

## Section 3

### Audit Resolution

#### Overview

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**Introduction** This chapter of the Administrative Handbook includes information about the San Bernardino County Local Workforce Development Area policy and procedures related to audit resolution.

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# General Audit Information

<b>Introduction</b>	<p>This section provides guidance regarding the policy and procedures established by the San Bernardino County Local Workforce Development Area (LWDA) for the resolution of audit findings and disallowed costs. All subrecipients/subcontractors expending Workforce Innovation and Opportunity Act (WIOA) funds must comply with federal and state audit resolution requirements.</p>
<b>Background</b>	<p>Entities receiving WIOA funds must meet the audit requirements of Title 2 Code of Federal Regulations (CFR) part 200, Subpart F. Title 20 CFR Section 683.210(a) requires that commercial organizations that expend more than \$750,000 of federal funds have either a single organization-wide audit conducted or a program-specific financial and compliance audit.</p> <p>Title 2 CFR Sections 200 and 2900 require each entity receiving funds under the WIOA to comply with Title 31 United States Code (USC) Chapter 75. Title 31 USC Section 7502 further requires the Workforce Development Department (WDD), as a pass-through entity to:</p> <ul style="list-style-type: none"><li>• Monitor a subrecipient/subcontractor's federal awards through site visits, limited scope audits, and/or other means.</li><li>• Review audits of subrecipients/subcontractors to determine if prompt and appropriate corrective action has been taken with respect to audit findings.</li><li>• Require each of its subrecipients/subcontractors of federal awards to permit, as a condition of receiving federal awards, the independent auditor of WDD to have such access to the subrecipient/subcontractor's records and financial statements as necessary.</li></ul>
<b>Audit requirements</b>	<p>The LWDA must conduct and ensure each of its subrecipients and subcontractors expending \$750,000 or more of federal funds in one fiscal year conducts an audit in accordance with Section 185 of WIOA, Title 20 CFR Section 683.210, Title 2 CFR Sections 200 and 2900 (as applicable), and Title 31 USC Chapter 75.</p>
<b>County Single Audit Reports</b>	<p>WDD meets the Single Audit requirement under the auspices of the County's annual Single Audit. The Independent Auditor annually selects which county programs will be reviewed.</p> <p>The County submits copies of its Single Audit Reports to the State Controller.</p>
<b>Subrecipient, Contractor, Cooperative agreements</b>	<p>Each contract or cooperative agreement from the LWDA subrecipients and contractors must contain the following requirement:</p> <p><i>As a condition of receiving WIOA funds, the independent auditor or monitor of the LWDA, and the Employment Development Department auditors, investigators, monitors and their representatives, shall at all times during the period that the grant is in force and for a period of four years thereafter, have access to all related records and financial statements and individuals with knowledge of the records and financial statements as may be necessary to ensure compliance with the WIOA statute, regulation, and directives.</i></p>

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## General Audit Information, Continued

### Definitions

List of terms/definitions most commonly used in an audit.

Term	Definition
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 (UG) Subpart F section 200.6.
Auditor	A person who is a public accountant or a federal, state, local government, or audit organization meeting the general standards specified for external auditors in generally accepted government auditing standards (GAGAS). UG section 200.7.
Awarding agency	Means (1) a grant (DOL) and (2) a subgrant or contract, with the entity that awarded the subgrant or contract
Costs recommended for disallowance	Costs identified by auditors that are supported by accounting records but are in violation of law, regulation, or contract, or are determined unreasonable by the auditor.
Final Determination	Is the LWDA's final decision to disallow the cost and the status of non-monetary (administrative) 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 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 findings.
Non-monetary Finding (administrative)	An audit conclusion concerning deficiencies in a subrecipient or subcontractor's management or financial controls, procedures or systems.
Questioned Costs	Costs questioned by auditors that are not properly supported by accounting records, are related to a violation of law, regulation, or contract, or appear unreasonable.
Stand-in costs	Costs paid from non-federal sources to substitute federal costs that have been disallowed as a result of an audit.
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.
Subrecipient	A nonfederal entity who expends federal awards received from a pass-through entity to carry out a federal program, but does not include an individual who is a beneficiary of such a program.

### References

The policy/procedures included in this section implement the requirements listed in:

- WIOA Section 185
- Employment Development Department (EDD) Workforce Services Directive (WSD) 22-06, *Audit Resolution* (November 14, 2022).
- EDD WSD 20-03, *Audit Requirements* (October 13, 2020).

# Audit Resolution Policy and Procedures

<b>Introduction</b>	This section provides information on the audit resolution policy and procedures for subrecipients/subcontractors.
<b>Audit resolution policy</b>	The Local Workforce Development Area (LWDA) will ensure audits of its subrecipients/subcontractors, which contain findings non-monetary or questioned costs, are resolved in an appropriate and timely manner.
<b>Audit resolution process</b>	<p>The LWDA's audit resolution consists of a three (3) part process including:</p> <ul style="list-style-type: none"> <li>• Initial Determination,</li> <li>• Preliminary report, and</li> <li>• Final Determination.</li> </ul> <p>The process must be completed within six (6) months after receipt of the subrecipient/subcontractor's audit report and must ensure the subrecipient/subcontractor takes appropriate and timely corrective action.</p>
<b>Audit resolution procedures</b>	WDD takes the following steps as part of the LWDA's audit resolution procedures:

Stage	Description						
1	<p>WDD Auditor will:</p> <ul style="list-style-type: none"> <li>• Review audit reports and/or financial statements for all subrecipients/subcontractors. <ul style="list-style-type: none"> <li>– Single Audit Report required for those expending over \$750,000 in federal funds in a single fiscal year.</li> </ul> </li> <li>• Complete an Audit Control Log to document the receipt and results of the audit review. (Refer to Audit Control Log section for additional information in this chapter).</li> </ul> <table border="1"> <thead> <tr> <th>If there are...</th><th>Then...</th></tr> </thead> <tbody> <tr> <td>No audit findings,</td><td>No further action is required.</td></tr> <tr> <td>Findings,</td><td>A number is assigned through the Corrective Action Tracking System (CATS) to document the disposition of reported questioned costs and/or administrative findings and to track corrective actions needed to resolve each finding.</td></tr> </tbody> </table> <ul style="list-style-type: none"> <li>• Issue a letter of Initial Determination to the auditee, including: <ul style="list-style-type: none"> <li>– A list of all questioned costs and administrative findings.</li> <li>– Whether costs are allowed/disallowed, including support with appropriate citations.</li> <li>– Acceptance or rejection of any corrective action taken, including corrective actions on non-monetary administrative findings.</li> <li>– Possible sanctions occurring if corrective action is not taken.</li> <li>– The opportunity for informal resolution no more than 60 days from the date of the initial determination letter is issued.</li> </ul> </li> </ul> <p><b>Note:</b> Informal resolution discussion may be held by telephone, Zoom, or in person. For an in person meeting, sign-in sheet must be retained as part of the audit file and all methods of the meeting must be documented either by voice recording or written notes.</p>	If there are...	Then...	No audit findings,	No further action is required.	Findings,	A number is assigned through the Corrective Action Tracking System (CATS) to document the disposition of reported questioned costs and/or administrative findings and to track corrective actions needed to resolve each finding.
If there are...	Then...						
No audit findings,	No further action is required.						
Findings,	A number is assigned through the Corrective Action Tracking System (CATS) to document the disposition of reported questioned costs and/or administrative findings and to track corrective actions needed to resolve each finding.						

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# Audit Resolution Policy and Procedures, Continued

## Audit resolution procedures (continued)

Stage	Description
2	<p>Auditee will:</p> <ul style="list-style-type: none"><li>• Provide documentation, during the Preliminary Report period (first 30 days after receipt of the Initial Determination letter), to support allowability of costs and proposed corrective action of findings.</li><li>• Discuss Initial resolution, which may be held by telephone, if necessary, but in-person discussions are preferable.<ul style="list-style-type: none"><li>– Negotiations of repayment can occur at this time.</li></ul></li></ul> <p><b>Note:</b> All resolution discussions must be documented with notes. A sign-in sheet should be used for in-person meetings.</p>
3	<p>WDD Auditor will issue a written Final Determination, including:</p> <ul style="list-style-type: none"><li>• Reference to the CATS items.</li><li>• The status of each finding(s).<ul style="list-style-type: none"><li>– If all items have been resolved and there are no disallowed costs, the final determination letter closes all CATS and completes the audit resolution process.</li></ul></li><li>• Decisions regarding disallowed costs, listing each disallowed costs and noting the reason for each item.</li><li>• Demand and timeline for repayment (CATS items remain open until final payment has been received).</li><li>• Description of the debt collection process and sanctions that may be imposed if payment is not received.</li><li>• Identified areas of disagreement.</li><li>• Notice of subrecipient/subcontractor's right to hearing.</li></ul> <p><b>Note:</b> If after 30 days of receipt of initial determination letter, there has been no response and the CATS items remain open, a second letter of determination is sent. Second letter reiterates the issues and gives another 30 days for response.</p>

### Audit Control Log

The Audit Control Log is used to document the results of an audit review. The log must contain:

- Name of auditee,
- Date of the audit,
- Period covered by the audit,
- Date the audit was received by WDD, and
- Questioned costs and/or administrative findings identified
  - If questioned costs or administrative findings are identified, the log must also include reference to the CATS item number(s).

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## Audit Resolution Policy and Procedures, Continued

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### Audit resolution file – CATS

For consistent oversight purposes, WDD utilizes the Corrective Action Tracking System (CATS) as both an audit resolution file and a monitoring tool for corrective action plans. The CATS numbers must be established for each audit finding.

The subrecipient/subcontractor's file contains the supporting documentation for the CATS; it includes:

- Final audit report,
- Determination made by WDD regarding the final audit report,
- Copy of the initial determination letter to the subrecipient/subcontractor,
- Additional documentation submitted as part of the initial resolution process:
  - Notes related to the formal resolution,
  - Sign-in sheet from any informal resolution meeting, and
  - Documentation submitted by the subrecipient contractor.
- Copy of the final determination letter, and
- Copy of the monitoring report subsequent to the completion of the audit resolution process to substantiate the implementation of appropriate corrective actions.

The audit file must be assembled for reference in the event of future action. Electronic files must be saved in a chronological order and contain all supporting documentation. Physical files must be tabulated with the most current documentation first.

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### Stand-in costs

During the audit resolution process, the subrecipient may propose the use of stand-in costs to substitute for the disallowed costs. Stand-in costs must be actual expenses paid with non-federal 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 more than 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 proposed to replace and must not cause a violation of the administrative or other cost limitations.

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### Record retention

WDD and any subrecipients must retain all records of each WIOA allocation for a period of three (3) years from the date of the 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).

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# Hearing Process

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<b>Introduction</b>	<p>A hearing allows the Local Workforce Development Area (LWDA) and the auditee the right to:</p> <ul style="list-style-type: none"><li>• Present either written or oral testimony.</li><li>• Call and question witnesses in support of his/her position.</li><li>• Present oral and written arguments.</li><li>• Examine records and documents relevant to the issues.</li><li>• Be represented.</li></ul> <p>Hearings must be documented either with a voice recording, written notes, or by court reporter. This section will provide information related to the Hearing process.</p>
<b>Right to request a hearing</b>	<p>A subrecipient/subcontractor has thirty (30) calendar days after the Final Determination is issued to submit a written request for a hearing to the Director of the Workforce Development Board (WDB).</p>
<b>Timeframe</b>	<p>A hearing must be provided within thirty (30) days of the filing date of the written hearing request.</p>
<b>Notice of hearing</b>	<p>At least ten (10) calendar days before the hearing, Workforce Development Department (WDD) provides the auditee with a written notice of the date and site of the hearing. The ten (10) day notice may be shortened with written consent of both parties. The written notice also informs the auditee:</p> <ul style="list-style-type: none"><li>• The subrecipient may withdraw the hearing request, provided the withdrawal request is submitted in writing.</li><li>• In the event a hearing is not held or the decision of the hearing officer is not rendered timely, the subrecipient has 15 calendar 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.</li></ul>
<b>Hearing Officer</b>	<p>The Director will appoint a hearing officer after consultation with County Counsel.</p>
<b>Hearing Decision</b>	<p>The hearing officer must issue a decision within sixty (60) calendar days of the filing date of the written hearing request. The LWDA reserves the right to overturn the hearing officer's decision when it determines that noncompliance with the applicable act still exists.</p>
<b>Filing Appeal to the State Review Panel</b>	<p>An auditee has ten (10) calendar days from the receipt of an adverse decision to file an appeal of the hearing officer's decision with the State Review Panel.</p> <p>For details on the State Review Panel process, refer to <a href="#">WSD 22-06..</a></p>