



# **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](https://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>

# From Your Grant Contract

## D.19 Audit Report

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](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, ie 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](mailto: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.

ATTACHMENT B

## Notice of Audit Report

Check one of the two boxes below and complete the remainder of this document as instructed. Send completed documents as a PDF file to [cpo.auditnotice@tn.gov](mailto:cpo.auditnotice@tn.gov). *The Grantee should submit only one, completed “Notice of Audit Report” document to the State ninety (90) days prior to the Grantee’s fiscal year.*

Program Organization.Legal Name is subject to an audit for fiscal year 2022

Program Organization.Legal Name is not subject to an audit for fiscal year 2022.

Grantee’s Edison Vendor ID Number: Program Organization.edison supplier number

Grantee’s fiscal year end: Program Organization.fiscal year end month Program Organization.fiscal year end date

Any Grantee that is subject to an audit must complete the information below.

Type of funds expended	Estimated amount of funds expended by end of Grantee’s fiscal year
Federal pass-through funds	
a. Funds passed through the State of Tennessee	a.
b. Funds passed through any other entity	b.
Funds received directly from the federal government	
Non-federal funds received directly from the State of Tennessee	

Auditor’s name:

Auditor’s address:

Auditor’s phone number:

Auditor’s email:



# 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”

## ATTACHMENT REFERENCE

### Parent Child Information

Send completed documents as a PDF file to [cpo.auditnotice@tn.gov](mailto: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.

Grantee’s Edison Vendor ID number:

Is **Grantee Legal Entity Name** a parent? Yes  No

If yes, provide the name and Edison Vendor ID number, if applicable, of any child entities.

Is **Grantee Legal Entity Name** a child? Yes  No

If yes, complete the fields below.

Parent entity’s name: \_\_\_\_\_

Parent entity’s tax identification number: \_\_\_\_\_

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  
3<sup>rd</sup> Floor, WRS Tennessee Tower  
312 Rosa L Parks Avenue  
Nashville, TN 37243

Parent entity’s contact information

Name of primary contact person: \_\_\_\_\_

Address: \_\_\_\_\_

Phone number: \_\_\_\_\_

Email address: \_\_\_\_\_

Parent entity’s Edison Vendor ID number, if applicable: \_\_\_\_\_

# 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

**Tennessee Comptroller of the Treasury** | Local Government Audit

TN Comptroller of the Treasury | Local Government Audit

## Contract and Report System (CARS)

[Log In to an Existing Account](#)  
[Sign Up for a New Account](#)

### Helpful Links

- [Sample Contract to Audit Accounts](#)
- [Sample Contract Amendment](#)
- [Electronic Filing Guidelines](#)
- [User's Manual](#)
- [Contacts for Assistance](#)
- [Peer Review Guidance](#)

### Welcome to CARS - Contract and Report System

The Tennessee Comptroller's Automated Reporting System

This site is intended to be used by certified public accountants and entities doing business with our office

What you can do:

**Certified Public Accountants**

- Start and manage audit contracts between entities and your firm.
- Update your address, email, and other firm information.
- Update and submit recent peer review information.
- Upload financial information: financial and single audit reports, management letters, governance letters, etc.

**Entities Doing Business with our Office**

- Start and manage audit contracts between your organization and an independent CPA.
- Update your address, email, and other organization information.
- Upload certain financial information as requested by our office. *(Note: If you have a contract to audit accounts approved by the TN Comptroller, the CPA must file the audit report.)*

You need to be registered to use this system. Please be aware that you will need to have an e-mail account to sign up. Click the "Sign Up" button to create an account.

**\*\*Warning! Please be aware that the system will log you out after 20 minutes of inactivity.\*\***

This web site is best viewed in either Internet Explorer version 6 or later or Mozilla Firefox version 3 or later.

**This site makes extensive use of pop up windows. Please turn off your pop-up blocker to fully use this site.**

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# 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



Local Government  
Audit

TN Comptroller of the Treasury | Local Government Audit

## Request Access to CARS



- Required fields are indicated by a red asterisk (\*).
- An e-mail will be sent to your e-mail address when your request for an account has been approved.
- If you need any assistance with this form, please call Local Government Audit at (615) 401-7841.
- Please note that by creating an account, you are setting up a digital signature that will be used to authorize contracts and reports on behalf of yourself and your organization.
- Please do not use all caps when completing the form.
- Changes made to your account information are NOT automatically updated in our system. They will be reviewed by our office first and you will receive an e-mail when they have been accepted.

Are you a part of...? \*  A CPA Firm  An Organization

*By clicking the button below, you are certifying that this information is accurate and complete to the extent of your knowledge.*

[Submit Request](#) [Cancel](#)

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# 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.

**CONTRACT TO AUDIT ACCOUNTS  
OF**

(Name of Organization)

FROM \_\_\_\_\_ TO \_\_\_\_\_

This agreement made this \_\_\_\_\_ day of \_\_\_\_\_, by and between \_\_\_\_\_ (Auditor)

\_\_\_\_\_ hereinafter referred to as the "auditor"

and \_\_\_\_\_ (Name of Organization) of \_\_\_\_\_ (Full Address of Organization) hereinafter referred to as the "organization",

as follows:

1. In accordance with the requirements of the laws and/or regulations of the State of Tennessee, the auditor shall perform a financial and compliance audit of the organization for the period beginning \_\_\_\_\_ and ending \_\_\_\_\_ with the **exceptions listed below**.
2. The auditor shall conduct the audit in accordance with *Governmental 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 prior to the execution of the contract. The interpretation of this contract shall be governed by the above-mentioned publications and the laws of the State of Tennessee.
3. The auditor shall, as part of the written audit report, submit to the organization's management and those charged with governance:
  - a) a report containing an expression of an unmodified or modified opinion on the financial statements, as prescribed by the *Audit Manual*. This report shall state the audit was performed in accordance with *Governmental Auditing Standards*, except when a disclaimer of opinion is issued. If the organization is a component unit or fund of another entity, it is agreed that: (i) the financial statements may be included in the financial statements of the other entity; (ii) the principal auditor for the other entity may rely upon the contracted auditor's report; and (iii) any additional information required by the principal auditor of the other entity will be provided in a timely manner.
  - b) a report on the internal control and on compliance with applicable laws and regulations and other matters. This report shall be issued regardless of whether the organization received any federal funding. Audit reports of entities which are subject to the provisions of the Single Audit Act and OMB's Uniform Guidance shall include the additional reports required by that guidance. The reports will set forth findings, recommendations for improvement, concurrence or nonconcurrence of appropriate officials with the audit findings, comments on management's responses as appropriate, and comments on the disposition of prior year findings.
4. If a management letter or any other reports or correspondence relating to other matters involving internal controls or noncompliance are issued in connection with this audit, a copy shall be filed with the Comptroller of the Treasury by the auditor. Such management letters, reports, or correspondence shall be consistent with the findings published in the audit report (i.e., they shall disclose no reportable matters or significant deficiencies not also disclosed in the findings found in the published audit report). The report should also include a corrective action plan for findings developed under OMB's Uniform Guidance and for other findings in accordance with Section 9-3-407, Tennessee Code, Annotated and the *Audit Manual*. The corrective action plan is only applicable to findings published in the audit report.
5. The auditor shall file one (1) electronic copy of said report with the Comptroller of the Treasury, State of Tennessee. The auditor shall furnish printed copies and/or an electronic copy of the report to the organization's management and those charged with governance. It is anticipated that the auditor's report shall be filed prior to \_\_\_\_\_ but in no case, shall be filed later than six (6) months following the period to be audited, without explanation to the Comptroller of the Treasury, State of Tennessee and the organization. (Audit documentation for additional procedures for centralized cafeteria systems contracted with audits of interest school funds must be completed and available for review by September 30.) Requirements for additional copies, including those to be filed with the appropriate officials of granting agencies, are listed below:
6. The auditor agrees to retain working papers for no less than five (5) years from the date the report is received by the Comptroller of the Treasury, State of Tennessee. In addition, the auditor agrees that all audit working papers shall, upon request, be made available in the manner requested by the Comptroller for review by the Comptroller of the Treasury or the Comptroller's representative, agent, and legal counsel, while the audit is in progress and/or subsequent to the completion of the report. Furthermore, at the Comptroller's discretion, it is agreed that the working papers will be reviewed at the office of the auditor, the entity, or the Comptroller and that copies of the working papers can be made by the Comptroller's representatives or may be requested to be made by the firm and may be retained by the Comptroller's representatives.

October 2018

# 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
- Detailed information can be found in the appropriate [AICPA industry audit guides](#), [Government Auditing Standards](#), and U.S. Office of Management and Budget's Uniform Administrative Guidance <https://www.grants.gov/learn-grants/grant-policies/omb-uniform-guidance-2014.html>
- 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](mailto:lga.web@cot.tn.gov)