

SUPPLEMENTAL AUDIT GUIDE

Purpose: This Supplemental Audit Guide is designed to assist the Michigan State Housing Development Authority's (MSHDA) Office of Community Development (OCD) grantees and their respective auditors in completing audits for OCD-funded grants. Audits received by OCD are the primary source used during the review and closeout of completed grant programs.

Audit Requirements

The following submissions are required in order to satisfy the audit requirements for administering OCD grant programs. They include providing a single audit and/or financial statements or an Auditor's Certification form to the Office of Community Development. Please review the details surrounding each of these submissions as outlined below.

- A. Grantees that expend **\$500,000 or more** in a fiscal year in combined federal awards are required to have a single or program-specific audit conducted for that year in accordance with the provisions stated in the federal guidelines of the Office of Management and Budget's (OMB) Circular A-133. The single or program-specific audit should be submitted to MSHDA upon completion.

If, in addition, the grantee has **MSHDA-funded** (i.e., non-federally funded) **grant awards that are \$200,000 or more**¹, OCD requires these grants to be audited and included as part of the grantee's financial statements. Specifically, each MSHDA-funded award that is \$200,000 or more should be included as part of a Supplemental Information Schedule (SIS) that should be incorporated into the financial statements. The SIS should document the grant number, reported revenues, audited expenditures, and any match/leverage funds used. The financial statements are to be submitted to MSHDA upon completion.

- B. Grantees that expend **less than \$500,000** within a fiscal year in federal awards are exempt from federal audit requirements for that year except those audits conducted or arranged by federal agencies (e.g. HUD) to meet specific needs. If the grantee's federal expenditures fall under \$500,000, MSHDA still requires audited financial statements to be submitted for **MSHDA-funded** (i.e., non-federally funded) **grant awards that are \$200,000 or more**. If this is the case, the auditor will need to include a Supplemental Information Schedule (SIS) as part of the financial statements as stated in the second paragraph of section A above.

¹ The funding source of each OCD grant is identified at the top, right corner of the grant agreement.

- C. Grantees that expend less than \$500,000 in federal awards within a fiscal year **and** do not have a MSHDA-funded grant award of \$200,000 or more to review for that fiscal year, only need to supply MSHDA with an Auditor's Certification form (see the attached) in lieu of submitting an audit.

Auditee Responsibilities

The auditee receiving and administering OCD grant awards should:

- A. Identify in its accounts all federal and non-federal awards received and expended and the programs under which they were received. OCD awards typically have the funding source stated on the cover page of the grant agreement.
- B. Maintain internal controls that provide reasonable assurance that the auditee is managing awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.
- C. Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards.
 - 1. List **separately** each OCD grant number to be audited and the corresponding grant award and expended amount as part of the Schedule of Expenditures of Federal Awards for single audits. Each audited OCD grant should be listed separately as well in the Supplemental Information Schedule (SIS) for financial statements (see section A on page 1 for more specifics regarding the SIS). **Neither OCD grant awards nor grant expenditures should be listed as an aggregate amount in the single audit or financial statements.**
 - 2. For grantees who have third-party administrators² conducting their housing programs, the third-party administrator should list the grantee in their financial statements or single audit as the pass-through entity.
 - 3. Provide the auditor with the following Catalog of Federal Domestic Assistance (CFDA) numbers based on the federally-funded OCD program(s) being audited:
 - a. CDBG 14.218 (Entitlement Communities)
 14.228 (CDBG/State Program)
 - b. HOME 14.239
 - 4. Include notes that describe the significant accounting policies used in preparing the schedule.
- D. Ensure that the audits required by this Audit Guide are performed and submitted to MSHDA when due. Audits are due within 30 days of completion or no later than

² Third-party administrators are required to adhere to this Audit Guide and the requirements established under OMB Circular A-133. To that end, audits should be conducted for both the grantee and third-party administrator for the OCD programs reviewed during a given fiscal year.

nine months after the end of the grantee's fiscal year.

- E. Follow-up and take corrective action on audit findings and/or questioned costs. This includes preparing a summary schedule of *prior* audit findings and/or a corrective action plan for *current* year audit findings. Both the summary schedule and the corrective action plan should include the reference numbers the auditor assigns to the audit finding.

Since the summary schedule will include findings/questioned costs from multiple years, the fiscal year in which the finding initially occurred should also be included and an update should be given on the findings/questioned costs reported in previous summary schedules unless the finding has been documented as corrected or no longer valid.

Auditor Selection

- F. In arranging for audit services, auditees should follow applicable federal procurement standards and MSHDA's OCD Policy Bulletin #5, *Requirements for Professional Service Procurement Necessary for Grant Implementation and Administration*.
- G. Factors to be considered in evaluating each proposal for audit services include: the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of external quality control reviews, and price.
- H. An auditor who prepares the indirect cost proposal or cost allocation plan may not also be selected to perform the audit required by OMB Circular A-133 when the indirect costs recovered by the auditee during the prior year exceeded \$1 million.
- I. Auditors should be familiar with the following definitions:
- Federal award - Federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities.
 - Federal financial assistance - Assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance. This does not include amounts received as reimbursement for services rendered to individuals as described in OMB Circular A-133.
 - GAGAS – Generally accepted government auditing standards issued by the Comptroller General of the United States which are applicable to financial audits.
- § Internal control - A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
- Effectiveness and efficiency of operations;
 - Reliability of financial reporting; and
 - Compliance with applicable laws and regulations.

For federal programs, the following more specific objectives should be explored regarding internal controls:

-transactions are properly recorded and accounted for to adequately:

- 1) permit the preparation of reliable financial statements and federal reports;
- 2) maintain accountability over assets; and
- 3) demonstrate compliance with laws, regulations, and other compliance requirements.

-transactions are executed in compliance with:

- 1) laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a federal program; and
- 2) any other laws and regulations that OMB has identified in the compliance supplements.

-funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

§ Major Program - A federal program determined by the auditor to be a major program in accordance with OMB Circular A-133 or a program identified as a major program by a federal agency or pass-through entity in accordance with the circular.

§ Non-federal entity - A state, local government, or nonprofit organization.

§ Pass-through entity – A non-federal entity that provides a federal award to a subrecipient to carry out a federal program.

§ Program-specific audit - An audit of one federal program as provided for in OMB Circular A-133.

§ Single audit – An audit which includes both the entity’s financial statements and the federal awards as described in OMB Circular A-133.

§ Subrecipient (i.e. a MSHDA grantee or the third party administrator for the grantee) – A non-federal entity that expends federal/MSHDA awards received from a pass-through entity to carry out a federal/MSHDA program, but does not include an individual that is a beneficiary of such a program.

Pass-through Entity Responsibilities (With regards to OCD programs, this would represent MSHDA and/or a grantee who has a third-party administrator managing their OCD-funded housing program.)

A pass-through entity shall perform the following for the federal- and MSHDA-funded awards it makes:

- § Identify awards made by informing each subrecipient (see definition given above) of the CFDA title and number, award name and number, award year, if the specific award is Research & Development (R&D), and the name of the federal agency.
- § Advise subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements, as well as any supplemental requirements imposed by the pass-through entity.
- § Monitor the activities of subrecipients as necessary to ensure that awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- § Ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 for that fiscal year.
- § Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action. The decision should also include the reference numbers the auditor assigned to each audit finding.
- § Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- § Require each subrecipient to permit the pass-through entity and auditors to have access to subrecipient records and financial statements as necessary for the pass-through entity to comply with OMB Circular A-133.
- § Respond to audit confirmation letters. **MSHDA, as of the date of this supplement, will only respond to confirmation letters where the subrecipient, based on their accounting records, has provided the payments received by MSHDA before MSHDA replies with the dollar amounts noted in their records. For those grants that are on OCD's on-line database known as OPAL, it is preferred that subrecipients use OPAL to access MSHDA's accounting records regarding a particular grant award.**
- § Endorse the performance of additional audits as necessary in situations where the mismanagement of grant funds has been verified or is suspected based on reasonable cause.

Auditor Responsibilities

Audit Reporting

The auditor's report shall state that the audit was conducted in accordance with OMB-Circular A-133 and include the following:

- A. An opinion (or disclaimer of opinion) as to whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles and an opinion (or disclaimer of opinion) as to whether the Schedule of Expenditures of Federal Awards is presented fairly, in all material respects, in relation to the financial statements taken as a whole. Each audited OCD grant should be listed **separately** by OCD grant number, the corresponding grant award amount, and the expended amount as part of the Schedule of Expenditures of Federal Awards for single audits. Each audited OCD grant should be listed separately as well in the Supplemental Information Schedule (SIS) for financial statements (see section F below for more specifics regarding the SIS). **Neither OCD grant awards nor grant expenditures should be listed as an aggregate amount in the single audit or financial statements.**
- B. A report on internal control related to the financial statements and major programs. This report should describe the scope of testing of internal control and the results of the tests, and, where applicable, refer to the Schedule of Findings and Questioned Costs.
- C. A report on compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements. This report shall also include an opinion (or disclaimer of opinion) as to whether the auditee complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program, and where applicable, refer to the Schedule of Findings and Questioned Costs.
- D. A Schedule of Findings and Questioned Costs which includes a summary of the auditor's results.
- E. A follow-up from the auditor on prior audit findings; a review of the summary schedule of prior audit findings prepared by the auditee; and a report, as a current year audit finding, when the auditor concludes that the auditee's summary schedule misrepresents the status of any prior audit finding.
- F. For those grantees with **MSHDA-funded** (i.e., non-federally funded) **awards of \$200,000** or more, a Supplemental Information Schedule (SIS) for those specific grants should be included as part of the financial statements. The SIS should document the grant number, reported revenues, the audited expenditures, and any match/leverage funds used.

Audit Working Papers

- G. Auditors should retain working papers and reports for a minimum of three years after the issuance of the auditor's report to the auditee, unless notified in writing to extend the retention period. When the auditor is aware that an audit finding is being contested, he/she should contact the parties contesting the finding for guidance prior to destruction of the working papers and reports.
- H. Audit working papers should be made available upon request to HUD, MSHDA or their designee, or the General Accounting Office (GAO) at the completion of the audit.

Frequency of Audits

- I. Audits are to be conducted annually except where biennial audits are permitted. Biennial audits, where applicable, must cover both fiscal years within the biennial period. Biennial audits can be performed when:
 - a. A local government is required by constitution or statute, in effect on January 1, 1987, to undergo its audits less frequently than annually. This requirement must still be in effect for the biennial period under audit.
 - b. A nonprofit organization had biennial audits for all biennial periods ending between July 1, 1992 and January 1, 1995.

Report Submission

- A. The audit, i.e. the reporting package described below, should be submitted to MSHDA within 30 days of completion or no later than nine months after the end of the grantee's fiscal year.
- B. The reporting package should include the following:
 - X Data Collection Form
 - X Financial Statements
 - X Schedule of Expenditures of Federal Awards
 - X Summary Schedule of Prior Audit Findings
 - X Auditor's Reports
 - X Corrective Action Plan
 - X Auditor's Certification Form (This is only submitted to MSHDA if necessary, not the federal clearinghouse as noted below. See the top of pg. 2 of this Audit Guide to see when the certification form is required.)
- C. Auditors should ensure that each auditee submits a reporting package to the federal clearinghouse designated by the federal Office of Management and Budget at the following address:

Federal Audit Clearinghouse
Bureau of the Census
1201 E. 10th Street

- D. Auditees should keep the reporting package on file for three years from the date of submission to the federal clearinghouse. Pass-through entities shall keep auditee reporting packages on file for a minimum of three years from the date of receipt.
- E. Local units of government are required to post their audits on the Michigan Department of Treasury's website (www.michigan.gov/treasury). This should be done within six months after the end of the local unit's fiscal year. Auditors can assist with the uploading of this submission.

Audit Costs

Unless prohibited by law, the cost of audits made in accordance with the provisions of OMB Circular A-133 are allowable charges to federal awards. Audit costs may not be charged to federal awards when audits required by this circular have not been made, or have been made, but not in accordance with this circular. For MSHDA-funded awards, the audit costs can be taken out of the administration line item of the contracted budget.

Should there be any questions regarding the contents of this Supplemental Audit Guide, contact Charisse Sanders at 517-335-2308.

AUDITOR'S CERTIFICATION
Michigan State Housing Development Authority
Office of Community Development

The auditing firm of _____ conducted an annual/biennial audit
of _____ for the fiscal year ended _____
(name of grantee)
as required by state and/or federal law.

This correspondence is to inform the Michigan State Housing Development Authority's Office of Community Development that:

- a. The \$500,000 minimum threshold for combined federal expenditures was not met in the above-mentioned fiscal year. Hence, an audit in accordance with OMB Circular A-133 is not required; **AND**
- b. The above-mentioned grantee did not have a MSHDA-funded grant award in the amount of \$200,000 or more that was reviewed for the fiscal year stated above. Therefore, audited financial statements are also not required.

Signed: _____ C.P.A.

Date: _____

Please return this form to:

Michigan State Housing Development Authority
Office of Community Development
735 East Michigan Avenue, P.O. Box 30044
Lansing, MI 48909
Fax: 517-241-6672

