

Appendix A

Monitoring and Audit Regulations

I. Monitoring

Grantees must constantly monitor performance to ensure that time schedules are being met, projected milestones are being accomplished, and other performance goals are being achieved in accordance with this Grant Agreement. In addition, all Project activities must be conducted in compliance with federal and state requirements. Problems, delays, or adverse conditions affecting the Grantee's ability to meet this Grant Agreement's objectives or time schedules should be reported to the Department. The Grantee may report these matters via the Monthly Report form or may contact the Department, as appropriate, at any other time.

The Department will conduct monitoring visits, as necessary, to provide technical assistance and to ensure that the Grant is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of this Grant Agreement. In addition to providing technical assistance, the Department will, at appropriate times during program activities, review the Grantee's records to ensure that all applicable state and federal requirements are being met. The Department's emphasis will be on preventing and correcting problems before they develop into serious obstacles to program implementation. These reviews include: (1) reviewing financial and performance reports required by the Department; (2) following up and ensuring that the Grantee takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the Grantee from the Department detected through audits, on-site reviews, and other means; and (3) issuing a management decision for audit findings pertaining to this Federal award provided to the Grantee from the Department as required by 2 CFR §200.521.

The Grantee shall permit the Department and auditors to have access to the Grantee's records and financial statements.

II. Audit

CFDA Number 14.228, Community Development Block Grant-Disaster Recovery Program (CDBG-DR), Department of Housing and Urban Development, Office of Community Planning and Development.

These Community Development Block Grant-Disaster Recovery funds are subject to U.S. Office of Management and Budget 2 CFR Part 200 Subpart F – Audit Requirements.

1. Grantees must contract for annual independent audits of their financial operations, including compliance with Federal and State law and regulations. The contracts for independent audit must be done in accordance with 2 CFR Part 200, Subpart F, if the following circumstances occur:
 - a. If Grantee expends \$750,000 or more in a year in total federal funds (CDBG-DR plus any other federal funds), they must submit an annual audit that should be made in accordance with 2 CFR Part 200, Subpart F. This audit should also include a Project Cost Schedule and a Source and Application of Funds Schedule.
2. Grantees that expend less than \$750,000 in a year in total Federal (CDBG-DR plus any other federal funds) awards are exempt from Federal (but not State) audit requirements for that year. However, records must be available for review. In these cases, a copy of the State Audit as well as the Project Cost Schedule and Source and Application of Funds Schedule must be submitted. CDBG-DR funds may be used to purchase these financial schedules.
3. Grantees are required to submit audits according to State laws and regulations.
4. Small business concerns and business concerns owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in the performance of contracts for audit services awarded with CDBG-DR funds. Grantees shall take the following affirmative action to further their goal:
 - a. Assure that audit firms owned and controlled by socially and economically disadvantaged individuals as defined in PL 95-507 are used to the fullest extent practicable.
 - b. Make information on forthcoming opportunities available and arrange timeframes for the audit so as to encourage and facilitate participation by small or economically disadvantaged firms.

- c. Consider in the contract process whether firms competing for larger audits intend to subcontract with small or economically disadvantaged firms.
 - d. Encourage contracting with small or economically disadvantaged audit firms which have traditionally audited government programs, and in such cases where this is not possible, assure that these firms are given consideration for audit subcontracting opportunities.
 - e. Encourage contracting with consortiums of small or economically disadvantaged audit firms when a contract is too large for an individual small or economically disadvantaged firm.
 - f. Use the services and assistance, as appropriate, of the Small Business Administration, the Minority Business Development Agency of the Department of Commerce, and the Community Services Administration in the solicitation and utilization of small or economically disadvantaged audit firms.
 - g. A copy of all audit reports shall be provided by the Grantee to the Department no later than thirty (30) days after issuance of the reports and no later than one (1) year plus thirty (30) days after the end of the audit period.
5. Audits must include an examination of internal control systems established to ensure compliance with laws and regulations affecting the expenditure of CDBG-DR funds, financial transactions, and accounts and financial statements, and reports of Grantee organizations. These examinations are to determine whether:
 - a. There is effective control over and proper accounting for revenues, expenditures, assets and liabilities.
 - b. The financial statements are presented fairly in accordance with generally accepted governmental accounting principles.
 - c. The monthly reports to the Department contain accurate and reliable financial data and are presented in accordance with the terms of this Agreement.
 - d. CDBG-DR funds are being expended in accordance with the terms of this Grant Agreement and those provisions of Federal and State law or the Department regulations that could have a material effect on the financial statements.
 6. In order to accomplish the purposes, set forth above, a representative number of charges to the CDBG-DR Grant shall be tested. The test shall be representative of all cost categories that materially affect the Grant. The test is to determine whether the charges:
 - a. Are necessary and reasonable for the proper administration of the program.
 - b. Conform to any limitations or exclusions of the CDBG-DR Grant itself.
 - c. Were given consistent accounting treatment and applied uniformly to both CDBG-DR assisted and other activities of the Grantee.
 - d. Were net of applicable credits.
 - e. Did not include costs properly chargeable to other programs.
 - f. Were properly recorded (i.e., correct amount and date) and supported by source documentation.
 - g. Were approved in advance if subject to prior approval.
 - h. Were incurred in accordance with competitive purchasing procedures if applicable.
 - i. Were allocated equitably to benefiting activities, including non-CDBG-DR activities.
 7. Audits should be made annually. If an acceptable annual audit is completed within a short period of time prior to closeout of a CDBG-DR program, the Department will request reimbursement documentation of the unaudited funds and then formally close the Grant Agreement.
 8. If the auditor becomes aware of irregularities in the Grantee organization, the auditor shall promptly notify the Department and Grantee management officials above the level of involvement. Irregularities include such matters as conflicts of interest, falsification of records and reports, and misappropriation of funds or other assets.
 9. The annual audited financial statements shall include:
 - a. A statement that the audit was conducted in accordance with 2 CFR Part 200, Subpart F.
 - b. Financial statements, including the schedule of expenditures of Federal awards, including footnotes, of the Grantee organization.
 - c. The auditor's report on the financial statement which should:
 - (i) Identify the statements examined and the period covered.
 - (ii) State that the audit was done in accordance with the Generally Accepted Government Auditing Standards.

- (iii) Express an opinion as to whether the financial statements of the Federal program are presented fairly in all material respects in conformity with the stated accounting policies.
 - (iv) Report on internal controls related to the Federal program, which shall describe the scope of testing of internal control and the results of the test.
 - (v) Report on compliance which includes an opinion as to whether the audit is in compliance with laws, regulations, and the provisions of this Grant Agreement which could have a direct and material effect on the Federal program.
 - (vi) Include a schedule of findings and questioned costs for the Federal Program.
 - (vii) Identify the major programs.
 - (viii) State the dollar threshold used to distinguish between programs.
 - (ix) Determine whether the audit qualifies as a low-risk audit.
10. The auditor's reports on compliance and internal control should:
 - a. Include comments on weaknesses or noncompliance with the systems of internal control, separately identifying material weaknesses.
 - b. Report the scope of testing of internal control and the results of the tests, and where applicable, a separate schedule of findings and questioned cost.
 - c. Include a statement that the audit is in compliance with laws, regulations, and the provisions of this Grant Agreement that could have a direct and material effect on each major program according to the Federal and State law and where applicable, a separate schedule of findings and questioned cost.
 - d. Provide a Summary Schedule of prior audit findings that report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards. The Summary Schedule shall also include audit findings reported in the prior audit's schedule of prior audit findings except audit findings listed as corrected.
 - e. When audit findings were fully corrected, the summary schedule need only list the audit findings and state which corrective action was taken or provide a statement of planned actions taken by Grantee.
 - f. A Source and Application of Funds Schedule and a Project Cost schedule for all CDBG-DR funds. This Grant Agreement number should also be shown. Please note that if the Grantee's total federal expenditures meet or exceed the guidelines of 2 CFR Part 200, Subpart F, (\$750,000), the Federal Schedule of Financial Assistance can be substituted for the Source and Application of Funds Schedule.
 - g. Comments on the accuracy and completeness of financial reports or reimbursement to the Department.
 - h. Comments on corrective action taken or planned by the Grantee.
 11. Work papers and reports must be retained for a minimum of three (3) years from the date of the audit report, unless the auditor is notified in writing by the Department of the need to extend the retention period. The audit work papers must be made available upon request of the Department or its designees and the General Accounting Office or its designees.
 12. When an audit discloses significant findings, the Grantee will be called upon by the Department to take corrective action. Depending upon the nature of the inadequacies, drawdown of funds, final closeout or subsequent subaward Grant of a CDBG-DR program may be delayed or denied until corrective action has been taken.

III. Corrective Actions

The Department may issue management decisions and may consider taking enforcement actions if noncompliance is detected during audits. The Department may require the Grantee to take timely and appropriate action on all deficiencies pertaining to the Federal award provided to the Grantee from the pass-through entity detected through audits, on-site reviews, and other means. In response to audit deficiencies or other findings of noncompliance with this Agreement, Department may impose additional conditions on the use of the CDBG-DR funds to ensure future compliance or provide training and technical assistance as needed to correct noncompliance. The Grantee shall be subject to reviews and audits by the Department, including on-site reviews of the Grantee as may be necessary or appropriate to meet the requirements of 42 U.S.C. 5304(e)(2).