

STATE OF NEW JERSEY
DEPARTMENT OF HUMAN SERVICES

- SUBJECT:** Audit Requirements
- EFFECTIVE:** This policy circular shall become effective immediately for Provider Agencies with fiscal years ending May 31, 2001 and thereafter.
- PROMULGATED:** June 1, 2001
- SUPERSEDED:** Policy Circular P7.06 promulgated April 1, 1991; Information Memoranda P97-3 promulgated August 1, 1997, and P00-2 promulgated January 1, 2000.

The purpose of this circular is to advise Provider Agencies of the Department of Human Services' (the Department) audit requirements as mandated by the federal Single Audit Act of 1984 (P.L. 98-502) and the Single Audit Act Amendments of 1996 (P.L. 104-156), federal OMB Circular A-133 and the New Jersey Department of the Treasury, OMB Circular Letter 98-07.

I. SCOPE

This policy circular applies to Provider Agencies receiving State and federal financial assistance (Awards) from the Department (including direct State and federal pass-through funding). This circular also applies to those entities performing subcontracted services for Department Provider Agencies. It does not apply to vendors, who contract for goods or services with minimal or no program requirements (see NJ OMB Circular 98-07), or a social services client that is a beneficiary of a program.

II. DEFINITIONS

In addition to the defined terms included in the Glossary of the Manual, the following terms, when capitalized, shall have meanings as stated:

Award(s) includes State grants, State aid, and federal and State financial assistance in the form of grants, loans, loan guarantees, property, capital funding agreements, interest subsidies, insurance, food commodities and other assistance.

Cognizant is a term used to designate audit responsibilities that this policy utilizes in conjunction with the awarding agency that provides the predominant amount of federal and State funding.

Departmental Component means the division, bureau, office or other unit within the Department responsible for the negotiation, administration review, approval, and monitoring of certain social service or training Contracts.

Management Decision means the evaluation by the federal or State awarding agency or the Pass-Through Entity of the audit findings and corrective action plan and the issuance of a written decision as to what corrective action is necessary.

Pass-Through Entity means a non-federal entity, which includes a State, local government, non-profit organization and for-profit organization that transmits a federal or State Award to a Provider Agency or a subcontractor to carry out a federal or State program.

III. POLICY

- A. All Provider Agencies which expend either \$300,000 or more in federal awards or \$300,000 or more in State awards, within their fiscal year, in which the Department is the largest funding source (Cognizant), must have an annual single audit performed in accordance with federal OMB Circular A-133 and Department policy. The reporting requirements are outlined in Attachment A, Sections F and G. These Provider Agencies must also complete a Notification of Licensed Public Accountant (NLPA) form (Attachment B).
- B. All Provider Agencies which expend \$100,000 or more in combined federal and State awards but less than either \$300,000 in federal awards or \$300,000 in State awards, within their fiscal year, in which the Department is Cognizant, must have an annual organization-wide financial statement audit performed in accordance with generally accepted auditing standards and Government Auditing Standards (Yellow Book audit).

This audit report shall be in accordance with Attachment A, Section F, which includes a supplemental Schedule of Expenditures of Federal Awards and/or a supplemental Schedule of Expenditures of State Awards. A combined supplemental Schedule of Expenditures of Federal and State

Awards is acceptable. The Independent Auditor's Report shall contain an opinion on each Schedule of Expenditures of

Federal and State Awards that is presented in the audit report.

These Provider Agencies shall also complete Attachment B (NLPA form).

- C. Provider Agencies that either expend less than \$100,000 in combined federal and State Awards or have another NJ State department as the Cognizant department should not complete the NLPA form. Organization-wide audits are not required by the Department under these circumstances. If another Cognizant department requires an organization-wide audit of a Provider Agency, that audit report shall be forwarded to the Department when requested.
- D. Public Provider Agencies (local governments, public institutions of higher education, county welfare agencies, etc.)

The Department of Community Affairs and the Department of Treasury generally assume Cognizant audit responsibilities for public Provider Agencies within the State of New Jersey. If the Department does provide the most funding and accepts cognizance for a public Provider Agency, the appropriate audit report as described in Policy sections III.A. and III.B. of this circular shall be forwarded to both the Cognizant Departmental Component and the DHS Office of Auditing within nine months of the agency's fiscal year end.

- E. Private Provider Agencies (nonprofit, for profit and hospitals) that engage a public accountant shall have their audit conducted:
 - 1. by individual(s) with the following credentials -
 - a. a licensed certified public accountant or persons working for a licensed certified public accounting firm; or
 - b. a public accountant licensed on or before December 31, 1970, or persons working for a public accounting firm licensed on or before December 31, 1970, sufficiently independent as defined by GAO standards, to produce unbiased opinions, conclusions, or judgments;
 - 2. annually on the Provider Agency's fiscal year;
 - 3. on an organization-wide basis to ascertain that the financial statements fairly present the financial

position, results of operations, or changes in net assets, and where appropriate, cash flows; and

4. in accordance with the audit requirements contained in Attachment A of this policy. Single audit reports of for-profit Provider Agencies should not make reference to OMB Circular A-133, but should make reference to Department Policy Circular P7.06, Audit Requirements.
- F. Provider Agencies have a responsibility to determine that subcontracted services performed by entities expending \$100,000 or more in federal/State awards, when the Department is the largest source of those Awards, are audited according to this policy. A copy of this policy circular shall be made an integral part of the agreement with the subcontractor, and the Provider Agency may be required to assume the full requirements of a Pass-Through Entity as detailed in OMB Circular A-133, Section 400(d). (See Attachment C)
- G. Provider Agencies that receive any amount of funding from the Department, including those that expend less than \$100,000 in combined federal and State Awards, within their fiscal year, are subject to audit by the Department or its representatives at their discretion. It does not matter whether the Department is Cognizant. Records must be made available on request, which adequately identify the source and application of funds awarded. As in all audits, accounting records must be supported by source documentation.
- H. The reasonable cost of an audit is an allowable Contract cost when completed in accordance with this policy circular including the audit requirements contained in Attachment A.

IV. PROCEDURES

- A. Private Provider Agencies
1. The Provider Agency must submit one copy of the audit report to the DHS Office of Auditing and two copies to the Cognizant Departmental Component within 120 days after the Provider Agency's fiscal year end.
 2. In conjunction with the audit report submission to the DHS Office of Auditing, the Provider Agency shall submit the Notification of Licensed Public Accountant (NLPA) form, which identifies key information about the Provider Agency. The NLPA form also identifies the

federal/State funding from all sources as well as the licensed public accountant who will audit the subsequent or next audit period.

- a. All information in the NLPA form (Attachment B) shall pertain to the subsequent audit period.
 - b. If the auditor has not yet been selected for the upcoming audit, the Provider Agency shall only complete the top half of the NLPA form and mail the form with the audit report.
 - c. Once an auditor has been selected, an updated NLPA form shall be completed and mailed to the DHS Office of Auditing.
 - d. If an updated form has not been received by the DHS Office of Auditing, it will contact the Provider Agency approximately 90 days prior to the next audit fiscal year end date to obtain any previously omitted information on the original NLPA form.
3. The audit report and NLPA form shall be mailed to the Department of Human Services, Office of Auditing, PO Box 700, Trenton, NJ 08625-0700. Failure to submit these documents can lead to Contract default proceedings.
 4. At least once every three years, the audit report submission to the DHS Office of Auditing shall include the licensed public accountant's external quality control review. If a new auditor has been selected for the upcoming audit, an external quality control review of the new auditor shall be included with the audit report.
 5. In addition to the audit report, the Provider Agency shall submit to the DHS Office of Auditing and the Cognizant Departmental Component, a corrective action plan to address each audit finding in the current year's audit report. The corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. Corrective action shall be initiated within six months of the audit report submission.

6. When expenditures of federal Awards totaling \$300,000 or more are incurred by the Provider Agency during the fiscal year, it shall submit a data collection form as described in federal OMB Circular A-133, Section 320(b) to the Federal Clearinghouse. The reporting package as described in A-133, Section 320(c), must also be forwarded. Both the data collection form and the reporting package should be sent to the Single Audit Clearinghouse, 1201 E. 10th Street, Jefferson, IN 47132 within 9 months of the audit fiscal year end. The Provider Agency shall also forward a copy of the data collection form to the DHS Office of Auditing.
7. In accordance with Section 6.3 of the Department's Contract Reimbursement Manual, the Provider Agency shall submit to the Cognizant Departmental Component (and other appropriate Departmental Components when requested) copies of its worksheets used to reconcile the Department's final report of expenditures to the audited financial statements.
8. Summarization of audit report submission to:
 - a. DHS Office of Auditing
 - (1) Copy of audit report
 - (2) Corrective action plan (for internal control and compliance findings in the current year's report)
 - (3) Data collection form (if federal expenditures are \$300,000 or more)
 - (4) NLPA form (for subsequent year's audit period)
 - (5) External Quality Control Review
 - b. Cognizant Departmental Component
 - (1) Two copies of audit report
 - (2) Corrective action plan (for internal control and compliance findings in the current year's audit report)

- (3) Reconciliation worksheets (crosswalk between the final report of expenditures and the audited financial statements)
9. Provider Agencies should use a competitive request for proposal process in procuring audit services. The Provider Agency shall include this policy circular in its contract with the licensed public accountant. Whenever possible, agencies shall make positive efforts to utilize small businesses, minority-owned firms and women's business enterprises. Provider Agencies should also consider procurement of a new accounting firm every three years.

B. Department of Human Services

1. The Cognizant Departmental Component shall:
 - a. ensure that Provider Agencies meet the requirements of this policy circular;
 - b. perform the duties of a Pass-Through Entity, as detailed in Attachment C, for federal pass-through funds; and
 - c. issue Management Decisions on audit findings within six months after receipt of Provider Agency audit reports, and ensure that the Provider Agency takes appropriate and timely corrective action.
2. The DHS Office of Auditing shall:
 - a. determine that the Provider Agency's independent public accountant is currently licensed in accordance with paragraph III.E.1 of this circular and in compliance with Government Auditing Standards quality review requirements. If the accountant is not properly licensed or does not submit a copy of their quality control review, the DHS Office of Auditing shall inform both the Cognizant Departmental Component and the Provider Agency that an audit conducted by such accountant is not acceptable, and that failure to comply with this circular is grounds for Contract default;
 - b. review each audit report to ensure compliance with the requirements specified in Attachment A, and notify the Cognizant Departmental Component of the results of its review on an exception basis;

- c. notify immediately the Cognizant Departmental Component of any irregularities or illegal acts reported by the licensed public accountant; and
- d. conduct or arrange for quality control reviews of selected agency audits and accompanying workpapers at its discretion. Reviews will include determining whether reported Contract revenues, expenditures and other statistics by individual program and budget category were subjected to adequate testing, where applicable.

Issued by:



Brent Andrews, Asst. Commissioner
Budget, Finance & Administration
Department of Human Services

STATE OF NEW JERSEY
DEPARTMENT OF HUMAN SERVICES

TO: The Provider Agency's Licensed Public Accountant

SUBJECT: DEPARTMENT OF HUMAN SERVICES' REQUIREMENTS FOR COMPLETION OF PROVIDER AGENCY AUDIT

The purpose of this memo is to communicate the Department of Human Services' (the Department) audit requirement for conducting Single Audits and Yellow Book audits of organizations or agencies which contract with the Department to provide social or training services to the Department's clients.

- A. All Provider Agencies which expend either \$300,000 or more in federal Awards or \$300,000 or more in State Awards, within their fiscal year, in which the Department is the largest funding source (Cognizant), must have an annual single audit performed in accordance with federal OMB Circular A-133 and Department policy. The reporting requirements are outlined in Attachment A, Sections F and G. These Provider Agencies must also complete a Notification of Licensed Public Accountant (NLPA) form (Attachment B).
- B. All Provider Agencies which expend \$100,000 or more in combined federal and State Awards but less than either \$300,000 in federal Awards or \$300,000 in State Awards, within their fiscal year, in which the Department is Cognizant, must have an annual organization-wide financial statement audit performed in accordance with generally accepted auditing standards and Government Auditing Standards (Yellow Book audit).

This audit report shall be in accordance with Attachment A, Section F, which includes a supplemental Schedule of Expenditures of Federal Awards and/or a supplemental Schedule of Expenditures of State Awards. A combined supplemental Schedule of Expenditures of Federal and State Awards is acceptable. The Independent Auditor's Report shall contain an opinion on each Schedule of Expenditures of Federal and State Awards that is presented in the audit report.

These Provider Agencies shall also complete Attachment B (NLPA form).

- C. Provider Agencies that either expend less than \$100,000 in combined federal and State Awards or have another New Jersey State department as the Cognizant department should not complete the NLPA form. Organization-wide audits are not required by the Department under these circumstances. If another Cognizant department requires an organization-wide audit of a Provider Agency, that audit report shall be forwarded to the Department of Human Services when requested.
- D. Provider Agencies that receive any amount of funding from the Department, including those that expend less than \$100,000 in combined federal and State Awards, within their fiscal year, are subject to audit by the Department or its representatives at their discretion. It does not matter whether the Department is Cognizant. Records must be made available on request, which adequately identify the source and application of funds awarded. As in all audits, accounting records must be supported by source documentation.
- E. The audit of a Provider Agency must be conducted:
1. by individual(s) with the following credentials -
 - a. a licensed certified public accountant or person working for a licensed certified public accounting firm; or
 - b. a public accountant licensed on or before December 31, 1970, or persons working for a public accounting firm licensed on or before December 31, 1970, sufficiently independent as defined by GAO standards, to produce unbiased opinions, conclusions, or judgments;
 2. annually on the Provider Agency's fiscal year;
 3. on an organization-wide basis to ascertain that the financial statements fairly present the financial position and results of operations, or changes in net assets, and where appropriate, cash flows;
 4. and completed within 120 days of the Provider Agency's fiscal year end; and
 5. in accordance with (as currently amended) -
 - a. Generally accepted auditing standards established by the American Institute of Certified Public Accountants (AICPA).

- b. Government Auditing Standards established by the Comptroller General of the United States and issued by the U.S. General Accounting Office.
 - c. The AICPA audit and accounting guides Audits of States, Local Governments and Nonprofit Organizations and, as applicable, AICPA industry audit guides and Statements of Position.
 - d. Federal Single Audit Act of 1984 (P.L. 98-502) and the Single Audit Act Amendments of 1996 (P.L. 104-156) if expenditures of federal or State Awards are \$300,000 or more.
 - e. Federal OMB Circular A-133, "Audits of States, Local Governments, and Nonprofit Organizations" if expenditures of federal or State Awards are \$300,000 or more.
 - f. Federal OMB Circular A-133 Compliance Supplement.
 - g. Applicable Federal OMB Circulars A-87 "Cost Principles for State and Local Governments" or A-122 "Costs Principles for Nonprofit Organizations."
 - h. New Jersey Department of the Treasury, OMB Circular 98-07 "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid Payments."
 - i. New Jersey Department of the Treasury, OMB "State Grant Compliance Supplement."
 - j. New Jersey Department of Human Services' Contract Policy and Information Manual and Contract Reimbursement Manual.
- F. The Yellow Book audit report must include the following -
- 1. an opinion or disclaimer of opinion on the financial statements taken as a whole.
 - 2. presentation of financial statements in accordance with the following applicable AICPA audit and accounting guides - Audits of States, Local Governments and Nonprofit Organizations, and as applicable, industry audit guides, and Statements of Position.
 - 3. a supplementary schedule and opinion thereon of the Provider Agency's expenditures of State and federal Awards, showing expenditures by program (see the AICPA's audit guides,

Audits of States and Local Governments, and Audits of Not-for-Profit Organizations.

4. a Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
 5. disclosure in the notes to the financial statements if penalty and interest are incurred for late payment or filing of payroll taxes during the year of audit.
 6. presentation of each reportable condition and material compliance finding to include the condition, criteria, cause, effect, recommendation and management's response regarding corrective action.
 7. a copy of the management advisory letter when provided as a routine part of the audit engagement.
 8. a report on irregularities or illegal acts, or indications of such acts when discovered (a separate written report is required).
- G. The Single Audit report must include the following:
1. all the components of Attachment A, Paragraphs F.1 through F.8 as noted above;
 2. a Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133;
 3. a Summary Schedule of Prior Audit Findings in accordance with Section 315(b) of federal OMB Circular A-133;
 4. a Schedule of Findings and Questioned Costs in accordance with Section 505(d) of federal OMB Circular A-133; and
 5. a data collection form if federal expenditures are \$300,000 or more. Both the data collection form (A-133, Section 320(b)) and the reporting package (A-133, Section 320(c)) must be forwarded to the federal clearinghouse within 9 months of the audit fiscal year end.
- H. Additional Requirements
1. If the audit uncovers or suggests any irregularities or illegal acts, knowledge of these acts must be communicated immediately by the independent public accountant to the

Audit Director, DHS Office of Auditing, PO Box 700, Trenton, New Jersey 08625-0700.

2. The audit workpapers and reports must be retained by the independent public accountant for a minimum of seven years from the date of the audit report unless the accountant is notified in writing by the Department for the need to extend the retention period. The audit workpapers and reports shall be made available upon request to the Department or its designee(s).
3. The independent accountant is subject to an external quality control review in accordance with Government Auditing Standards at least once every three years.
4. Individuals who audit federal and State funds and are responsible for planning or directing an audit, or conducting substantial portions of the fieldwork or reporting on the audit, are required to obtain 80 Continuing Professional Education credits every two years, including 24 in government related subjects.

Issued by:

William M. Cutti, Director
Office of Auditing
Department of Human Services

**NJ DEPARTMENT OF HUMAN SERVICES
NOTIFICATION OF LICENSED PUBLIC ACCOUNTANT*
(Supersedes prior P7.06 Attachment B dated 1/00)**

Provider Agency Name: _____

Address: _____

Contact Individual and Title: _____

Telephone No.: _____ Agency Fiscal Year
To be Audited: _____

Federal ID No.: _____ Charities Registration No.: _____

List All State and Federal Financial Assistance During the Fiscal Year Under Audit

<u>Department</u>	<u>Division</u>	<u>Contract No.</u>	<u>Contract Period</u>	<u>Contract Amount</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Use back of form to list additional state and federal assistance.

Licensed Public Accountant (attach photocopy of firm's license to practice)

Firm Name: _____

Address: _____

Telephone No. _____ Firm License No.: _____

E-Mail Address (optional): _____

Currently Licensed to practice in the State(s) of: _____ Expiration Date(s): _____

Anticipated Completion Date of Audit: _____

Contact Individual and Title: _____

Certification:

I certify that we are aware of the requirements in P7.06 and that the audit will comply with this policy.

Signature _____ Title _____

Audit Report Deficiencies – Does your firm have any outstanding audit reports with deficiencies with any provider agency contracting with the Department of Human Services? _____ Yes
_____ No

I certify that the above information is accurate. Any inaccurate information may result in termination of your contract with the provider listed above.

Signature: _____ Title: _____

*This notification (NLPA) is to be sent to the Department of Human Services' Office of Auditing with the completed audit report. Although the NLPA form and the audit report shall be submitted together, all of the information in the NLPA form should relate to the subsequent year of the completed audit report. The anticipated audit completion date should not be more than 120 days after the end of the fiscal year. The Provider Agency and the licensed public accountant should fill out this form to this point in its entirety.

For Use By DHS Office of Auditing

Date Received: _____
Date Verified: _____ By _____
Division: _____

Audit Control No.: _____
Licensed: _____
Approved: _____ **Not approved:** _____

Pass-Through Entity Responsibilities

A Pass-Through Entity shall perform the following for the federal/State Awards it makes:

- (1) Identify federal/State Awards made by informing each subcontractor of CFDA title and number, Award name and number, Award year, if the Award is Research & Development, and name of federal/State agency. When some of this information is not available, the Pass-Through Entity shall provide the best information available to describe the federal/State Award.
- (2) Advise subcontractors 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.
- (3) Monitor the activities of subcontractors as necessary to ensure that federal/State 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.
- (4) Ensure that subcontractors expending \$300,000 or more in either federal/State Awards during the subcontractor's fiscal year have met the audit requirements of this part for that fiscal year.
- (5) Issue a Management Decision on audit findings within six months after receipt of the subcontractor's audit report and ensure that the subcontractor takes appropriate and timely corrective action.
- (6) Consider whether subcontractor audits necessitate adjustment of the Pass-Through Entity's own records.
- (7) Require each subcontractor to permit the Pass-Through Entity and auditors to have access to the records and financial statements as necessary for the Pass-Through Entity to comply with this part.