

STATE OF NEW JERSEY • DEPARTMENT OF COMMUNITY AFFAIRS
• DIVISION OF DISASTER RECOVERY AND MITIGATION

SUBJECT: CDBG-DR Internal Audits and Recipient Audits

NUMBER: 2.10.13

EFFECTIVE: June 2013

REVISED: September 2015
July 2022
April 2023

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APPROVAL:



Samuel R. Viavattine
Deputy Commissioner

PURPOSE:

To outline the policies and procedures for the Department of Community Affairs (DCA), the Division for Disaster Recovery and Mitigation (DRM), specifically, as HUD Grantee, and their grant recipients to comply with federal and state auditing requirements, applicable to CDBG-DR programs.

POLICY:

Pursuant to HUD regulations and as described in the DCA HUD Action Plans, the DCA Director of the Office of Auditing (DCA Director of Auditing) will report to the Deputy Commissioner in the Commissioner's Office any findings concerning CDBG-DR related matters. The DRM Chief Officer, Legal Affairs, as manager of DRM Internal Audit (IA), will report to the Deputy Commissioner overseeing DRM. The DRM IA will meet regularly with the DCA Director of Auditing, however, as part of their cooperative effort, and will report any irregularities or non-compliance directly to the DCA Director of Auditing. The DRM IA will support the DCA Director of Auditing by ensuring that sufficient controls are in place for programs in receipt of CDBG-DR grants and by following up regarding the results of subsequent monitoring and audit activities for those programs.

Effective December 26, 2014, the federal Office of Management and Budget (OMB) published new requirements for federal programs entitled Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (also known as the Super Circular) codified at 2 C.F.R. § 200. The Super Circular guidance supersedes and consolidates the requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102, A-133 and A-50. In response to the issuance of the Super Circular on the Federal level, the State issued *Treasury*

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Circular Letter 15-08-OMB, “Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid” to bring the State’s policies regarding audits of financial assistance recipients in line with the revised federal requirements. State Circular Letter 15-08-OMB raises the single audit expenditure threshold from \$500,000 to \$750,000 for recipients. The audit requirements under 15-08-OMB are effective for any fiscal year period beginning after December 26, 2014. The financial statement audit requirement threshold remains at \$100,000 or greater of combined federal and State expenditures for recipients not meeting Single Audit threshold.

The Super Circular significantly reforms federal grant making. With this document, OMB’s goals are to:

- Streamline guidance for federal awards to ease administrative burden.
- Provide a government-wide framework for grants management.
- Focus policies and resources on areas that emphasize improving performance and outcomes.
- Strengthen oversight over federal funds to reduce the risk of waste, fraud, and abuse.

The Super Circular supersedes and combines the requirements of eight existing OMB Circulars from the following categories:

Administrative Requirements

1. Circular A-102, Grants and Cooperative Agreements with State and Local Governments
2. Circular A-110, Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
3. Circular A-89, Catalog of Federal Domestic Assistance (CFDA)

Super Circular Amendments to Administrative Requirements focus on the following areas:

- Conflict of Interest Guidance
 - Definition of Supplies
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- Pre-Award Risk Assessment
- Procurement Standards
- Performance Measurement
- Greater focus on Internal Controls
- Cost Sharing
- Requirements for Pass-Through Entities
- Mandatory Disclosures

Cost Principles

1. Circular A-21, Cost Principles for Educational Institutions
2. Circular A-87, Cost Principles for State, Local and Indian Tribal Governments
3. Circular A-122, Cost Principles for Non-Profit Organizations

Super Circular amendments to Cost Principles focus on the following areas:

- Provides guidance for classifying certain costs as either Direct or Indirect.
- Indirect Costs: Organizations will also be permitted to elect an automatic indirect cost rate of 10% of modified total direct costs, to be used indefinitely if they wish, or they may elect to negotiate a higher rate.
- Direct Costs: In certain circumstances, program administration costs can be reported as direct costs applicable to a specific program. Previously, grantees sometimes were required to pass these charges on via their indirect cost rates.

Audit Requirements

4. Circular A-133, Audits of States, Local Governments and Non-Profit Organizations
 5. Circular A-50, Audit Follow-up
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Super Circular amendments to Audit Requirements focus on the following areas:

- Increased expenditure threshold for Single Audit requirement to \$750,000 from \$500,000
- Changes to the Risk Assessments and Major Program determination processes
- Reduction in the number of Compliance Requirements
- Modification to Reporting of Audit Findings and Questioned Costs
- Increased threshold for reporting Questioned Costs to \$25,000 from \$10,000

DISASTER RECOVERY WAIVERS OR ALTERNATE REQUIREMENTS:

A. Responsibility for review and handling of noncompliance.

The Federal Register notice allocating CDBG-DR funding for Sandy FR-5696-N-01 and Ida FR-6303-N-01 also provides a waiver for state grantees that allows direct grant administration:

“4. Direct grant administration and means of carrying out eligible activities.

- a. Requirements applicable to State grantees. Requirements at 42 U.S.C. 5306 are waived, to the extent necessary, to allow a State to directly carry out CDBG-DR activities eligible under this Notice, rather than distribute all funds to UGLGs.”*

24 C.F.R. § 570.492 is waived and the following alternative requirement applies for any State receiving a direct award under this Notice: the State shall make reviews and audits, including onsite reviews of any subrecipients, designated public agencies, and UGLGs, as may be necessary or appropriate to meet the requirements of 42 U.S.C. 5304(e) (2), as amended, and as modified by this Notice. In the case of noncompliance with these requirements, the State shall take such actions as may be appropriate to prevent a continuance of the deficiency, mitigate any adverse effects or consequences, and prevent a recurrence.

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The State has established policies and procedures for monitoring and compliance which include corrective measures, and remedies for noncompliance by any designated subrecipients, public agencies, or UGLGs.

RECIPIENT AUDITING: REPORTING & SUBMISSION REQUIREMENTS

Although the Super Circular allows certain biennial audits, State policy continues to require that all audits be performed on an annual basis. The submissions of audit reports to DCA from recipients of state and/or federal financial assistance are due as follows:

- Non-profit Organizations – 9 months after their Fiscal Year End
- Municipalities or Counties – 6 months after their Fiscal Year End
- Local Authorities/Commissions & Fire Districts – 4 months after their Fiscal Year End.

All reports must be performed by a licensed Certified Public Accountant, Registered Municipal Accountant or a Public Accountant licensed.

RECIPIENT AUDITING: MONITORING

Funders should consider various risk factors in developing recipient monitoring procedures, such as: the relative size and complexity of federal and state awards administered by the recipients, prior experience with the recipient, and the cost-effectiveness of various monitoring procedures. The DRM Monitoring Team has developed a Risk Assessment tool that evaluates these factors, among others. Monitoring activities normally occur throughout the year and may take various forms, such as: reviewing financial & performance reports submitted by the recipient, performing site visits to review financial & programmatic records and observe operations and other regular contacts with recipients and appropriate inquiries concerning program activities. In some instances, a grant recipient may not be required to have an audit performed or a funding division may determine that a GAO “Yellow Book” financial statement audit will not provide adequate monitoring of their funds. The division is then charged with the responsibility of performing additional or increased monitoring procedures.

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RECIPIENT AUDITING: DCA COGNIZANCE ASSIGNMENTS

Cognizance assignments are made by the NJ Department of the Treasury's Office of Management and Budget. Each "cognizant agency" is responsible for ensuring the timely receipt of quality audit reports from grant recipients that they are assigned cognizance for. Cognitive agencies are also responsible for performing desk reviews of single audit reports, communicating audit results to funding divisions and Treasury-OMB, ensuring that audit findings and questioned costs are addressed and resolved by funding divisions, and confirming total state and federal grant expenditures upon completion of a recipient's fiscal year.

The Division of Local Government Services is the assigned "cognizant agency" for all municipalities, counties, fire districts & local authorities. The Office of Auditing is the assigned "cognizant agency" for all non-profit organizations that DCA has disbursed the most funds to, in relation to funding received from other State agencies, during a recipient's fiscal year.

As it supports the Office of Auditing, the DRM IA will perform responsibilities like that of a "cognizant agency" as it relates to CDBG-DR funding administered by DRM as a "funder". DRM IA will ensure that programs in receipt of the funds have the necessary controls in place to first prevent, then detect, waste fraud and abuse and to comply with the Super Circular and State regulatory requirements as to finances and administrative requirements, as well as the achievement of expected programmatic outcomes.

RECIPIENT AUDITING: CORRECTIVE ACTION

For reports containing findings and conditions requiring corrective actions by the grantee, a coordination of the receipt, review, and approval of the corrective action plan should also be performed timely between the cognizant agency and the funder(s) of the grantee. The cognizant agency will request the corrective action plan from the grantee and notify all funders of the request for such. When received, the plan is reviewed by the cognizant agency and is then forwarded to the funder for its review and approval. Once approved funders are advised to monitor the implementation of the corrective action plan. The DRM IA will assist the DCA Director of Auditing by monitoring the implementation of the corrective action plans for recipients of CDBG-DR grants administered by DRM.

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RECIPIENT AUDITING: SANCTIONS

Sanctions may be imposed against grantees that do not comply with the audit requirements of their grant agreements or do not respond to requests for corrective action plans due to findings or conditions being noted during the review of their audit report. In cases of continued inability or unwillingness to have an audit conducted in accordance with the federal and state circulars previously noted, the department may take appropriate action using sanctions such as:

1. Withholding a percentage of a grant award until satisfactory audit is completed;
2. Withholding or disallowing administrative or activity delivery costs;
3. Suspending grant awards until the audit is conducted; or
4. Terminating a grant award.

A letter should initially be sent to the grantee noting the items/ areas of non-compliance with the mandated audit requirements and advising that continuing failure to comply with audit requirements may affect funding. Continued non-compliance would then be addressed using the sanctions listed.

RECIPIENT AUDITING: COORDINATION OF EFFORT

PROGRAM REPRESENTATIVES & COGNIZANT DIVISION/OFFICE

Due to the changes in the federal and state audit requirements, an increased emphasis must be placed on communicating audit requirements between the cognizant division/office and funding programs/divisions. In some cases, grantees may not be required to submit an audit due to the higher expenditure threshold, and thus may require additional monitoring procedures to be performed. Each program should coordinate with the cognizant division/office to determine the annual population of recipients that will need an audit and those who are exempt. DRM IA will use its risk assessment tool to prioritize programs for audit and present its schedule to the DCA Director of Auditing, then use its determination of the strength of internal controls to determine the audit strategy, or depth and breadth of the audit.

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DRM IA will convey the audit strategy to the program in question, as well as the DCA Director of Auditing. Upon completion of the audit, DRM IA will submit the audit report to the DCA Director of Auditing. Audit reports received by program representatives should be communicated to the appropriate cognizant division to verify that they have also received a copy of the report. This can be done through e-mail, by telephone or through a memorandum.

The timely receipt of audit reports is necessary to ensure that future funding is not delayed or withheld from grantees, that current financial, compliance and internal control issues are addressed in a timely manner, and that the department is compliant with the annual “State Single Audit” requirements regarding the federally funded programs we administer.

IMPORTANT NOTE: Audit reports represent only one aspect of the overall monitoring process. They contain historical information that is provided, in many cases, after an award period has expired. Funding sources should not rely on an audit report to fulfill the monitoring responsibilities that should be conducted by funding divisions/programs “during-the-award” period. All monitoring activities should be designed to ensure that financial assistance provided to recipients is being used for its intended purpose or legislative intent, that prescribed outcomes are achieved, and that all terms and conditions outlined in the grant agreement have been met and complied with.

Because of DRM’s rigorous, continual approach to monitoring, the DRM IA will utilize the DRM Monitoring team’s results to ensure that any programs’ findings or potential concerns have been addressed, in addition to ensuring the implementation of corrective actions from other external audit findings.

RECIPIENT AUDITING: AUDIT REPORT AVAILABILITY

All audit reports received by the assigned DCA cognizant agency are placed on file and are available for review. The Office of Auditing is the custodian of all non-profit entity audit reports, and the Division of Local Government Services is the custodian for all county, municipality, fire district, local authority and commission audit reports.
