Understanding Grant Audit Requirements for Nonprofits

A Tennessee Arts Commission Job Aid 2021
Does TN Arts Require an Audit of My Nonprofit?

ONLY IF:

Application Requirement
Your nonprofit is applying for a Major Cultural Institutions (MCI) or Partnership Support (PS) operating grant

OR

Single Audit Requirement
Your agency expends $750,000 or more of state and/or federal funds in your fiscal year
MCI or PS Grant Application

• Major Cultural Institutions, Partnership Support grant applications
• Financial audit and management letter from independent CPA
• Audit response form to explain how agency has addressed any findings
• For most recently completed fiscal year
• Submitted at the time of application
• Used to assess fiscal soundness for TN Arts funding decisions
• Cost of audit is an allowable expense for the grant (Professional Fee)
• Details available at tnartscommission.org/grants
Single Audit Required
$750,000 Threshold

- Single Audit required if your nonprofit expends $750,000 or more in federal and/or state funds in your fiscal year
- Financial and compliance audit conducted by a state-approved auditor according to federal audit standards
- Audit report due within 6 months of end of the audit period/your fiscal year
- Used to test proper management of federal funds
- Can also be used for operating grant application to TN Arts Commission
- Single Audit - one audit can meet audit requirement of all state & federal funders
- Cost of audit is an allowable expense for the grant (Professional Fee)
- See your state grant contract section D.19 Audit Report
- For more, see Comptroller’s 2021 Audit Manual Section E. Reporting and Auditing Requirements Nonprofit Organizations
https://comptroller.tn.gov/office-functions/la/resources/manuals.html
D.19. Audit Report. For purposes of this Section, pass-through entity means a non-federal entity that provides a subaward to a subrecipient to carry out part of a federal program.

- The Grantee shall provide audited financial statements to the Tennessee Comptroller of the Treasury ("Comptroller") if during the Grantee’s fiscal year, the Grantee: (1) expends seven hundred fifty thousand dollars ($750,000) or more in direct and indirect federal financial assistance and the State is a pass-through entity; (2) expends seven hundred fifty thousand dollars ($750,000) or more in state funds from the State; or (3) expends seven hundred fifty thousand dollars ($750,000) or more in federal financial assistance and state funds from the State, and the State is a pass-through entity.

- At least ninety (90) days before the end of its fiscal year, the Grantee shall complete Attachment B to notify the State whether or not Grantee is subject to an audit. The Grantee should submit only one, completed document during the Grantee’s fiscal year. Any Grantee that is subject to an audit and so indicates on Attachment B shall complete Attachment C. If the Grantee is subject to an audit, Grantee shall obtain the Comptroller’s approval before engaging a licensed, independent public accountant to perform the audit. The Grantee may contact the Comptroller for assistance identifying auditors.

- The audit contract between the Grantee and the Auditor shall be on a contract form prescribed by the Comptroller. The Grantee shall be responsible for payment of fees for an audit prepared by a licensed, independent public accountant. Payment of the audit fees by the Grantee shall be subject to the provision relating to such fees contained within this Grant Contract. The Grantee shall be responsible for reimbursing the Comptroller for any costs of an audit prepared by the Comptroller.

- All audits shall be performed in accordance with the Comptroller’s requirements, as posted on its web site. When a federal single audit is required, the audit shall be performed in accordance with U.S. Office of Management and Budget’s Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

- A copy of the audit report shall be provided to the Comptroller by the licensed, independent public accountant. Audit reports shall be made available to the public. The Grantee shall also submit a copy of the Notice of Audit Report, Parent Child Form, and audit report to the State via the grant closeout report in the Tennessee Arts Commission online grants management system at https://tnarts.fluxx.io/user_sessions/new.
Most Common Error Related to Single Audit

Not getting a Single Audit when required.

- Required when grantee receives $750,000 or more in state, federal or combination of state and federal funds during the grantee fiscal year
- Material breach of contract if not performed
- Puts grant funding at risk if not performed
Four Requirements of Single Audit Process (i.e. How to Comply With D.19)

1. Give notice to the state that you are subject to an audit
2. Use a TN Comptroller contract template to engage a licensed CPA to perform the audit
3. Audit is conducted according to state and federal standards within six (6) months after the end of the audit period, i.e. your fiscal year
4. Send a copy of the audit report to the Comptroller and Tennessee Arts Commission
1. Notice to State

- If your nonprofit will expend $750,000 or more in federal and/or state funds you are “subject to an audit” for that fiscal year.
- Either way, send completed “Notice of Audit Report” as a pdf file to cpo.auditnotice@tn.gov
- This is an annual requirement
- Due at least ninety (90) days before the end of your fiscal year
- If your arts org is attached to a unit of local government, the city/county finance department probably sends a notice for the whole local government.
**Notice to State**

**Parent Child Information**

- If your nonprofit is subject to an audit, the notice of audit report has a second part entitled “Parent Child Information.”

- “Parent” means an entity whose IRS filing contains the information of at least one other entity.

- “Child” means an entity whose information is contained in another entity’s IRS filing.

- Most TN Arts grantees are neither a parent nor child and will check “no”

<table>
<thead>
<tr>
<th>Field</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is Grantee Legal Entity Name a parent?</td>
<td>Yes [ ] No [ ]</td>
</tr>
<tr>
<td>Is Grantee Legal Entity Name a child?</td>
<td>Yes [ ] No [ ]</td>
</tr>
<tr>
<td>Name of primary contact person:</td>
<td>________________________________</td>
</tr>
<tr>
<td>Address:</td>
<td>________________________________</td>
</tr>
<tr>
<td>Phone number:</td>
<td>________________________________</td>
</tr>
<tr>
<td>Email address:</td>
<td>________________________________</td>
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<tr>
<td>Parent entity’s Edison Vendor ID number, if applicable:</td>
<td>________________________________</td>
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</tbody>
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Note: If the parent entity’s tax identification number is a social security number, this form must be submitted via US mail to:

Central Procurement Office, Grants Program Manager
3rd Floor, WRS Tennessee Tower
312 Rosa L Parks Avenue
Nashville, TN 37243

Send completed documents as a PDF file to cpo.auditnotice@tn.gov. The Grantee should submit only one, completed “Parent Child Information” document to the State during the Grantee’s fiscal year if the Grantee indicates it is subject to an audit on the “Notice of Audit Report” document.

"Parent" means an entity whose IRS filing contains the information of at least one other entity.

"Child" means an entity whose information is contained in another entity’s IRS filing.
When to Start the Audit Contract Process

- As early in the fiscal year as possible when you know your agency will meet the $750,000 in state and/or federal funds and be required to have a Single Audit
- So that your agency can get set up in the TN Comptroller online audit tracking system
- So that an auditor may have time to adequately plan and schedule
- TIP: Talk sooner than later with your audit firm to see if they have done Single Audit work in past and are familiar with the Comptroller’s Single Audit system.
2. Use a TN Comptroller Contract Template to Engage a Licensed CPA to Perform the Audit

• Nonprofits are required to execute a three-way online audit contract (CPA firm, Entity and the Comptroller's Office) through the Comptroller website at https://apps.cot.tn.gov/CARS/

• After a CPA firm and nonprofit e-sign the online contract, the TN State Comptroller's office approves it. To create an online audit contract, the CPA firm and nonprofit should have an account in the CARS system. This must be completed prior to commencing the audit engagement.
Goals of TN Comptroller’s Audit System

• To provide accountability for federal and/or state expenditures by third parties that meet or exceed $750,000 in a single fiscal year.

• To ensure that the work conducted by public accounting firms on behalf of the Comptroller’s Office meets the requirements of Government Auditing Standards, Uniform Guidance, the Contract to Audit Accounts, and the Comptroller’s Audit Manual.

• Efficient documentation and tracking of TN compliance with federal audit requirements.
TN State Comptroller’s Audit Contract And Report System (CARS)

• This is the state’s online system for filing Single Audit contracts and audit reports

• Helpful online User’s Manual for step-by-step instructions to
  • Access CARS online
  • Generate audit contract & route for signatures and state approval
  • Upload audit report when complete
CARS User’s Manual

• Step by Step online Guide to the CARS system

• https://apps.cot.tn.gov/CARS/
eReportHelpGuide.pdf
Sign Up for a CARS Account

• Both your organization and your CPA firm must have a CARS account
Finding an Auditor if You Don’t Have One

- Auditor must be Certified Public Accountant licensed in TN or another state
- Should have adequate training and experience in governmental accounting and be in good standing in the profession.
- The auditor in charge of the field work should have a practical working knowledge of applicable state and federal laws and regulations.
- The auditor should be independent under the requirements of the American Institute of Certified Public Accountants (AICPA) and Government Auditing Standards in relationship to the engagement.
- The audit firm should be currently registered with the State Board of Accountancy (firms with a physical presence in the State of Tennessee) and should have participated in an external quality control review at least once every three years, conducted by an organization not affiliated with the firm. (A copy of the most recent external quality control review report should be provided to you.)
- All audit staff assigned to the audit should have the necessary hours of continuing professional education required by Government Auditing Standards.
- For more, see Comptroller’s Audit Procurement Guide, including sample Request for Proposals https://comptroller.tn.gov/content/dam/cot/la/documents/manuals/FinalCopyof2021AuditManual.pdf
Sample Contract for Auditors

• The full text of the sample contract is available at https://apps.cot.tn.gov/CARS/pdf/SampleContractToAuditAccounts.pdf

• Follow directions in CARS User’s Manual to create the official contract. Enter audit firm, audit period, # audit copies, and audit fee info in CARS to generate the contract.

• Follow directions in CARS User’s manual for contract signatures.
3. Audit Conducted per State & Federal Standards

- Report due within six (6) months of the end of the audit period
- Audit period is your organization's fiscal year in which $750,000 or more was expended
- Auditors must be knowledgeable of the most recent changes in accounting and/or auditing.

**Language from the Standard Auditor Contract**

The auditor shall conduct the audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States and requirements prescribed by the Comptroller of the Treasury, State of Tennessee, as detailed in the Audit Manual.

Additional information and procedures necessary to comply with requirements of governments other than the State of Tennessee are permissible provided they do not conflict with or undermine the requirements previously referenced.

If applicable, the audit is to be conducted in accordance with the provisions of the Single Audit Act and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

The audit is also to be conducted in accordance with any other applicable federal agency requirements. It is agreed that this audit will conform to standards, procedures, and reporting requirements established by the Comptroller of the Treasury.

It is further agreed that any deviation from these standards and procedures will be approved in writing by the Comptroller of the Treasury.
4. Send Copy of Audit to Comptroller & TN Arts

- Your auditor uploads a copy of the audit in the CARS system. Note only CPA firms and certain entities required to submit information have the Upload Financial Information option in their CARS account.
- Email a copy of your audit report to your TN Nonprofit Arts & Culture Recovery Fund program director who will upload the audit in the TN Arts Commission online grants system.
  
  AND

- Use audit results to confirm or improve your nonprofit’s internal controls for future public funding
- May use this audit for next year’s MCI or PS annual grant application
- Audit reports shall be made available to the public
Questions?

**Tennessee Arts Commission**

Your TN Arts Nonprofit Arts & Culture Recovery Fund

**TN CARS Contact Information**

Local Government Audit

Phone: (615) 401-7841

E-mail: lga.web@cot.tn.gov