COUNTY OF LOS ANGELES
WORKFORCE DEVELOPMENT, AGING AND COMMUNITY SERVICES

CONTRACT COMPLIANCE DIRECTIVE

DATE: December 12, 2018

NUMBER: WDACS CCD 18-05

Audit Requirements

EXECUTIVE SUMMARY

The purpose of this directive is to update the audit requirements for subrecipients of the Los Angeles County Workforce Development, Aging and Community Services (WDACS) federal grant programs in accordance with the revised Uniform Administrative Requirements for Federal Grants issued by the Office of Management and Budget (OMB).

This Directive supersedes CD-15-8, dated August 25, 2015, "Audit Requirements" and is effective on the date of release.

APPLICATION

This directive applies to all WDACS subrecipients.

REFERENCES

- Older Americans Act, Code of Federal Regulations, Title 45, Chapter XIII, Section 1321.5
- Community Services Block Grant (CSBG) Program, Title 42, United States Code Chapter 106, Section 9916, "Fiscal Controls, Procedures, Audits, and Inspections"
- Workforce Innovation and Opportunity Act (WIOA), Public Law 113-128, Section 102(a)(2)(E)(v)

BACKGROUND

On December 26, 2013, the Office of Management and Budget revised the Uniform Administrative Requirements for Federal grants, combining those requirements with those of the audit requirements and cost principles. These regulations are codified at 2 CFR Chapter I and II, Parts 200, 215, 220, 225, and 230, became effective December 23, 2014, and are referred to as the Uniform Guidance. Subrecipients are advised to review these regulations related to audit for more detail than is included in this directive.

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 the Federal award. The term as used in this Part does not include a legal instrument, even if the non-Federal entity considers it a contract, when the substance of the transaction meets the definition of a Federal award or subaward (2 CFR 200.22 & 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 who expend $750,000 or more during the entity's fiscal year in Federal awards and subawards to have a single or program-specific audit conducted for that year in accordance with the provisions of the Administrative Requirements.

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

Program-specific Audit. When a subrecipient expends $750,000 or more in total Federal awards 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 Administrative Requirements.

Exemption from Audit. When subawards expended are less than $750,000 in total Federal awards during the entity's fiscal year, a subrecipient is exempt from Federal audit requirements for that year. Please notify WDACS in writing prior to the engagement letter deadline if your agency will not be conducting a single audit.

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 (WDACS)

profit subrecipients. In accordance with that direction, WDACS is requiring all for-profit subrecipients to follow the guidance established in this directive 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.

In addition to the requirements stated in this directive, subrecipients must abide by all audit requirements specified by their funding source. For example, all subrecipients of Area Agency on Aging funds must abide by the requirements specified in the latest "Guidance for Single Audit Reporting" released by the California Department of Aging. Similarly, all recipients of Workforce Investment Opportunity Act funds must abide by the requirements stated in the latest audit requirements directive released by the Employment Development Department.

In most cases, the auditee's compliance responsibility for contractors is only to ensure that the procurement, receipt, and payment for goods and services comply with Federal statutes, regulations, and the terms and conditions of Federal awards. Federal award compliance requirements normally do not pass through to contractors. However, the auditee is responsible for ensuring compliance for procurement transactions which are structured such that the contractor is responsible for program compliance or the contractor's records must be reviewed to determine program compliance. Also, when these procurement transactions relate to a major program, the scope of the audit must include determining whether these transactions are in compliance with Federal statutes, regulations, and the terms and conditions of Federal awards.

Subecipients may charge the allocable portion of audit services to their grant. Costs may be recovered through an approved indirect cost rate or an approved cost allocation plan. The cost of audit must have been included in the indirect cost/cost allocation plan submitted to the County. For those subrecipients who use a direct allocation method, the cost of audit must be included in their line item budget.

Frequency of Audits

These requirements have not changed. Audits required must be performed annually with the exception of nonprofits that had biennial audits for all biennial periods ending between July 1, 1992, and January 1, 1995. In those instances the nonprofit is permitted to undergo its audits biennially. Any biennial audit must cover both years within the biennial period.

Sanctions

In cases of continued inability or unwillingness to have an audit conducted in accordance with these requirements, WDACS will impose sanctions which may include suspension of payments or termination.

Auditee Responsibilities

The auditee must:

- Procure or otherwise arrange for the audit pursuant to 2 CFR 200.509 Auditor selection.
- 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 audit must be completed and submitted 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 to:

  Los Angeles County Workforce Development, Aging, and Community Services
  3175 W 6th Street
  Los Angeles, CA 90020

  Attn: Contract Compliance Division

- 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.

- To ensure timely completion of the auditor's report, subrecipients are to provide WDACS with evidence that they have procured an auditor by supplying WDACS with their audit engagement letter within 6 months of

the end of the audit period. For example, agencies with FYE June 30 are required to submit their engagement letter by December 30 of that same year.

- WDACS will only consider granting an extension to the requirements above if there are extenuating circumstances. To request an extension, subrecipients must contact WDACS no later than 30 days prior to the submission due date. Please be advised that WDACS will review the request and may allow at its discretion a one-time only extension not to exceed 60 days.

- Requests shall be sent to:

  Los Angeles County Workforce Development, Aging, and Community Services
  3175 W 6th Street
  Los Angeles, CA 90020
  Attn: Contract Compliance Division

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 WDACS to extend the retention period.

When the auditor is aware that the Federal agency, WDACS, 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 reports.

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 WDACS 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

All WDACS subrecipients must ensure that the requirements described herein are communicated throughout the operations, management and governance structure of their respective organization and that this Directive is adhered to until further notice.

INQUIRIES

Inquiries regarding this directive and the policies and procedures described herein should be directed to smaxberry@wdacs.lacounty.gov or suraizee@wdacs.lacounty.gov.

Paul Goldman, Assistant Director
Contracting Services Branch