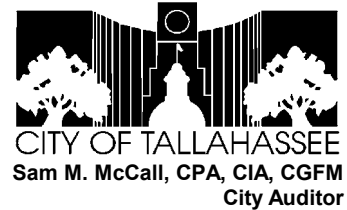


# ***Assistance & Guidance on***



## ***“Audit Language for City Contracts Involving Grant Funding”***

Report # 0009

March 3, 2000

### ***Request for Assistance and Guidance***

We have been requested to provide assistance and guidance on audit language that should be included in contracts when the City provides awards to others. For the year ended September 30, 1999, the City expended \$6,695,362 in federal awards and received \$2,657,376 in State financial assistance. More than \$2.3 million of these funds were awarded to noncity entities through the contracting process. More than \$1 million of City money was awarded to noncity entities.

### ***Summary of Needed Action***

The City needs to establish standard audit language to include in contracts with any noncity entity receiving awards from the City of Tallahassee. Such language will improve the City’s ability to monitor and account for these funds.

### ***Background***

Each year, the City of Tallahassee provides awards to public and private organizations to provide needed services in the community. In this report, the term “award” also means grant funding and grants and aids funding. As part of the contracting process, the City has a responsibility to obtain a reasonable level of assurance that entities awarded funding have established adequate controls over financial and

grant reporting and have complied with the terms and conditions of grant agreements. This assurance can be obtained through a requirement for the grantee to obtain an audit conducted by an independent public accountant. Alternatively, and where more economical and efficient, the City can obtain assurances about grantee financial reporting, internal controls, and compliance through financial and program monitoring by the City contracting offices or by the City Auditor.

It is important for the City to demonstrate to state and federal funding agencies that funds provided to noncity entities are expended in accordance with the terms and conditions of the grant agreement. This demonstration of the City’s internal control structure is tested in annual external audits of the City. In accordance with Government Auditing Standards and federal and state law, the City’s external auditors routinely make inquiry as to how the City obtains assurances that grant funds distributed by the City to others are spent properly. It is possible that the failure of the City or a grantee to spend funds as intended could cause the external auditor to either question or recommend disallowance of grant expenditures. If this were to occur, the City could be liable to state or federal funding agencies for amounts improperly spent.

### ***Funding Sources for Awards***

For the most part, there are three funding sources for City awards to others:

1. The awarding of **City funds** to others where the revenue source is entirely City money.
2. The awarding of **State funds** to others where the City is acting as the “pass through” agency. State funds passed on by the City could come directly from the State or indirectly from some other entity such as the County, another city, or some other nonstate entity.
3. The awarding of **Federal funds** to others where the City is acting as the “pass through” agency. Federal funds passed on by the City could come directly from the Federal government or indirectly from some other entity such as the State, a county, another city, or some other noncity entity.

City Funding. The City has the authority to establish its own audit requirements for City funds awarded to others. However, City audit requirements should not duplicate already established state or federal audit requirements. Also, the cost of an audit to satisfy City needs should not significantly reduce funds intended for program services.

State Funding. Current Florida Statutes require recipients directly receiving State awards (the City) to obtain independent audits to provide assurances about compliance with State award requirements. In addition, the City should require independent audits when the City passes State awards on to subrecipients (noncity entities). A determination of City internal controls and compliance with state law is made by City external auditors when they perform the annual financial and compliance audit and state grants and aids audit of the City.

*The Florida Single Audit Act.* Effective July 1, 2000, Section 216.3491, Florida Statutes, requires any nonstate entity that expends a total amount of state awards equal to, or in excess of, \$300,000 in any fiscal year to obtain a state single audit. Nonstate entities expending less than \$300,000 in State awards in a fiscal year are exempt from State Single Audit Act requirements. This new State law will require recipients (the City) passing on State awards to

also impose state audit requirements on subrecipients (noncity entities).

Federal Funding. Current federal law requires recipients directly receiving federal funds (the City) to obtain independent audits to demonstrate that the City has complied with federal grant requirements. In addition, federal law requires recipients (the City) to require independent audits when the City passes federal funds on to subrecipients (noncity entities). A determination of City compliance with federal law is made by City external auditors when they conduct the annual financial and compliance audit and federal funds audit of the City.

*The Federal Single Audit Act.* Currently, the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156, set forth standards for obtaining consistency and uniformity among federal agencies for audits of states, local governments, and non-profit organizations expending federal awards. U.S. Office of Management and Budget Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” issued under the authority of United States Code and Executive Orders, requires any nonfederal entity expending \$300,000 or more in a year in federal awards to have an audit conducted in accordance with OMB Circular A-133. Nonfederal entities expending less than \$300,000 in federal awards in a fiscal year are exempt from federal single audit requirements. Circular A-133 applies to recipients and subrecipients expending federal grant funding. Therefore, federal law requires recipients (the City) passing on federal grants and aids to also impose federal audit requirements on subrecipients (noncity entities).

### ***Reliance on Other Auditors’ Reports***

To reduce the need for additional City financial and program monitoring, the City should take advantage of any audits performed by independent public accountants pursuant to the

noncity entity's own policies or as required under state or federal audit requirements. It is probable that the systems of internal control that govern the expenditure of state and federal funds are applicable to the expenditure of City awards. Receipt and review of such audits would provide the City with an increased level of assurance about the entity's financial reporting, internal control systems, and compliance. Only when the amount of funding provided by the City to a noncity entity is material to the entity's financial statements should the City impose additional audit requirements. In such instances, the City should specifically list in its contract with the entity the compliance requirements the entity's

external auditor should test. The City should document in its files the review of audit reports received and any subsequent follow up activities undertaken.

### *Recommendation*

The following language is recommended to be included in any contract between the City and a noncity entity receiving awards from the City of Tallahassee:

#### SAMPLE CONTRACT LANGUAGE

If (grantee name) expends less than \$300,000 in a year from City awards, (grantee name) is exempt from City audit requirements for that year. If (grantee name) expends \$300,000 or more in a fiscal year from either City, State, or federal awards, an independent public accountant shall be employed to conduct a financial and compliance audit of its records. In addition to the above, (grantee name) shall provide the (name of City department) Department and the City Auditor, for their review, a copy of any audit received as a result of the organization policy; US Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; or Section 216.3491, Florida Statutes, relating to the expenditure of state awards under the Florida Single Audit Act.<sup>1</sup> Such audits shall include or be accompanied by any applicable audit management letter issued and all applicable responses to the auditor's findings and recommendations. All audits shall be submitted to the City and the City Auditor within 30 days of receipt of each issued report.

The City reserves the right to conduct financial and program monitoring of all awards to (grantee name) and to perform an audit of all records. An audit by the City may encompass an examination of all financial transactions, all accounts and reports, as well as an evaluation of compliance with the terms and conditions of this agreement.

<sup>1</sup> Prior to July 1, 2000, grantees receiving State awards should refer to Section 216.349, Florida Statutes, for guidance relating to State audit requirements.

Copies of this guidance may be obtained by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@mail.ci.tlh.fl.us).

Sam M. McCall, CPA, CIA, CGFM, City Auditor