

## AUDIT REQUIREMENTS

### EXECUTIVE SUMMARY

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This policy provides guidance and establishes procedures regarding audit requirements for federal awards. This policy applies to Local Workforce Development Areas (Local Area), subrecipients, and other entities that receive federal awards through the Employment Development Department (EDD) and is effective immediately.

This policy contains some state-imposed requirements. All state-imposed requirements are indicated by ***bold, italic*** type.

This Directive finalizes Workforce Services Draft Directive Audit Requirements (WSDD-211), issued for comment on February 25, 2020. The Workforce Development Community submitted one comment during the draft comment period. A summary of comments, including all changes, is provided as Attachment 1.

This policy supersedes Workforce Services Directive *Audit Requirements* (WIAD05-16), dated May 25, 2006. Retain this Directive until further notice.

### REFERENCES

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- *Workforce Innovation and Opportunity Act* (WIOA) (Public Law 113-128), Section 184
- Title 2 *Code of Federal Regulations* (CFR) Part 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)
- Title 20 CFR Section 683.210
- State Administrative Manual Sections 20030 and 20070
- [Federal Audit Clearinghouse](#)
- [State Controller's Office, Single Audits – Local Agencies](#)

*The EDD is an equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities.*

## BACKGROUND

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On December 26, 2014, the Office of Management and Budget (OMB) issued the Uniform Guidance, which establishes uniform administrative requirements, cost principles, and audit requirement for federal awards. The Uniform Guidance consolidates and updates multiple, previously separate, sets of OMB guidance into one combined set of rules. The Uniform Guidance raised the threshold for required audits from \$500,000 to \$750,000 or more in federal awards expended per year. This Directive applies to all non-federal entities receiving WIOA awards to comply with the audit requirements in the Uniform Guidance Subpart F and for the awarding agency and the pass-through entity to track the audit and, in instances of noncompliance, provide a resolution.

To ensure that the state carries out its responsibilities in accordance with Uniform Guidance, the State Administrative Manual Section 20070 gives the State Controller's Office (SCO) the responsibility of coordinating single audit activities of local governments.

## POLICY AND PROCEDURES

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### Definitions

For the purposes of this Directive, the following definitions apply:

**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)

**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)

**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.

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 recipient does not include subrecipients (Uniform Guidance 200.86).

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 the federal awarding agency (Uniform Guidance Section 200.93). Local Areas are the subrecipients of WIOA funds and other federal grant awards.

## **Audit Types**

In accordance with Uniform Guidance Section 200.501, all Local Areas and other non-federal entities that expend \$750,000 or more in federal awards in a fiscal year must have a single or program-specific audit conducted for that fiscal year.

### *Single Audit*

A single audit is 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.

### *Program-Specific Audit*

A program-specific audit is 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 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.

### *Limited-Scope Audit*

A limited-scope audit is focused on a specific area. An agreed-upon procedures audit may also be limited in scope; however, the specific steps needed to assess a subject matter are determined by the interested parties.

### *Exemption*

Non-federal entities spending less than \$750,000 under federal awards for a fiscal year are exempt from the single audit requirement, but must still have records available for review or audit by officials of the federal agency, pass-through entity, and Government Accountability Office. These entities may conduct or arrange additional program-specific, limited-scope, or an agreed-upon procedures audit or review to ensure proper accountability and compliance with program requirements (Uniform Guidance Sections 200.501[d] and 200.503).

## **Reporting Requirements**

For single audit reporting, a subrecipient must submit the audit reporting package to the Federal Audit Clearinghouse (FAC) and the SCO. Reports must be submitted within 30 calendar days after receipt of the auditor's report(s) or nine months after the end of the audit period, whichever is earlier. Note that the FAC and the SCO have different reporting requirements. (Uniform Guidance Section 200.507[c][1])

1. The FAC operates on behalf of the OMB and is the repository of record where auditees must transmit audit reporting packages. In addition, the FAC does the following:
  - Distributes the single audit reporting package and data collection form to federal agencies, pass.
  - Supports OMB oversight and assessment of federal award audit requirements.
  - Maintains a public database of completed audits.
  - Assists auditors and auditees to minimize the reporting burden of complying with single audit requirements.

Reporting Package submitted to the FAC must include the following documents:

- Financial statements.
- Schedule of expenditures of federal awards.
- Auditor's report.

- Corrective action plan prepared by auditee.
- Auditor’s data collection form (Federal Audit Clearinghouse form SF-SAC).
- Senior official signature attesting to compliance.

(Uniform Guidance 200.508 and 200.512[c])

Local Areas, subrecipients, and other non-federal entities should refer to the [FAC website](#) for single audit guidelines and reporting package requirements.

2. The SCO is the single audit oversight agency for most California local government agencies. For financial management standards, the state will continue to use and expend the federal award in accordance with state laws and procedures. (Uniform Guidance Section 200.302)

***As such, local government agencies receiving federal awards must submit the following reports to the SCO:***

- ***Non-federal entities expending equal to or in excess of \$750,000 in federal awards (and that amount includes any state pass-through funds) must complete a single audit reporting package.***
- ***Non-federal entities expending less than \$750,000 in federal awards must submit written notification of its exempt status.***
- ***Non-federal entities expending equal to or in excess of \$750,000 in federal awards (and that amount does not include any state pass-through funds) must submit either an audit report or an explanation letter. If the entity is currently being monitored by the SCO, a “no Review Letter” will be issued to the entity in return.***

Local government agencies of federal awards should refer to the SCO [Single Audits - Local Agencies](#) webpage for single audit guidelines and reporting package requirements.

***Entities not designated as a Local Area, but are expending less than \$750,000 in federal grant funds in a fiscal year must also submit written certification of their exempt status to the EDD [Single Audit Coordinator](#).***

### **Subrecipient and Contractor Determinations**

An auditee may simultaneously be a recipient, a subrecipient, and a contractor. Federal awards expended as a recipient or a subrecipient are subject to audit. Payments received for goods or services provided as a contractor are not federal awards.

A subrecipient is a non-federal entity that meets the following criteria:

- Determines who is eligible to receive what federal assistance.
- Has its performance measured in relation to whether objectives of a federal program were met.
- Has responsibility for programmatic decision making.

- Is responsible for adherence to applicable federal program requirements specified in the federal award.
- In accordance with its agreement, uses the federal funds to carry out a program for a public purpose specified in the authorizing law as opposed to providing goods or services for the benefit of the pass-through entity.

In contrast, a contract meets the following criteria:

- Provides the goods and services within normal business operations.
- Provides similar goods or services to many different purchasers.
- Normally operates in a competitive environment.
- Provides goods or services that are ancillary to the operation of the federal program.
- Is not subject to compliance requirements of the federal program as a result of the agreement, though similar requirements may apply for other reasons.

All of the characteristics of a subrecipient and a contractor may not be present in all cases. The pass-through entity holds the discretion in classifying each agreement as a subaward or a procurement contract. (Uniform Guidance Section 200.330)

### **Record Retention and Access**

Financial records, supporting documents, statistical records, and all other non-federal entity records related to a federal award must be retained for a period of three years from the date of submission of the final expenditure report, or for the federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the federal awarding agency or pass-through entity. Federal awarding agencies and pass-through entities cannot impose any other record retention requirement upon non-federal entities. The only exceptions are as follows:

- If any litigation, claim, or audit is started before the expiration of the 3-year period, the records must be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken.
- When the non-federal entity is notified in writing by the federal awarding agency, cognizant agency for audit, oversight agency for audit, cognizant agency for indirect costs, or pass-through entity to extend the retention period.
- Records for real property and equipment acquired with federal funds must be retained for three years after final disposition.
- When records are transferred to or maintained by the federal awarding agency or pass-through entity, the 3-year retention requirement is not applicable to the non-federal entity.
- Records for program income transactions after the period of performance.
- Indirect cost rate proposals and cost allocations plans.

(Uniform Guidance Sections 200.331 and 200.333)

## Pass-through Entities Responsibilities

The Uniform Guidance specifies that pass-through entities have certain responsibilities to manage and administer federal awards and ensure that all subrecipients comply with all laws and regulations and the terms and conditions of the federal award. The pass-through entity verifies that every subrecipient is audited as required.

In cases where subrecipients fail to comply with federal laws and regulations or the terms of the federal award, the EDD may take action in accordance with Uniform Guidance Sections 200.207 and 200.338. Remedies for noncompliance include one or more of the following actions:

- Temporarily withhold cash payments pending correction of the deficiency by the non-federal entity or more severe enforcement action by the federal awarding agency or pass-through entity.
- Disallow all or part of the cost of the activity or action not in compliance.
- Wholly or partly suspend or terminate the federal award.
- Initiate suspension or debarment proceeding as authorized under Uniform Guidance and federal awarding agency regulations. In the case of a pass-through entity, the pass-through entity may recommend such a proceeding be initiated by a federal awarding agency.
- Withhold further federal awards for the project or program.
- Take other legally available remedies.

## ACTION

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Please bring this Directive to the attention of all relevant parties.

## INQUIRIES

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If you have any questions, contact your [Regional Advisor](#) at 1-916-654-7799.

/s/ JAIME L. GUTIERREZ, Chief  
Central Office Workforce Services Division

Attachment is available on the internet:

[Summary of Comments](#)