels of subgranted funds. By law, these grants/contracts must be operated on a cost basis. If any fund balances have accumulated, that information should be disclosed in the footnotes, the financial statements, or as supplementary information of the audit report.

I. Questions on the above requirements may be directed to Tim Langlie (Tim.Langlie@state.mn.us or 651.259.7071).

AUDIT RESOLUTION

The Fiscal Services Unit in the Fiscal Management Office will send drafts of controversial letters, intended for grantees, to program directors and staff for their input before finalizing the letters.

DETERMINING THE AUDIT UNIVERSE

The amounts granted to DEED grantees must be identified during each calendar year to determine grantees which are required to submit audits and to establish audit resolution priorities based on funding level.

Fiscal Services obtains a calendar-year alphabetic list of all DEED grantee cash requests by January 10 each year. This list is reconciled with the audit universe report from the Department of Finance's list of grantees receiving federal funds from DEED. Fiscal Services also maintains an audit database for tracking and monitoring and makes the database available to program directors upon request.

MONITORING AND ENSURING TIMELY RECEIPT OF AUDITS

DEED requires that A-133 audits and financial-statement-only audits are received within nine months after the grantee's fiscal year-end. Audits are monitored to ensure they are processed within the required timeframe. Fiscal Services will send monthly audit status reports to each program director, as requested.

Who	Step	What
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|-----------------------------------|--|
| Fiscal Services/
Program Staff | <ol style="list-style-type: none"> 1 Determine monthly which grantee audit reports are due within 30 days and have not yet been received. Send reminder letters encouraging early submission. 2 If a grantee misses the deadline, send a reminder letter to the grantee board chairman. Allow 30 days for a response. 3 When an audit is 60 days late, send a letter to the grantee board chairman stating that cash payments may be withheld if the audit is not received within 30 days. Send a copy to the program director. 4 Contact program director to discuss further actions. Work with the grantee, providing technical assistance to meet the requirements. 5 If necessary, notify the subgrantee accountant to stop payments and recommend to program director that an alternative source for program delivery may be needed. When audit is received, ask for payments to be resumed. |
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REVIEWING AND RESOLVING AUDITS

In general, grantees should rely on their CPA auditing firms for technical audit advice. If grantees disagree with audit findings, they should try to resolve the issue during the audit or at the audit exit conference before the final report is issued. However, grantees may ask for technical advice from Fiscal Services or program staff during this process. Below is the review/resolution process when Fiscal Services receives an audit; it may be used as a guide for other resolution audits.

Who	Step	What
Fiscal Services	<ol style="list-style-type: none"> 1 2 3 	<p>Within ten days of receipt, send copy of audit report to program staff. Complete a review of the federal schedule of awards for the audit resolution checklist as required.</p> <p>Coordinate with program staff cross-cutting issues and an audit resolution response that describes whether the audit is satisfactory (including whether all reports required by point E.1 in "Grant Agreement Audit Language" are included). It may include a request for repayment or a closing letter to the grantee board chairman. Care should be taken so that cross-cutting issues are addressed when DEED is responsible.</p> <p>Send the audit resolution response to the grantee, with copies to the program director. Allow 30 days for a response; if the audit is satisfactory, no response is required.</p>
Grantee	4	Respond in writing within 30 days to an audit resolution letter where a

response is requested. Provide a) documentation to support questioned costs and/or b) proposed corrective action steps and dates for implementation and/or a corrected copy of the final FSR (Financial Status Report) with a refund to DEED.

- Fiscal Services/
Program Staff
- 5 Evaluate grantee responses according to the criteria shown in the section "Resolution of Questioned Costs Criteria." If the audit resolution remains unsatisfactory, issue an interim determination after consulting with the program director and the assistant commissioner. Allow an additional 30 days for correspondence with the grantee; grantee may request an informal meeting to review facts.
 - 6 Issue a final determination letter within 180 days after receipt of audit. If grantee does not respond, follow monitoring steps in "Monitoring and Ensuring Timely Receipt of Audits."

NOTE: Grantees must repay DEED-disallowed costs (see the sections "Repaying Non-WIA State or Federal Funds" and "Repaying WIA Funds"). A final determination letter starts the debt collection process (see "Debt Collection"). Grantees may file a grievance according to program requirements.

RESOLUTION OF QUESTIONED COSTS CRITERIA

Costs are allowable when they are reasonable and necessary to accomplish the grant objectives and conform to limitations established by the grant agreement, regulations, and federal rules. These points should be considered when resolving questioned costs:

1. The nature of the cost, and whether it can be justified in terms of what was necessary for the program.
2. Whether adequate guidance was available to the grantee at the time the questioned cost was incurred.
3. The actions taken by the grantee to correct the problem and to prevent similar occurrences in the future.
4. If costs were questioned due to inadequate supporting documentation, whether the grantee can reconstruct the required documentation and take steps to ensure adequate documentation for future grants.
5. Whether workplan, special conditions, and budget violations are justified. The grantee's response must fully justify the action taken as a program necessity and identify the procedures that have been initiated to prevent subsequent recurrence.
6. If the costs resulted from the grantee's failure to correct faults in its accounting system which had been brought to its attention in previous audits, these costs will be recovered.

7. For WIA funds, stand-in costs may be allowed per 20 CFR, Subpart C, 667.300(2).

Where costs are unsupported, the grantee must reconstruct adequate documentation by getting an invoice from the vendor, signed affidavits from employees on travel or other personal services, and/or proper approvals by agency officials where costs are unbudgeted.

If the grantor decides the response is not adequate for allowing the costs, the grantee is given a period of time to submit a formal appeal. Appeals based on submission of new evidence will be considered by the grantor; new material, information, or documentation may allow a change in the previous determination. Appeals questioning regulations or statutes **will not be considered**.

The appeal must be in writing and contain a clear statement of the issues to be considered in the appeal. A cash restitution will be required for amounts disallowed because of reckless misuse of funds, failure to institute ordinary and prudent fiscal control, and/or disallowances as a result of statutory limitations.

DEBT COLLECTION

A debt is established when DEED determines, and/or the grantee acknowledges, the amount of misspent funds discovered through auditing, monitoring, close-outs, reports, or other investigation. DEED will aggressively pursue collection of debts if the grantee does not voluntarily repay them.

PURSUING DEBT REPAYMENT

When issuing a final determination or if the grantee will not acknowledge or repay the debt, Fiscal Services will write (with approval from the program directors and assistant commissioners) a "demand for repayment" letter that will include:

1. The nature and amount of debt.
2. The date by which repayment must be made.
3. A statement that interest will begin to accrue on the debt 30 days from the date of notice, at the rate prescribed by the U.S. Treasury.
4. A statement that if the grantee appeals this decision, repayment may be delayed until an appeal decision is made. However, if the grantee loses the appeal, the principal plus accrued interest from the designated repayment date must be paid in full.
5. Notice that DEED may use one of these disciplinary options:
 - Terminate some or all financial grants with the grantee.
 - Impose sanctions according to program requirements.
 - Ask the Minnesota Attorney General's Office for assistance with appropriate legal action.

- Use administrative offset to collect debts; reimbursement due to the grantee may be used to offset the debt.
- Require cash repayment.
- Allow use of stand-in costs.

If the grantee does not respond, Fiscal Services will consult with the appropriate program staff to exercise one of the disciplinary options above. The sanction(s) will continue until the required action has been completed.

REPAYING STATE OR FEDERAL FUNDS

Grantees must repay DEED-disallowed costs in cash from non-DEED sources (state or federal) or as stated in the grant agreement. Repayment of non-WIA (Workforce Investment Act) funds must be paid in full (there are more specific requirements for repaying WIA funds in Section 184 of the Act). However, in cases of demonstrated hardship, DEED and the grantee may develop an installment plan.

A grantee's letter of transmittal accompanying repayment to DEED must include the grantee's name, grant numbers, program title, year to which repayment applies, and a revised FSR. When the grantee cash is received, Fiscal Services will take appropriate action to fulfill funding source requirements.

REPAYING WIA FUNDS

WIA (Workforce Investment Act) debts that are due to the conditions cited below must be repaid with non-federal funds to DEED which will in turn send the payments to the US Department of Labor (DOL):

- 1) "Willful disregard of the requirements of the Act, gross negligence, or failure to observe accepted standards of administration," under Section 184(d)(1) of the Act; or
- 2) "Incidents of fraud, malfeasance, misapplication of funds" or other serious violations defined in TEG (Training and Employment Guidance Letter) No. 6-84; or
- 3) "Illegal acts or irregularities" which are required to be reported.

WIA debts will be paid per *Section 184, Fiscal Controls; Sanctions* of the Act; and *Part 667, Administrative Provisions under Title I of the Workforce Investment Act, Subparts E, F, and G* of the Rules and Regulations (see the Workforce Investment Act and WIA final regulations).