DATE: April 6, 2017

TO: All Economic and Workforce Development Department (EWDD) Subrecipients

FROM: Catherine Bondoc, Director Financial Management Division

SUBJECT: FMD DIRECTIVE NO. 17-003 AUDIT REQUIREMENTS - POLICY AND PROCEDURES

EFFECTIVE DATE:

This directive is effective upon date of issue.

PURPOSE:

The purpose of this directive is to provide guidance to all Economic and Workforce Development Department (EWDD) subrecipients on the revised audit requirements for federal awards in accordance with the provisions of the Uniform Guidance 2 CFR 200.500 to 200.521, Sub Part F.

SCOPE:

This directive applies to all subrecipients funded by Federal grant programs through EWDD.

BACKGROUND:

The Office of Management and Budget published new requirements for Federal awards program entitled Uniform Administrative Requirements, Cost Principles, and Audit Requirements codified at 2 CFR Chapter I and Chapter II, Parts 200, 215, 220, 225, and 230. These rules became effective December 26, 2014, and are referred to as the Uniform Guidance.

The new audit requirements are at 2 CFR 200.500 to 200.521 Sub Part F, which rescinded OMB Circular A-133, Subject: Audits of States, Local Governments, and Non-Profit Organizations. These new requirements apply to fiscal years beginning on or after December 26, 2014. Subrecipients are advised to review these new audit requirements for more details.

DEFINITIONS:

Contractor means an entity that receives a contract which is defined as a legal instrument by which a non-Federal entity purchases property or services needed to carry out the project or program under a Federal award. (2 CFR §200.23)
Subaward means 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. (2 CFR §200.92)

Subrecipient means 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. (2 CFR §200.93)

POLICY AND PROCEDURES:

Requirement for Audit:

2 CFR 200.501 requires subrecipients that expend $750,000 or more of Federal awards and subawards during the entity's fiscal year to have a single audit or a program-specific audit.

Single Audit. A subrecipient that expends $750,000 or more of Federal awards and subawards during the entity's fiscal year must conduct a single audit.

Program-Specific Audit. When a subrecipient expends $750,000 or more during the entity's fiscal year under only one Federal program, the subrecipient may elect to have a program-specific audit conducted in accordance with the provisions of the Uniform Guidance. The cost of a program specific audit is allowable to that program.

Exemption from Audit. When Federal awards and subawards expended are less than $750,000 during the entity's fiscal year, a subrecipient is exempt from Federal audit requirements for that year. In those instances, EWDD requires the subrecipient to submit a written certification stating the exemption.

For-profit Subrecipient. The audit requirements at 2 CFR 200.500 to 200.521 do not apply to for-profit subrecipients. Those requirements make the pass-through entity responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients. In accordance with that direction, EWDD requires all for-profit subrecipients to follow this policy and procedures for the conduct of audits, either single audits or program specific audits, depending on whether the entity is multiple funded or receives only one source of Federal funds, and the level of total Federal expenditures incurred in the organization's fiscal year.

Subrecipients and Contractors. An auditee may simultaneously be a subrecipient and a contractor. Federal awards expended as a subrecipient are subject to audit. The payments received for goods or services provided as a contractor are not Federal awards.

Frequency of Audits:

Audits must be performed annually.

Sanctions:

In cases of continued inability or unwillingness to have an audit conducted in accordance with these requirements, EWDD may impose sanctions which may include but are not limited to suspension of payments or termination of contract or the subaward. EWDD may, at its sole discretion, have a single audit or program specific audit conducted in accordance with
the provisions of the Uniform Guidance. The cost of such audit will be chargeable to the subrecipient.

**Auditee Responsibilities:**

The auditee must:

- Procure or otherwise arrange for the audit.
- Provide EWDD with a copy of the engagement letter no later than 6 months prior to the audit submission due date.
- Prepare appropriate financial statements, including the schedule of expenditures of Federal awards.
- Promptly follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan.
- Provide the auditor with access to personnel, accounts, books, records, supporting documentation, and other information as needed for the auditor to perform the audit.

**Report Submission:**

- The single audit report package must be completed and submitted electronically to the Federal Audit Clearinghouse (FAC) within the earlier of 30 calendar days after receipt of the auditor’s report(s), or nine months after the end of the audit period.
- An electronic copy of the single audit report must also be submitted within the same period stated above to:

  Economic and Workforce Development Department  
  City of Los Angeles  
  1200 West 7th Street  
  Los Angeles, CA 90017  
  Attn: Financial Management Division (FMD) - Audit Section

- If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.
- The auditee must make copies available for public inspection. Auditees and auditors must ensure that their respective parts of the reporting package do not include protected personally identifiable information.

**Audit Documentation:**

The auditee must ensure that the auditor retains audit documentation and reports for a minimum of three years after the date of issuance of the auditor’s report(s) to the auditee, unless the auditor is notified in writing by the cognizant agency for audit, oversight agency for audit, cognizant agency for indirect costs, or EWDD to extend the retention period.

When the auditor is aware that the Federal agency, EWDD, or auditee is contesting an audit finding, the auditor must contact the parties contesting the audit finding for guidance prior to destruction of the audit documentation and report.
Access to Audit Documentation:

Audit documentation must be made available upon request to the cognizant or oversight agency for audit or its designee, cognizant agency for indirect cost, a Federal agency, the General Accounting Office or EWDD and its representatives at the completion of the audit, as part of a quality review, to resolve audit findings, or to carry out oversight responsibilities. Access to audit documentation includes the right of the above agencies to obtain copies of audit documentation, as is reasonable and necessary.

ACTION:

EWDD and its subrecipients shall follow this policy and procedures until such time that a revision is required.

CONTACT:

If you have questions or requests for additional clarification, please contact your assigned Fiscal Monitors.

CB: ET