

STATE OF NEW JERSEY • DEPARTMENT OF COMMUNITY AFFAIRS

---

---

**SUBJECT:** Grant Recipients Audit Report

---

**NUMBER:** 1.10.13

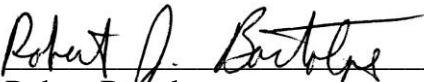
**EFFECTIVE:** June 2001

**REVISED:** June 2016

---

**ADMINISTRATIVE SUPPORT**

APPROVAL:

  
Robert Bartolone  
Director, Office of Auditing

---

**POLICY:**

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 CFR 200. The Super Circular guidance supercedes 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 Circular Letter 15-08-OMB, "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid"* to bring the State's policy 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 to \$750,000 for recipients. The audit requirements under 15-08-OMB are effective for any fiscal year period beginning after December 26, 2014. 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 grants policies and resources on areas that emphasize improving performance and outcomes.
- Strengthen oversight over federal funds to reduce risks 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
-

**SUBJECT:** Grant Recipients Audit Report

---

**NUMBER:** 1.10.13

**EFFECTIVE:** June 2001

**REVISED:** June 2016

---

**ADMINISTRATIVE SUPPORT**

**PAGE 2**

---

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 are focused in the following areas:

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

**Cost Principles**

4. Circular A-21, Cost Principles for Educational Institutions
5. Circular A-87, Cost Principles for State, Local and Indian Tribal Governments
6. Circular A-122, Cost Principles for Non-Profit Organizations

Super Circular amendments to Cost Principles are focused in 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**

7. Circular A-133, Audits of States, Local Governments and Non-Profit Organizations
  8. Circular A-50, Audit Follow-up
-

STATE OF NEW JERSEY • DEPARTMENT OF COMMUNITY AFFAIRS

---

---

**SUBJECT:** Grant Recipients Audit Report

---

**NUMBER:** 1.10.13

**EFFECTIVE:** June 2001

**REVISED:** June 2016

---

**ADMINISTRATIVE SUPPORT**

**PAGE 3**

---

Super Circular amendments to Audit Requirements are focused in 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

**PURPOSE:**

The purpose of this administrative procedure is to detail the State policy requirements and department procedures regarding audits of grant recipients.

**DEFINITIONS:** (Refer to State Circular Letter 15-08 OMB for complete listing of definitions.)

**Recipient:** A recipient is defined as any local government, school board, non-profit organization or for-profit organization that receives from a State agency any federal grant, State grant or State aid funds to carry out or administer a program.

**Note:** If any organization receives a federal grant, State grant or State aid funds to provide the State with goods or services (procurement) and does not carry out or administer a program, they are considered vendors. Vendors are not mandated by the State or Federal circular letter requirements listed above and outlined below.

**AUDIT REQUIREMENTS:**

A recipient's audit requirement is determined by the amount of federal and state financial assistance **expended during their 12-month fiscal year**. The new revised audit thresholds established are as follows:

1. **Federal Grant Awards Expended > \$750,000 -----> Single Audit Required**  
**OR**  
**State Grants and/or Aid Expended > \$750,000-----> Single Audit Required**
  2. **Expend < \$750,000 in Federal OR State assistance during their fiscal year, but expend \$100,000 or more in Federal AND/OR State financial assistance during their fiscal year -----> financial GAO "Yellow Book" Financial Statement Audit Required**
-

STATE OF NEW JERSEY • DEPARTMENT OF COMMUNITY AFFAIRS

---

---

**SUBJECT:** Grant Recipients Audit Report

---

**NUMBER:** 1.10.13

**EFFECTIVE:** June 2001

**REVISED:** June 2016

---

**ADMINISTRATIVE SUPPORT**

**PAGE 4**

---

**Note:** Program-specific audits in accordance with the Super Circular can be elected when a recipient expends federal or state awards under only **one** federal or State program and the federal or State program’s laws, regulations, or grant agreements do not require a financial statement audit of the grantee. **This applies to both #1 & #2 listed above.**

**3. Expend < \$100,000 in Federal and State Awards combined during the fiscal year. ---  
----> No Audit Required to be Submitted to the Cognizant Agency. (DCA)**

**Note:** An increased emphasis must be placed upon the monitoring of these grantees by funding divisions and program representatives as an audit report will not be received from organizations that fall below this expenditure threshold.

**LIMITED SCOPE AUDITS:**

Funding divisions may also elect to have a “Limited Scope” audit performed on grantees whose expenditures fall below the thresholds that require an audit to be conducted. Limited scope audits only include “agreed-upon procedures engagements” conducted in accordance with either the AICPA’s generally accepted auditing standards or attestation standards. These audits are paid for and arranged by the funding division/department and address only one or more of the following five types of compliance requirements: 1.) activities allowed or unallowed; 2.) allowable costs/cost principles; 3.) eligibility; 4.) matching, level of effort, earmarking; and 5.) reporting. **(Note: Funding divisions (pass-through entities) are not prohibited from charging federal awards for the costs of these limited scope audits to monitor their grant recipients. However, the federal government will not pay for a “single audit” for any recipient that expends less than \$750,000 of federal funds.)**

**REPORTING PERIODS & SUBMISSION REQUIREMENTS:**

Although the Super Circular allows certain biennial audits, State of NJ 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 FYE.**

**Municipalities or Counties ----- 6 months after their FYE.**

**Local Authorities/Commissions & Fire Districts ----- 4 months after their FYE.**

All reports must be performed by a licensed Certified Public Accountant, Registered Municipal Accountant or a Public Accountant licensed prior to December 31, 1970.

---

**SUBJECT:** Grant Recipients Audit Report

---

**NUMBER:** 1.10.13

**EFFECTIVE:** June 2001

**REVISED:** June 2016

---

**ADMINISTRATIVE SUPPORT**


**PAGE 5**

---

**MONITORING:**

Funding divisions 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. 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.**

**DCA COGNIZANCE ASSIGNMENTS**

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. Cognizance assignments are made by the NJ Department of the Treasury’s Office of Management and Budget. Each cognizant division/office is responsible for ensuring the timely receipt of quality audit reports from grant recipients that they are assigned cognizance for. They 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.

**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 division and the division(s) who funded the grantee.

The cognizant division will request the corrective action plan from the grantee and notify all funding divisions of the request for such. When received, the plan is reviewed by the cognizant division and is then forwarded to the funding division for their review and approval.

---

**SUBJECT:** Grant Recipients Audit Report

---

**NUMBER:** 1.10.13

**EFFECTIVE:** June 2001

**REVISED:** June 2016

---

**ADMINISTRATIVE SUPPORT**

**PAGE 6**

---

Once approved by the funding division, the audit is then accepted and funding divisions are advised to monitor the implementation of the corrective action plan.

**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 overhead 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 by the funding division that states they are not in compliance with the mandated audit requirements and that funding may be affected if the audit requirement is not complied with. Continued non-compliance would then be addressed using the sanctions listed.

**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. 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 email, by telephone or through a memorandum.

The timely receipt of audit reports is necessary to insure that future funding is not delayed or withheld from grantees, that current financial, compliance and internal control issues are

---

STATE OF NEW JERSEY • DEPARTMENT OF COMMUNITY AFFAIRS

---

---

**SUBJECT:** Grant Recipients Audit Report

---

**NUMBER:** 1.10.13

**EFFECTIVE:** June 2001

**REVISED:** June 2016

---

**ADMINISTRATIVE SUPPORT**

**PAGE 7**

---

addressed in a timely manner, and that the department is in compliance 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.**

**AUDIT REPORT AVAILABILITY:**

All audit reports received by the assigned DCA cognizant division/office 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.

---

---