**CHAPTER 4:**

**AUDIT PROCEDURES FOR**

**OTHER STATE GRANTS, CONTRACTS, AND LOANS**

This chapter of the *Legal Compliance Audit Guide* *(Guide)* identifies compliance testwork relating to State Grant Programs, State Contracts, and State loans received by local governments and nonprofits other than State funds received from the Utah State Office of Education covered in Chapter 3. **This chapter does not apply if the entity under audit received less than $500,000 in total revenue from State sources**. For the remaining State funded programs, this section provides a source of information for auditors to understand and document the State programs’ objectives, procedures, and compliance requirements relevant to the audit, as well as audit objectives and suggested audit procedures for determining compliance with these requirements.

Section A of this Chapter outlines the general suggested audit procedures that assist the auditor in identifying, selecting and testing State grants, contracts or loan issuances. Section B of this Chapter identifies specific suggested audit procedures for B & C Road funds, which is anticipated to be a common major grant. In future years, as more common major grants are identified, guidance will be added to this *Guide*.

**STATE MATCHING FUNDS FOR FEDERAL GRANTS:** In many instances local governments and nonprofit organizations receive state money in the form of matching funds for federal grants. In many cases the state agency providing the funds does not specify a breakdown between the usage of state and federal funds. Auditors are not required to test state matching funds of federal grants for state compliance issues. It is assumed that these funds will be audited for compliance as part of the federal grant when required by and in accordance with the Single Audit Act and OMB Circular A-133.

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| **IN DETERMINING HOW THE GOVERNMENT ENSURES COMPLIANCE, CONSIDER THE FOLLOWING:**   * Accounting system capable of recording appropriations and budgets and comparing them to actual results * Reconciling appropriation or budget totals to totals recorded in the accounting system * Policies and Procedures Manuals * Knowledge and Training of personnel * Legislative and Management Monitoring * Management’s identification of changes in laws and regulations * Management’s communication of changes in laws and regulations to employees |

**A. GENERAL COMPLIANCE REQUIREMENTS**

| **SUGGESTED AUDIT PROCEDURES** | **Performed by and Date** | **Workpaper Index** |
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| 1. Have the client prepare a Schedule of Expenditures of State Grants, Contracts, or Loan Funds for the period that identifies all expenditures funded by State sources of revenue; including new loans issued using State funds. The schedule should list (1) the State agency, (2) the name of the grant, contract or loan funding source, (3) total expended, and (4) the year the grant, contract, or loan funds were subject to audit by this *Guide*. This schedule should be emailed to OSA at [sao@utah.gov](mailto:sao@utah.gov) as part of the audit report submission. Determine that the schedule is fairly presented by agreeing the total to the entity’s accounting records. An example of this schedule can be found in Appendix 4-1 of this chapter. |  |  |
| 1. Determine and document which grants, contracts, or new loan issuances to test.   The OSA requires testing for compliance of at least:   * One State grant program or contract or new loan issuance with expenditures equal to or in excess of $500,000 for the period under audit, ***and*** * One State grant program or contract or new loan issuance with expenditures totaling less than $500,000 but more than $100,000 for the period under audit.   Further, testwork must cover at least 25% of the total State funded expenditures of the entity being audited. Therefore, testwork of additional State programs may be necessary to provide audit coverage of at least 25% of the auditee’s total State funded expenditures.  **All grants/contracts/loan programs selected for testwork are considered ‘major’ for reporting purposes.** |  |  |
| 1. Determine and document which grants, contracts, or new loan issuances are considered “low risk” and consider a three-year rotation for testing of these grants, contracts, or new loans.   The OSA requires that all State grants, contracts, or new loan issuances greater than $500,000 be:   * 1. Tested at least once in a three-year period.   2. Tested each year if they are considered “non-low risk”   NOTE: A grant is considered “low risk” if it has been audited as a major state program in at least one of the three most recent audit periods and, if in the most recent audit it had no reportable audit findings. |  |  |
| 1. Determine the program objectives, program procedures, and compliance requirements for each program being testing by:  * Reviewing the contract and grant agreements and referenced laws and regulations applicable to the program. * Discussing the program with the State awarding agency. |  |  |
| 1. Determine and document which compliance requirements could have a direct and material effect on the program.   NOTE: In assessing materiality, the auditor should consider that materiality is based on qualitative as well as quantitative aspects. Examples of characteristics indicative of compliance requirements that could have a direct and material effect on a major program include:   * + - Noncompliance could likely result in questioned costs.     - The requirement affects a large part of the State program (e.g., a material amount of program dollars).     - Noncompliance could cause the State agency to take action, such as seeking reimbursement of all or a part of the award and suspending the recipient's or subrecipient's participation in the program.   Possible compliance requirements are listed in a., b., and c. below. Add additional steps for any other significant requirements. |  |  |
| * 1. **Services and Costs Allowed or Disallowed --** Review the program requirements and State awarding documents to determine what constitutes allowable or disallowable services and costs. |  |  |
| * 1. **Eligibility –** applies to most State programs which make subawards or provide benefits to individuals or groups of individuals. For programs with eligibility requirements, review the program laws, regulations, and provisions of contract or grant agreements to determine the specific eligibility requirements, including eligibility involving not only individuals but also groups of individuals, geographical areas, or subrecipients, if applicable. Additionally, consider whether continuing, as well as initial, eligibility requirements apply. |  |  |
| * 1. **Financial Reporting** – Determine the financial reports which the entity was required to submit for State programs. The auditor should be aware that reporting may include electronic submissions for which there may be no physical document. |  |  |
| 1. Document the control procedures over each of the significant compliance requirements documented in 5 above. |  |  |
| 1. Determine and document which of the compliance requirements are susceptible to testing by the auditor.   NOTE: The requirements should be evaluated against objective criteria, and the auditor should have a sufficient basis for recognizing noncompliance.  Auditors are not expected to test compliance requirements if the State awarding agency otherwise verifies compliance. This would apply only if the State awarding agency performs a ***detailed review of individual transactions at the local government level***. The auditor must still identify the compliance requirement and document the review procedures of the State awarding agency specifying how those procedures adequately verify compliance. |  |  |
| 1. Determine whether the entity complied with each of the requirements being tested.   NOTE: Example procedures for determining compliance are listed below. Add additional steps for other requirements being tested. |  |  |
| * 1. **Services and Costs Allowed or Disallowed –** Determine whether funds received under State awards were expended only for allowable activities and costs by selecting a sample of transactions and performing procedures to verify that the transaction was for an allowable activity. |  |  |
| * 1. **Eligibility** – Select a sample of individuals, groups, or subreceipients receiving benefits and perform tests to determine whether only eligible individuals or groups of individuals participated in the program, subawards (if any) were made only to eligible subrecipients, and amounts provided to or on behalf of eligible participants were calculated in accordance with program requirements. |  |  |
| * 1. **Reporting** – Select a sample of reports and determine whether the reports included all activity of the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements. |  |  |

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| **CONCLUSION (adequacy of the controls, significant deficiencies/material weaknesses, and management letter comments):** | **Performed by and Date** | **Workpaper Index** |
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**B. B&C ROAD FUNDS**

**INFORMATION CONTACT:** UDOT - Local Government Programs Engineer, A. Matthew Swapp, 801-965-4366 or Kevin Anderson 801-964-4542; Fax 801-965-4551

PROGRAM OBJECTIVES:

To provide funding as a means for assisting counties and incorporated municipalities with the construction and maintenance of county roads and city and town streets throughout the State.

| **Document below the control procedures which address the compliance requirements:** | **Performed by and Date** | **Workpaper Index** |
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| **Legal**  **Ref.** | **Appli-**  **cable**  **to:** | **SUGGESTED AUDIT PROCEDURES** | **Performed by and Date** | **Workpaper Index** |
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|  | C, M | 1. Confirm the amount of B&C road funds received by the entity with the Utah Department of Transportation’s website at: <http://www.udot.utah.gov/main/f?p=100:pg:0:::1:T,V:134,> |  |  |
|  | C, M | 1. Determine whether current year allowable B&C road fund expenditures exceeded available B&C revenue (available revenue = current year revenue + prior year's fund balances). If allowable expenditures do not exceed available revenue, verify that remaining balances are properly recorded as restricted funds in the general ledger. |  |  |
| UCA  72-3-103-104  UCA 72-8-104  UCA 72-2-202  UCA 72-5-110,114  72-2-110  72-2-110  More information about fund uses can also be found in the *Governing of Class B&C Road Fund Guide,* issued by the Utah Department of Transportation. 2011 Edition, Section IV  [Guide Found Here](http://www.udot.utah.gov/main/uconowner.gf?n=200310271140132) | C, M | 1. Select a sample of B&C road fund disbursements and determine whether the costs were allowable.   **Permissible Uses Include, but are not limited to:**  a. All construction and maintenance on eligible Class B& C roads.  b. Sidewalks, curb and gutter (on all eligible roads and state highways), safety features, traffic signals, traffic signs, and bicycle paths (in B&C Roads).  c. Investments for interest purposes (interest to be kept in the fund).  d. Equipment purchases or equipment leases and rentals .  e. Engineering and administration.  f. Future reimbursement of other funds for large construction projects.  g. Rights of way acquisition, fencing, and cattle guards.  h. Matching federal funds.  i. Equipment purchased with B and C funds may be leased from the road department to another department or agency using the rental rate established by the Federal Emergency Management Agency (FEMA) schedule of equipment rates.  j. Construction of road maintenance buildings, storage sheds, and yards. Multiple use facilities may be constructed by mixing funds on a proportional basis.  k. Litigation of RS-2477 issues (see 2009 regulations and HB 278).  (B&C roads are defined in Sections 72-3-103 and 104; maintenance and construction are defined in Section 72-6-109.)  **Non-Permissible Uses Include:**  a. Non-road uses  b. Police Costs  c. To pay for rental on equipment which was previously purchased with B&C road funds  d. Alleys  e. Roads or streets with locked gates or restrictive signing will not be included as eligible roads. (Utah Code, Section 72-7-106) |  |  |
| UCA  72-2-108 | C, M | 1. If B&C funds are used to pay for bonds, select a sample of related bonds and determine that the bond proceeds were used for allowable costs. |  |  |
| UCA  72-6-108,109 | C, M | 1. Review project files to verify that the appropriate documents (plans, specifications, and estimates) were prepared prior to the construction of any improvement project on a Class B or C road having an estimated cost exceeding $167,990 in 2013 + 3% per year increase for labor, equipment, and materials. |  |  |
| UCA  72-6-110 | C, M | 1. Review the entity’s files to determine that all construction work was prepared and performed under the direction of a registered professional engineer, and that the engineer has provided the required certification to the governing officials. |  |  |
| UCA  72-6-108 | C, M | 1. Review selected files to determine that projects in excess of $167,990 in 2013 + 3% per year increase for labor, equipment, and materials were performed under contract let to the lowest responsible bidder. Whenever the estimated cost of the construction exceeded the sum of $167,990 for labor, equipment, and materials, determine that the project was not divided as to permit the construction in several parts, except by contract. |  |  |
| UCA  72-6-109  [FEMA Equipment Rate Schedule Here](http://www.fema.gov/schedule-equipment-rates) | C, M | 1. Review the supporting documents for projects estimated to cost more than $167,990 in 2013 + 3% per year increase for each subsequent year where the work was performed by force account. Determine that proper procedures were followed. Equipment costs are to be determined using the Federal Emergency Management Agency schedule of equipment rates. |  |  |
| UCA  72-6-108  Specific Requirements  UCA  63G-Ga-406 and 1402 | C, M | 1. Review the entity’s project files to verify that the advertising requirements were followed.   NOTE: The advertisement for bids on B&C roads shall be published in a newspaper of general circulation in the county in which such work is to be performed at least once a week for three consecutive weeks, or if there is no such newspaper, then after posting such notice for at least twenty days in at least five public places in the county. Sealed bids shall be received by the governing officials and opened at the time and place designated in the advertisement, and the contract awarded (provided that the governing officials shall have the right to reject any and all bids and provided that the person, firm, or corporation to whom any such contract is awarded) shall be subject to all provisions of the Utah Procurement Code (UCA 63G-6a). |  |  |
| UCA  72-6-108(6) | C, M | 1. Review contractor payments and verify that any withholdings from the payments have been deposited in an interest bearing account and that the interest accrues to the benefit of the contractors. |  |  |
| *Governing of Class B&C Road Fund Guide*  [Guide Found Here](http://www.udot.utah.gov/main/uconowner.gf?n=200310271140132) | C, M | 1. If the local authority is allowing its Class B and C road funds to accumulate until such time as sufficient funds are available for more extensive road projects, verify that the funds have been invested in government offerings or time certificates of deposit for interest earning purposes and that the interest has been credited to the entity’s B&C road fund account. |  |  |
| UCA  17-16-18 | C | 1. Verify that Class B road funds are not being used to reimburse the General Fund for the cost of county officers during the current year or for previous years. |  |  |

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| **CONCLUSION (adequacy of the controls, significant deficiencies/material weaknesses, and management letter comments):** | **Performed by and Date** | **Workpaper Index** |
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