

**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 beginning on or after December 26, 2014.

PROMULGATED: April 11, 2017

SUPERSEDED: Policy Circular P7.06 promulgated June 1, 2001; Information Memoranda P04-1 promulgated February 9, 2004.

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 Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance Subpart F) and the New Jersey Department of the Treasury, Office of Management and Budget Circular Letter 15-08-OMB (www.nj.gov/infobank/circular/cir1508_omb.pdf).

I. SCOPE

This policy circular applies to Provider Agencies (both public and private) receiving State and federal financial assistance (Awards) from the Department (including direct and pass-through State and federal funding). This circular also applies to subrecipients performing services for Department Provider Agencies. It does not apply to contractors (vendors) that carry out or administer a program (see NJ OMB Circular 15-08-OMB), or a social services consumer 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:

Audit Finding means deficiencies the Auditor is required by the Uniform Guidance to report in the Schedule of Findings and Questioned Costs.

Auditor means an auditor that is a public accountant and that meets the general standards specified in Generally Accepted Government Auditing Standards (GAGAS).

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

Cognizant is a term used to designate audit responsibilities that this policy utilizes in conjunction with the Departmental component that provides the most federal/State funding.

Corrective Action means action taken by the Provider Agency that a) corrects identified deficiencies, b) produces recommended improvements; or demonstrates that audit findings are either invalid or do not warrant Provider Agency action.

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

Major Program means a federal/State program determined by the Auditor to be a major program in accordance with the Uniform Guidance Subpart F.

Management Letter means a written communication from the Auditor to the Provider Agency that provides instances of noncompliance and internal control weaknesses that are not material but warrant the attention of those charged with governance at the Provider Agency.

Management Decision means the evaluation by the cognizant Departmental component of the audit findings and corrective action plan and the issuance of a written decision as to whether or not the audit finding(s) is sustained, the reasons for the decision, and the expected Provider Agency action to repay disallowed costs, make financial adjustments, or take other action.

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.

State Grant Compliance Supplement (www.nj.gov/treasury/omb/publications/grant.index.shtml) is a document developed by the New Jersey Department of the Treasury, Office of Management and Budget that contains compliance requirements to be tested by the Auditor to determine if the Provider Agency has complied with requirements determined by the Department to materially affect the award/program.

III. POLICY

- A. All Provider Agencies that expend \$750,000 or more in federal or State financial assistance within their fiscal year must have annual single audits or program-specific audits performed in accordance with Uniform Guidance Subpart F and State Policy.
- B. All Provider Agencies that expend less than \$750,000 in federal or State financial assistance within their fiscal year, but expend \$100,000 or more in State and/or federal financial assistance within their fiscal year, must have either a financial statement audit performed in accordance with Government Auditing Standards (Yellow Book) or a program-specific audit performed in accordance with Uniform Guidance Subpart F and State policy.
- C. Program-specific audits in accordance with Uniform Guidance Subpart F can be elected with the approval of the cognizant Departmental component when a Provider Agency expends Federal or State awards under only one federal or State program (includes Policy Circular P1.12, Clusters) and the federal or State program's statutes, regulations, or terms and conditions of the contract award do not require a Uniform Guidance Subpart F audit.

- D. Auditors must use the risk based approach described in Uniform Guidance Subpart F, Audit Requirements, Section 200.518 to determine which federal/State programs are major programs. Auditors also must use the criteria outlined in Sections 200.519 and 200.520 when making risk determinations for Federal/State programs.
- E. Provider Agency audit reports must include a supplementary schedule of the Provider Agency's federal/State awards/expenditures. This schedule entitled Schedule of Expenditures of Federal Awards and Expenditures of State Financial Assistance must show for each award:
1. Federal/State Grantor Department
 2. Pass-Through Grantor for Federal/State Awards
 3. Program Title/name
 4. Federal/State CFDA/Grant Award Number or Account Number
 5. Award Period
 6. Fiscal Year Expenditures
- F. The Provider Agency must determine that services performed by subrecipients expending \$100,000 or more in federal and/or State awards are audited according to this policy. A copy of this policy must be made part of the agreement with the subrecipient and the Provider Agency may be required to assume the full requirements of a Pass-Through Entity as detailed in Uniform Guidance Subpart F, Section 200.331.
- G. When executing a contract, Provider Agencies must submit an audit report in accordance with the requirements of Policy Circular P1.01, Documents and Conditions required for Processing, Executing and Documenting a DHS Third Party Contract.
- H. A Provider Agency that receives 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. Any additional audits must be planned and performed in such a way to build upon the work performed in accordance with this policy.
- I. The reasonable cost of an audit is an allowable contract cost when conducted in accordance with this policy. Failure to comply with this policy is grounds for termination proceedings among other remedies under Policy Circular P9.05, Contract Default.

IV. PROCEDURES

A. Provider Agencies

1. The Provider Agency must submit one copy of the audit report to the Department's Office of Auditing (dhsauditing@dhs.state.nj.us) within **120 days** after the Provider Agency's fiscal year end unless a formal extension request has been approved by the cognizant Departmental component.

2. The Provider Agency must include a corrective action plan to address each audit finding in the current year's audit report if applicable. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. The Provider Agency 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.
3. The audit report submission must also include the Auditor's latest external peer review performed in accordance with Government Auditing Standards. **NOTE: The Department of Human Services reserves the right at its discretion to conduct or arrange for quality control reviews of selected Provider Agency audits and accompanying workpapers.**
4. When expenditures of federal Awards totaling \$750,000 or more are incurred by the Provider Agency during the fiscal year, it must submit a data collection form (Appendix X to Part 200-Form SF-SAC), described in the Uniform Guidance Section 200.512(b), to the Federal Audit Clearinghouse (FAC) (<https://harvester.census.gov/facides>). The reporting package as described in the Uniform Guidance Subpart F, Section 200.512(b) must also be forwarded. Both the data collection form and the reporting package must be sent electronically to the Federal Audit Clearinghouse, within nine months of the audit fiscal year end or within 30 days of the issuance of the audit report, whichever is sooner.
5. In accordance with Section 6.3 of the Department's Contract Reimbursement Manual, the Provider Agency must 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.
6. When advised of deficiencies in the audit by the Office of Auditing, the Provider Agency should, as necessary, work with its Auditor to address the deficiencies.
7. In procuring audit services, the Provider Agency must follow the Procurement Standards in the Uniform Guidance Subpart D – Post Federal Award Requirements of the FAR (48 C.F.R. Part 42), as applicable. The Provider Agency must also include this policy circular in its contract with the auditing firm. Whenever possible, the Provider Agency must make positive efforts to utilize small businesses, minority-owned firms and women's business enterprises. The Department's Office of Contract Policy and Management website contains "[Choosing an External Auditor: A Guide to Making An Sound Decision](#)" to assist agencies in the Auditor procurement process.
8. The Provider Agency must prepare a Schedule of Expenditure of Federal/State Awards for the period covered by the agency's financial statements which must include the total federal/State awards expended as determined in accordance with Section 200.502 of the Uniform Guidance Subpart F. (See also Section III. Policy)
9. Management letters issued by the Auditor to the Provider Agency must be submitted to the Department's Office of Auditing as part of the audit report submission when provided as part of the engagement.
10. If the audit uncovers fraud, irregularities or illegal acts, knowledge of these acts must be communicated immediately to the Audit Director, DHS Office of Auditing, PO Box 700, Trenton, NJ 08625-0700 or (609) 292-9752.

B. Department of Human Services

1. The Cognizant Departmental Component must:
 - a. Monitor each Provider Agency to determine compliance with this policy;
 - b. Follow-up on audit findings to ensure that the Provider Agency takes appropriate and timely corrective action. As part of audit follow-up, the Cognizant Departmental Component must:
 - 1) Issue a management decision as prescribed in Section 200.521, Management Decision of the Uniform Guidance Subpart F;
 - 2) Monitor the Provider Agency taking appropriate and timely corrective action.
 - c. Perform the duties of a pass-through entity for federal pass-through funds under the Uniform Guidance Subpart F, (Section 200.331) and State Policy;
 - d. Work with the Department's Office of Auditing to provide annual updates to the State Grant Compliance Supplement and ensure that the compliance supplement focuses the Auditor to test the compliance requirements most likely to cause improper payments, fraud, waste, abuse or generate audit findings.
2. The Department's Office of Auditing must:
 - a. Provide technical audit advice and assistance to Provider Agencies and their Auditors;
 - b. Obtain or conduct quality control reviews from agency Auditors and provide the results to other interested organizations including the New Jersey Office of Management and Budget;
 - c. Perform desk reviews of audits conducted in accordance with this policy and advise the Auditor, Cognizant Departmental Component and where appropriate, the Provider Agency of any deficiencies found in the audits when the deficiencies require corrective action by the Auditor;
 - d. Coordinate, to the extent practical, audits performed by or for other federal/State agencies that may be required in addition to this policy so that those additional audits build upon rather than duplicate audits performed in accordance with this policy;
 - e. Complete periodic reviews and update the Department's section of the State Grant Compliance Supplement; and
 - f. Request corrective action plans from recipients where applicable and ensure that audit exceptions are resolved.

V. PROCEDURAL HISTORY

Policy Circular P7.06 as first promulgated April 1, 1991, and superseded on June 1, 2001.

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