

Alaska Department of Labor and Workforce Development

Division of Employment and Training Services



Audit and Audit Resolution Procedures

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Equal Opportunity Employer/Program
Auxiliary aids and services are available upon request to individuals with disabilities

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Overview

This procedure applies to the Division of Employment and Training Services (DETS) staff and recipients of public funds from DETS to meet state and federal single audit requirements.

Single audits are a rigorous, organization-wide audit or examination of an entity that expends \$750,000 or more of Federal assistance or \$750,000 (limits may change) or more of State funds for its operations. Single Audits are performed annually and provide assurance to the federal or State government as to the management and use of such funds by recipients. The audit is typically performed by an independent certified public accountant (CPA) and encompasses both financial and compliance components.

A review and evaluation of single audits is one element of performing a financial due diligence review of an entity to determine the risk to DETS in issuing a subaward. Further, it is the responsibility of DETS to review the audit and determine if funds provided to the entity are accurate and if any findings are noted and follow-up with the organization as necessary to ensure there is a corrective action plan in place or if the reporting of funds received is inaccurate.

Audit Report Distribution

Single audits are required when an organization meets or exceeds the federal or state single audit dollar threshold. Each year the State Single Audit Coordinator (SSAC) compiles a list of single audits sent to the State of Alaska and any delinquent single audits not received. The Alaska Department of Labor and Workforce Development (DOLWD), Administrative Services Division (ASD) distributes a list of entities that have submitted State Single Audits for the previous fiscal year. DETS will be notified of the single audit through the point of contact (POC) determined by the Assistant Director.

If DETS provided a subaward to the organization during the audit period, the POC will contact ASD to request a copy of the audit report.

Audit Report Review

Upon receipt of the report, the POC reviews to identify any risk, Findings of Non-Compliance, Questioned Costs, or inaccurate reporting of award amounts by the organization. If findings are found the POC will review the corrective action plan if stated within the single audit and follow the audit resolution steps as outlined in this document.

Financial Review and Assessment

The POC performs a financial review using the Financial Review Form. The form provides indicators that aid the POC in determining financial risk to the Division.

The POC will compare the audit report financial information with the financial records maintained by DETS and identifies any discrepancies between the two records. If an inaccurate award amount is stated the POC will contact the subrecipient's auditor to advise the auditor of the discrepancy as the auditor may have to make a correction to the audit report.

Results of the review will be used for due diligence purposes for current and future awards. If the financial review indicates that a current or future award may pose as a financial risk to DETS the Program Coordinator II and/or the DETS Assistant Director should be notified and a recommendation made.

If it is determined that the risk warrants imposing a sanction the [Sanction for Non-Compliance Policy 07-513](#) will be followed.

Findings of Non-compliance

When review of the audit report discloses Findings of Non-Compliance or Questioned Costs related to a DETS subaward, the POC will provide a copy of the audit findings to the Program Coordinator II responsible for the grant program indicated in the audit. The Program Coordinator and POC will review the audit finding corrective action plan to determine if the subrecipient's response is sufficient to correct or resolve the audit finding.

If the information is sufficient to resolve the audit finding, the POC drafts a Final Audit Determination and cover letter and provides to the Program Coordinator II or Grants Administrator III or designee for approval. Once approved the POC issues the Final Audit Determination and updates the audit database accordingly.

Audit Report Database

The POC will enter subrecipient audit report information in the audit report section of the DETS grants management system within 30 calendar days of the receipt of the audit report.

Data elements to be entered include:

1. name of organization audited;
2. date the audit report was received;
3. a system generated audit tracking number;
4. the type of organization;
5. the fiscal year audited;
6. type of audit report; the type of auditor's opinion (e.g., unqualified, qualified, etc.);
7. subawards covered by the audit, including funding source, subaward number and amount; and
8. identification of any audit findings, including funding source, nature of the finding and any questioned costs.

If audit resolution procedures are initiated, the POC will enter the dates the audit resolution activities that occurred and include:

1. the date the audit report was received by DETS;
2. the date of the initial audit resolution letter is sent;
3. the date of an initial determination;
4. the date of the final determination; and
5. final resolution of the audit findings; as applicable.

If findings are identified in the single audit the agency responsible for coordinating a management decision for audit findings falls upon the pass-through agency that has provided the most funds to the subrecipient.

DETS must issue a management decision within six months of receipt of the single audit. The subrecipients must initiate and proceed with corrective action as rapidly as possible and corrective action should begin no later than upon receipt of the audit report.

Audit Resolution Letter

Audit Resolution Initiation Letter

The process of audit resolution includes at a minimum an initial determination, a resolution period, and a final determination.

An Audit Resolution Letter also known as a Management Decision Letter should clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected action to repay disallowed costs, make financial adjustments or take other action. If the entity has not completed the corrective action, a timetable for follow-up should be given.

Prior to issuing the management decision, it is within DETS purview to request additional information or documentation from the subrecipient, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs. The letter should describe any appeal process available to the agency. While not required, DETS may also issue a management decision on findings relating to the financial statements which are required to be reported in accordance with GAGAS.

An Audit Resolution Initiation letter is initiated **within 30 calendar days** of DETS's receipt of the audit report to start the resolution process. The Audit Resolution Initiation letter and any subsequent correspondence related to the audit report will be addressed to an authorized official of the organization, such as the chief elected official or chief financial officer. The Audit Resolution Initiation letter will include the following:

1. name of the organization covered in the audit;
2. fiscal year or time period covered by the audit report;

3. identification of the subaward or subawards to which the findings of non-compliance or questioned costs pertain;
4. identification of the findings of non-compliance and/or questioned costs;
5. a statement explaining why the management response or corrective action plan in the audit report is not sufficient to resolve the audit finding;
6. identification of what information or documentation is required to resolve the audit findings;
7. a request that the subrecipient provide a **written response within 30 calendar days** of the date of the audit resolution initiation letter; and
8. a statement that the DETS will issue a determination concerning the audit finding based on the subrecipient's response.

The POC will update the audit database with the date of Audit Resolution Initiation letter.

Receipt of the Subrecipient Response Letter

Once the subrecipient's written response is received, a copy of the Audit Resolution Initiation letter will be provided to the Program Coordinator II.

If the response is determined adequate, the POC will draft a Final Audit Determination letter and update the audit database accordingly.

If the response is deemed not adequate to resolve the finding or questioned costs, the POC will draft an Audit Determination Letter response **within 30 calendar days of the receipt of the response letter**, and include the following:

1. name of the organization covered in the audit report;
2. fiscal year or time period covered by the audit;
3. identification of the subaward or subawards to which the findings of non-compliance or questioned costs pertain;
4. identification of the findings of non-compliance and/or questioned costs;
5. a summary of the response or corrective action plan included in the audit report and the subrecipient's response, if any, to the Audit Resolution Initiation letter;
6. a statement explaining why the response, corrective action plan are not sufficient to resolve the audit finding;
7. identification of what additional information or documentation is required to resolve the audit findings;
8. notice that a written response must be provided within 30 calendar days of the date of the Initial Audit Determination;
9. an offer to informally resolve the audit findings and a description of what that informal resolution may entail;
10. a statement that the DETS will issue a Final Determination concerning the audit finding based on the subrecipient's response; and
11. the signature and date signed by the Assistant Director, or designee.

Within the 30 day response period, both the POC and the Program Coordinator II will assess the subrecipient's response within **10 working days**. When completed, the POC will submit for review to other applicable DETS staff. **Reviewers will provide their comments within 3 working days**. All comments will be considered and a final version of the Final Audit Determination letter completed. This will be provided to the Assistant Director for approval and signature. The POC will then issue the Audit Determination letter and update the audit database.

Informal Audit Resolution

In response to the Audit Resolution Initiation letter or an Initial Audit Determination, the subrecipient can request to informally resolve the audit findings or questioned costs. The request to informally resolve the audit findings must be made in writing and received by the POC **no later than 30 calendar days** from the date of the letter.

The subrecipient may request to informally resolve the audit findings by:

- providing new information, documentation or evidence in support of the subrecipient's position on the audit findings;
- negotiation of a formal corrective action plan; or,
- repayment of any questioned costs initially determined to be not allowed and for which the subrecipient agrees with the determination and/or negotiation of a repayment plan.

The POC is responsible for assessing any additional documentation or other information provided during the Informal Audit Resolution as well as negotiating a corrective action plan or debt repayment plan. The POC may consult with the DETS staff when making this assessment.

Corrective Action Plan (CAP)

The single audit may include a Corrective Action Plan. The POC and the subrecipient are responsible for negotiating the terms of an acceptable CAP as a part of the informal audit resolution. A CAP should include:

1. identification of the audit report for which the plan was prepared;
2. identification of the Findings of Non-Compliance and/or Questioned Costs that are unresolved;
3. a statement explaining the reasons the findings or questioned costs are unresolved;
4. the specific actions the subrecipient will take that will resolve the findings or that will ensure that the conditions that led to the findings will not recur;
5. the individual or individuals in the subrecipient's organization who will be responsible for implementing and/or overseeing the corrective actions;
6. the timeframe for the implementation of the corrective actions;

7. the documentation or reporting that the subrecipient must submit to demonstrate the corrective actions are occurring and the deadlines by which the documentation or reports are to be submitted; and,
8. the signature and date of an official of the subrecipient with the authority to ensure the corrective action is taken and the signature and date of the Program Coordinator II or Grants Administrator III or designee.

The POC may consult with the Program Coordinator II and/or Grants Administrator III or designee when negotiating and completing the CAP to ensure the CAP will meet the requirements of the funding program.

If the CAP does not reside within the single audit, a CAP must be prepared and approved **within 60 calendar days** of the date of the Initial Audit Determination.

The timeframe for the completion of the corrective action may extend beyond the date required for the issuance of a Final Audit Determination, provided the subrecipient makes adequate progress on completing the corrective actions as evidenced by the periodic reports identified in the CAP. In such instances, the DETS may issue a Final Audit Determination that determines the findings resolved contingent upon successful completion of the CAP. Failure of the subrecipient to complete the corrective actions may result in the Final Audit Determination being revised or revoked.

Final Audit Determination Letter

A Final Audit Determination may be issued by the POC based upon the corrective action plan contained in the audit report or the subrecipient's response to the Audit Resolution Initiation letter if the Program Coordinator II and/or Grants Administrator III or designee determine the plan adequately addresses the issues raised in the audit report. In such instances the Final Audit Determination Letter should be drafted by the POC.

The Final Audit Determination will include:

1. name of the organization covered in the audit report;
2. fiscal year or time period covered by the audit;
3. identification of the subaward or subawards to which the findings of non-compliance or questioned costs pertain;
4. identification of the findings of non-compliance and/or questioned costs;
5. a statement summarizing the corrective action plan included in the audit report and the subrecipient's response, if any, to the Audit Resolution Initiation letter and Initial Audit Determination;
6. a statement explaining why the subrecipient's response is or is not sufficient to resolve the audit finding or questioned costs;
7. a statement regarding the terms and conditions of a CAP, if one has been negotiated;

8. statements regarding the DETS' Final Determination concerning the audit findings or questioned costs and whether the matters are resolved or unresolved and for questioned costs whether they are allowed or not allowed;
9. a statement regarding any additional actions the subrecipient must take, such as repaying disallowed costs and the timeframe within which the payment must be made;
10. identification of any sanctions that might be imposed upon the subrecipient for any unresolved audit findings or disallowed costs;
11. the procedures by which the subrecipient can appeal the Final Determination; and
12. the signature of and date signed by the Assistant Director or designee.

When completed, the POC will submit for review by other applicable DETS staff who are provided 3 working days for review and comment. All comments will be considered and a final version of the Initial Audit Determination letter completed. This will be provided to the Assistant Director for approval and signature. The POC will then issue the Final Audit Determination and update the audit database.

The Final Audit Determination regarding the findings and questioned costs will be issued within 12 months from the date of acceptance of the Audit Report.

Sanctions

DETS may impose one or more of the following sanctions as a result of issuing a Final Determination or for other reasons as described in this document.

Repayment of disallowed costs must be made **within 30 calendar days** of the receipt of the Final Determination and must be in cash and be paid from sources other than state or federal subawards. Alternative repayment plans or debt collection methods may be negotiated if requested by the subrecipient **within 15 calendar days** of receipt of the Final Determination. The Program Coordinator II and/or Grants Administrator III or designee is responsible for negotiating any alternative repayment plans or debt collection methods, and will obtain approval for such plans from the Assistant Director prior to finalizing the plan with the subrecipient.

Suspension of subaward activities may be imposed for Findings of Non-Compliance that do not involve disallowed costs or other reasons identified in this document. Suspension will be made in accordance with the provisions outlined in DETS Sanction and Non-Compliance Policy.

Reduction in the subaward amount may be imposed if non-compliance pertains to one specific activity or phase of a project and performance on the remainder of the subaward is determined acceptable. The Program Coordinator II and/or Grants Administrator III or

designee is responsible for negotiating any reductions to the subaward amount and will obtain approval for reduction from the Assistant Director.

Termination of the current subaward may be imposed if the unresolved Findings of Non-Compliance are material or if there has been blatant disregard for subaward requirements. Termination may also be imposed if the subrecipient fails to repay disallowed costs within the required time and will be made in accordance with the provisions of Subrecipient Handbook.

Debarment is imposed in the most serious of situations, such as when there is fraud, abuse or gross mismanagement. This prohibits the subrecipient from receiving any subawards from the Division while debarred.

Appeal of Final Determinations

The subrecipient may appeal a Final Determination to the DETS Director and the appeal must:

1. be provided in writing;
2. received within 15 days of the recipient's receipt of the Final Determination;
3. specify the factual basis by which the appeal is being made;
4. include appropriate documentation that was not previously provided to support the claim; and
5. specify the form of relief requested.

The DETS Director will provide the decision in writing within 15 working days of the receipt of the appeal or will provide a written notification to the appellant of an extension of the amount of time within which the decision will be provided.

The decision of the Director is final and no further appeal will be granted by the DOLWD.

Definitions

- a. **Audit** for the purpose of this document is an examination of the records or financial accounts and statements of an organization typically completed by a Certified Public Accountant in which the auditor expresses an opinion about the conformity of the financial statements to generally accepted accounting principles.
- b. **Final Determination** is the formal, written decision of DETS concerning the resolution of a finding of non-compliance or the allowableness of questioned costs.
- c. **Finding of Non-compliance** is a matter identified by or brought to the attention of DETS concerning an activity of a DETS subrecipient that may be a violation of the statutes, regulations, policies or other requirements governing the use of the subaward funds.

- d. **Initial Determination** is a preliminary, written decision by DETS concerning the resolution of a finding of non-compliance or the allowableness of questioned costs.
- e. **Questioned Costs** are costs that have been identified as possibly being in violation of one or more federal or state laws, regulations, policies or other requirements.
- f. **Single Audit** is an audit that also includes examination of the organization's administration of state or federal subawards and the organization's compliance with the requirements governing those subawards.
- g. **Subaward** is all of the documents included in the contractual agreement between DETS and a financial assistance recipient under one of the Division's job training programs and includes Reimbursable Services Agreements (RSA) with other state agencies where funds are provided for services to the public.
- h. **Subrecipient** is the recipient specified in a subaward or RSA.