



AUDIT RESOLUTION POLICY

EDD Revision Date: 11/14/22

WDB Review Date: 4/27/06; 3/22/07; 12/17/15; 12/15/22

EXECUTIVE SUMMARY

This policy provides the guidance and establishes the procedures regarding the resolution of audit findings and disallowed costs. This policy applies to **all subrecipients of Workforce Innovation and Opportunity Act (WIOA) funds**, and is effective on the date of issuance. 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 Resolution (WSDD-237), issued for comment on July 27, 2022. The Workforce Development Community submitted no comments during the draft comment period. This policy supersedes Workforce Investment Act Directive Audit Resolution (WIAD05-17), dated May 25, 2006. Retain this Directive until further notice.

REFERENCES

- Title 2 Code of Federal Regulations (CFR) Part 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)
- Title 2 CFR Part 2900: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (DOL Exceptions) • Title 20 CFR Sections 667.510, 683.210, and 683.420
- Title 29 CFR Sections 95.26, 96.53, and 97.26
- Training and Employment Guidance Letter (TEGL) 15-14, Implementation of the New Uniform Guidance Regulations (December 19, 2014)
- One-Stop Comprehensive Financial Management Technical Assistance Guide
- Workforce Services Directive WSD22-07, Debt Collection (November 14, 2022)
- WSD20-03, Audit Requirements (March 1, 2021)
- WSD16-05, WIOA Closeout Requirements (July 29, 2016)

BACKGROUND

Entities receiving awards of Workforce Innovation and Opportunity Act (WIOA) and WagnerPeyser Act (WP) funds must meet the audit requirements of 2 CFR Part 200, Subpart F – Audit Requirements, 2 CFR 2900, Subpart F – Audit Requirements, and Title 29 CFR Section 97.26 – Non-federal audit.

Title 20 CFR Section 683.210 requires that all recipients of WIOA Title I and WP funds who expend more than \$750,000 of federal funds during the fiscal year must have a program specific or single audit conducted in accordance with 2 CFR part 200, Subpart F. These regulations require the establishment of procedures for audit resolution.

The procedures apply to subrecipient resolution of their subrecipients' audits. In addition, the EDD's Compliance Review Office (CRO) may use these procedures in resolving the findings from other reviews, such as incident and investigation reports, and monitoring. The CRO is responsible for state-level audit resolution and coordination of state-level hearings. Please submit correspondence and requested information to the CRO through one of the following methods (email is preferred):

Email PACBCROIncidentReports@edd.ca.gov

Mail Employment Development Department

Compliance Review Office

Compliance Resolution Unit

PO Box 826880, MIC 22

Sacramento, CA 94280-0001

POLICY AND PROCEDURES

Definitions

Administrative finding – a finding that is non-monetary and related to procedural or administrative matters.

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)

Awarding agency – means (1) with respect to a grant, Department of Labor (DOL); and (2) with respect to a subgrant or contract, the entity that awarded the subgrant or contract.

Disallowed costs – those charges to a federal award that the federal awarding agency or passthrough entity determines to be unallowable according to the applicable federal statutes, regulations, or the terms and conditions of the federal award.

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)

Final Determination – the awarding agency's final decision to disallow the cost and the status of nonmonetary findings.

Informal resolution – a reasonable period of time (not more than 6 months) from the date of issuance of the initial determination to informally resolve matters in which the recipient/contractor disagrees with the decisions of the awarding agency on the allowability of questioned costs or activities.

Initial Determination – a preliminary decision on whether to allow or disallow questioned costs and resolve any non-monetary (administrative) findings. The initial determination is based on applicable statutes, regulations, administrative directives, or terms and conditions of the grant/contract award instrument. It offers the auditee/subrecipient an opportunity for informal resolution, not a formal hearing.

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.

Program-Specific Audit – 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 programspecific audit conducted in accordance with Uniform Guidance Section 200.507. A programspecific audit may not be elected for research and development unless all of the federal awards expended were received from one federal agency, or one federal agency and one pass-through Page 3 of 9

entity, and that federal agency, or pass-through entity in the case of a subrecipient, approves in advance a program-specific audit.

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 term recipient does not include subrecipients. (Uniform Guidance Section 200.86)

Single Audit – 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.

Stand-In Costs – costs paid from non-federal sources to substitute federal costs that have been disallowed as a result of an audit. Stand-in costs must come from the same year as the costs that they are proposed to replace and they must not cause a violation of the administrative or other cost limitation. These costs must be included in the appropriate expenditure reports if they will be used at a later time.

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 Boards, **including other agencies** are the subrecipients of WIOA funds and other federal grant awards. A Local Board may allocate funds to their subrecipients to carry out a part of the federal program. This directive references to both the awarding agency subrecipient and their subrecipients.

Procedures

I. Subrecipient Standards

For the purposes of this directive, subrecipients are identified as the following:

• ***The “awarding agency subrecipient” is the agency who is directly funded and in a subgrant with the EDD.***

• **And “their subrecipient” is the agency at the local level that receives funds from the awarding agency subrecipient to carry out a portion of the program.**

A. Awarding Agency Subrecipients must do the following:

1. Review the audit report of their subrecipients to ensure compliance with the requirements of Uniform Guidance 2 CFR Part 200, Subpart F. If there are no concerns, a copy of the single audit must be kept on file and added to the audit control log as being compliant. If there are concerns, follow the following steps.

2. Establish an audit resolution file to document the disposition of reported questioned costs and corrective actions taken for all findings. The audit file may be saved electronically, or in a physical file or binder.

3. Complete an audit control log. The log must contain: date of the audit, period covered by the audit, date audit was received, auditor name, questioned costs (number of findings and amounts), administrative findings (number of findings), assigned audit number, date or dates of Initial and Final Determinations, and documentation of decisions regarding administrative findings, disallowed costs, and appeals. This log should include the review of all single audits including those that are compliant.

4. Issue a letter of Initial Determination to their subrecipient based on the audit review. The Initial Determination letter includes the following:

- A list of all questioned costs.
- Whether the costs are allowed or disallowed, including the reasons with appropriate citations for such actions.
- Acceptance or rejection of any corrective action taken to date, including corrective action on non-monetary administrative findings.
- Possible sanctions.
- The opportunity for informal resolution of no more than 60 days from the date of Initial Determination.

5. During informal resolution, their subrecipient may provide documentation to support allowability of costs and proposed corrective action of administrative findings. Informal resolution discussions may be held by telephone, video conference or in person, if practicable. 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. Issue a written Final Determination to their subrecipient and include the following: • Reference to the Initial Determination.

- Summation of the informal resolution meeting, if held.
- Decisions regarding the disallowed costs, listing each disallowed cost and noting the reasons for each disallowance.
- Questioned costs that have been allowed by the awarding agency and the basis for the allowance.
- Demand for repayment of the disallowed costs.
- Description of the debt collection process and other sanctions that may be imposed if payment is not received. See the debt collection process in Debt Collection (WSD22-07)
- Rights to a hearing.
- The status of each administrative finding.
- Identified areas of disagreement between the parties.
- Advise their subrecipient that the determination is based on information that is currently available. If new information becomes available, the Final Determination may be reopened at the awarding agencies option.

B. The audit resolution process must be completed within six months after receipt of their subrecipient's audit report and must ensure that their subrecipient takes appropriate and timely corrective action.

C. The audit file must be assembled for reference in the event of future action. Electronic files must be saved in a logical order (generally chronological) and contain all supporting documentation. Physical files must be tabulated with the most current documentation first. All audit files should include the following:

- Final Determination and proof of receipt by their 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 their subrecipient.
- Response to the final audit report.
- Final audit report.

D. The awarding agency subrecipient must establish local-level hearing procedures and reserve the right to overturn a hearing officer's decision when it

determines that noncompliance with the applicable act or its regulations still exists.

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 documented either with a voice recording, written notes, or by court reporter.**

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

The hearing officer must issue a decision within 60 days of the request filing date.

Their subrecipient has 10 days from receipt of an adverse decision to file an appeal of the local hearing officer's adverse decision to the State Review Panel. If a local hearing is not held or the decision is not rendered timely, their 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 their subrecipient appeals the decision of the awarding agency subrecipient's hearing officer to the state, the awarding agency subrecipient will send the CRO the complete audit file and hearing transcripts for review by the State Review Panel. Within 30 days of receipt by the CRO of their subrecipients 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.

E. There is no administrative appeal beyond the State Review Panel.

F. The awarding agency subrecipient shall ensure correction of any unresolved administrative findings and will determine the status of the unresolved administrative findings through its monitoring process and determine that appropriate corrective 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.**

II. State Audit Resolution

A. If there are no audit findings, no further action will be taken regarding the audit.

B. If the audit identifies an administrative finding, questioned costs, or cost recommended for disallowance, the CRO will do the following:

- Establish an audit resolution file to document the disposition of each finding and the corrective action taken to resolve each finding, and may request additional documentation.
- Issue a written Initial Determination after the audit is reviewed.
- Provide an opportunity for informal resolution and submission of additional documents within 60 days from the date of the notification of Initial Determination to resolve questioned costs and/or administrative findings.
- Issue a written Final Determination.

State Hearings

All appeals of state audit determinations, including amendments and withdrawals, shall be in writing.

The state hearing officer will provide written notice to the concerned parties of the date, time, and place of the hearing at least 10 calendar days before the scheduled hearing. Both parties will have the opportunity to present oral and written testimony, call and question witnesses in support of their position, present oral and written arguments, examine records and documents relevant to the issue(s), and be represented. The state hearing officer will prepare a proposed decision and submit to the EDD Director or designee. The EDD reserves the right to overturn the decision of the hearing officer.

There is no administrative appeal beyond this level.

I. Stand-In Costs

During the audit resolution process, the auditee may propose the use of stand-in costs to substitute for the disallowed costs. Stand-in costs must be actual expenses paid with nonfederal funds. 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, and accounted for in the auditee's financial system. Cash match in excess of the required match may also be considered for use as stand-in costs. To be accepted, the stand-in costs must come from the same year as the costs they propose to replace, and they must not cause a violation of the administrative or other cost limitations.

Records Retention

Awarding agency subrecipients and their subrecipients must retain all records of each WIOA allocation for a period of three years from the date of their last expenditure report submitted to the EDD Central Office Workforce Services Division. If any litigation, claim,

or audit is started before the expiration of the three-year period, ALL records must be retained until all findings have been resolved and final action taken (Uniform Guidance Section 200.333).

ACTION

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

INQUIRIES:

If you have any questions, please contact the Executive Director or Controller at (559) 662-4500.