

MANAGEMENT DIRECTIVE

Commonwealth of Pennsylvania
Governor's Office

Subject:

Processing Audits of Federal Pass-Through Funds

Number:

325.9 Amended

Date:

August 20, 2009

By Direction of:


Mary A. Soderberg, Secretary of the Budget

Contact Agency:

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This directive establishes policy, responsibilities, and procedures for processing subrecipient audit reports that contain federal awards passed through the commonwealth. This amendment updates policy, responsibilities, and procedures as a result of the reorganization of the Office of the Budget, Office of Comptroller Operations. Marginal dots are excluded due to major changes.

1. **PURPOSE.** To establish policy, responsibilities, and procedures for processing subrecipient audit reports that contain federal awards passed through the commonwealth.
2. **SCOPE.** This directive:
 - a. Applies to all departments, boards, commissions, and councils (hereinafter referred to as "agencies") under the Governor's jurisdiction that administer federal programs and that provide federal pass-through funds to subrecipients.
 - b. Pertains to all subrecipient reports required to be submitted to the commonwealth in accordance with *U. S. Office of Management and Budget, Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133)*, including audits of individual programs which are funded wholly, or in part, with federal pass-through funds.
 - c. Applies to 100 percent state-funded programs only if such programs are specifically included within the scope of an entity's single audit by the direction of the funding agency, in accordance with the provisions of this directive.
 - d. Does not apply to for-profit entities that receive federal awards since for-profit subrecipients are exempt from the requirements of *OMB Circular A-133*.

3. OBJECTIVE. To ensure that subrecipient report submissions to the commonwealth in accordance with *OMB Circular A-133* are properly reviewed, processed, responded to, and followed-up in accordance with the provisions of *OMB Circular A-133*; and that such report submissions are used as a management tool to strengthen the administration of federal programs and related governmental operations.

4. DEFINITIONS.

- a. Agency Single Audit Contact.** An individual appointed by the agency head to represent the agency relative to single audit matters and to perform liaison responsibilities with the single auditors, the Office of the Budget, and other affected organizations.
- b. Audit Resolution.** The process of addressing and resolving audit findings and related recommendations disclosed during audit performance, including review, evaluation, response, and follow-up procedures. This process also includes making necessary adjustments to the commonwealth's accounting records to reflect disallowed costs or cost settlements.
- c. Crosscutting Finding.** An audit report disclosure that impacts more than one state agency.
- d. Deputy Secretary for Comptroller Operations.** Office of the Budget, Office of Comptroller Operations, Chief Accounting Officer.
- e. Federal Award.** Federal financial assistance and federal cost-reimbursement contracts used to buy goods or services for the use of the federal government. It includes awards received directly from the federal government or indirectly through recipients. It does not include procurement contracts to vendors under grants or contracts used to buy goods or services that are related to the administrative support of a federal program.
- f. Federal Financial Assistance.** Aid provided by a federal agency in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations, but not including direct federal cash assistance to individuals. It includes awards received directly from federal agencies or indirectly through other units of state and local government.
- g. [Government Auditing Standards](#) (commonly referred to as the "Yellow Book"):** A publication issued by the U.S. Government Accountability Office, Comptroller General of the United States, which contains standards for audits of government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other nongovernment organizations.
- h. Management Decision.** The evaluation by agency management of the findings and recommendations included in an audit report that affect the agency, and the issuance of a written decision by management concerning its response to such findings and recommendations including actions necessary to resolve the findings and recommendations.

- i. **Program-Specific Audit.** A financial audit, as defined in [Government Auditing Standards](#), of one federal program, or multiple federal programs which are provided for the same general purpose to a subrecipient. More specifically, and as provided for in *OMB Circular A-133*, the auditor performs an audit of the financial statements in accordance with generally accepted government auditing standards and the program-specific federal audit guide provided by the respective federal agency or U.S. Department of Health and Human Services, Office of Inspector General, if available; obtains an understanding and performs tests of internal controls over the federal program(s); and performs procedures to determine compliance with laws, regulations, and provisions of contracts or grant agreements that could have a direct and material effect on the federal program(s).
- j. **Report Submission.** For purposes of this directive, a report submission is a package of information submitted to comply with the reporting requirements of *OMB Circular A-133*. Required elements of report submissions are listed on the [Office of the Budget Single Audit Submissions](#) webpage.
- k. **Single Audit.** A financial audit as defined in [Government Auditing Standards](#), covering the entire entity, and an audit of the entity's federal awards under the provisions of *OMB Circular A-133*. The results of the audit are disclosed in a single audit report.
- l. **Subrecipient.** Any local government or non-profit entity that expends federal awards passed through a state or another local government or non-profit entity to carry out a federal program, but does not include an individual who receives federal assistance through such awards. For purposes of this directive, a subrecipient is not a vendor which receives a procurement contract to provide generally required goods or services related to the administrative support of a federal program.

5. POLICY.

- a. Agencies under the Governor's jurisdiction shall implement appropriate policy and procedures to ensure that audits of federal pass-through funds are received and processed by the commonwealth in accordance with *OMB Circular A-133*.
- b. Agencies shall ensure all federal funds and noncash awards passed through commonwealth agencies to subrecipients are properly accounted for in accordance with policy established in [Management Directive 305.12, Accounting, Reporting, and Cash Management of Federal Grants and Contracts](#) and [Management Directive 305.21, Payments to Local Governments and Other Subrecipients](#).
- c. Agencies shall ensure that subrecipients of federal awards are required to have their audits performed and reports submitted on an annual basis in accordance with the provisions of Enclosure 1, Audit Clause To Be Used In Agreements With Subrecipients Receiving Federal Awards From The Commonwealth.

- d. Agencies that provide federal awards to for-profit entities shall ensure that the contract with the for-profit entity describes applicable compliance requirements and the entity's compliance responsibility. Methods to ensure compliance for federal awards to for-profit entities may include pre-award audits, monitoring during the contract, and post-award audits.
- e. Report submissions to the commonwealth in accordance with *OMB Circular A-133* represent an important source of information about the administration of federal programs and shall be used by commonwealth management as a tool to strengthen the administration of federal programs and related government operations of agencies and subrecipients. Report submissions not covered by this directive should be processed in accordance with agency policy and procedures.
- f. Procedures and methodology shall be established within the Office of the Budget to provide for the receipt and technical review of report submissions from subrecipients who receive federal pass-through funds from the commonwealth.
- g. Procedures and methodology shall be established within each agency for effective audit resolution of subrecipient report submissions that contain federal funding passed through the agency. Such procedures and methodology shall be formally documented and implemented to meet each agency's needs, in accordance with this directive. Agencies shall provide formal instruction on such procedures and methodology to their personnel, when necessary.
- h. Agencies that desire to have additional compliance factors tested during the single audit process shall obtain approval from BOA prior to implementing such requirements. Such approval shall be obtained for both the requirement and the manner in which it is implemented.
- i. Agencies that desire to have federal programs treated as major programs for audit coverage purposes shall obtain the approval of BOA prior to implementing such requirements.

6. RESPONSIBILITIES.

- a. **Deputy Secretary for Comptroller Operations** shall direct and oversee the development of commonwealth policy relative to the implementation of *OMB Circular A-133*.
- b. **Agency Heads** shall:
 - (1) Establish and maintain sufficient and adequate administrative and other controls and procedures to effectively administer federal programs in accordance with *OMB Circular A-133* and commonwealth policy.
 - (2) Ensure that agency agreements that provide federal pass-through funds to subrecipients contain an appropriate audit clause, which contains, at a minimum, the requirements set forth in Enclosure 1, Audit Clause To Be Used In Agreements With Subrecipients Receiving Federal Awards From The Commonwealth.

- (3) Direct the agency's audit resolution of subrecipient report submissions in accordance with *OMB Circular A-133*.
- (4) Notify BOA of any illegal acts or irregularities reported by subrecipient auditors.
- (5) Ensure that a management decision is made on all disclosures requiring audit resolution by the agency within six months after receipt of a report submission and accompanying transmittal letter from BOA. Monitor subrecipients to ensure that all corrective actions required to strengthen or eliminate deficiencies disclosed in report submissions, are made timely, in accordance with the provisions of *OMB Circular A-133*.
- (6) Direct the review of subrecipient report submission financial information related to agency programs. Where required, direct the adjustment of agency records for any audit disallowances or cost settlements with the assistance of the Office of the Budget, Office of Comptroller Operations, Bureau of Commonwealth Accounting (BCA).
- (7) Ensure that subrecipient report submissions are recognized by agency management as an important source of information for monitoring, evaluating, controlling, and strengthening the administration of federally-funded programs, both at the commonwealth and subrecipient levels.
- (8) Direct the performance of additional audits to supplement single audits, when necessary, and upon approval of BOA.
- (9) Obtain BOA approval prior to designating federal programs as major programs for purposes of increased audit coverage in accordance with *OMB Circular A-133*.
- (10) Determine any additional compliance factors, financial information, or format change requirements that should be included within the scope of the single audit process and ensure that they are included within the subrecipient grant agreement after approval by BOA.
- (11) Perform required monitoring and program reviews independent of the subrecipient audit process to meet agency administrative and program needs.
- (12) Impose appropriate remedial actions in accordance with [Management Directive 325.8, Remedies for Recipient Noncompliance with Audit Requirements](#), in those instances where subrecipients fail to comply with the requirements of *OMB Circular A-133*.
- (13) Approve or disapprove subrecipient requests for waivers from the requirements of *OMB Circular A-133*.

c. Office of the Budget, Office of Comptroller Operations, Bureau of Audits shall:

- (1)** Develop commonwealth policy and procedures for reviewing, evaluating, responding to, and following-up of subrecipient report submissions to the commonwealth in accordance with the provisions of *OMB Circular A-133*.
- (2)** Use a universe of subrecipients who receive federal pass-through funds and noncash awards from the commonwealth to determine that required report submissions are received from subrecipients.
- (3)** Approve or disapprove subrecipient requests for reasonable extensions of time for submission of report submissions in accordance with *OMB Circular A-133*.
- (4)** Process subrecipient requests for waivers from the requirements of *OMB Circular A-133*, and grant such waivers upon coordination with and approval of affected state agencies.
- (5)** Develop and maintain a tracking system for the receipt and distribution of subrecipient report submissions in accordance with *OMB Circular A-133*.
- (6)** Function as a clearing house for the receipt of subrecipient report submissions in accordance with *OMB Circular A-133*, and commonwealth policy.
- (7)** Perform technical reviews of subrecipient single audit and program-specific report submissions under *OMB Circular A-133*, in accordance with established procedures and methodology.
- (8)** Act as a liaison between the commonwealth, its organization or oversight federal agency, and other federal agencies relative to commonwealth audit policy and related matters.
- (9)** Provide technical advice and liaison services to commonwealth agencies, subrecipients, independent auditors, and other interested parties relative to single audit matters.
- (10)** Act as a liaison between the commonwealth and the federal government or professional bodies relative to substandard performance of independent auditors.
- (11)** Coordinate the process of informing affected federal, commonwealth, local agencies, and other appropriate organizations of any reported illegal acts or irregularities disclosed in subrecipient report submissions.
- (12)** Notify affected agencies of those subrecipients who fail to comply with the requirements of *OMB Circular A-133*, or commonwealth policy relative to the submission of required reports so that such agencies may impose appropriate remedial actions in accordance with [Management Directive 325.8, Remedies for Recipient Noncompliance with Audit Requirements](#).

- (13) Approve or disapprove agency request to designate federal programs as major programs for purposes of audit coverage in accordance with *OMB Circular A-133*. Coordinate such designation with applicable cognizant federal agency for audit or the oversight federal agency for audit when significant additional audit costs will result.
- (14) Approve or disapprove agency request for inclusion of additional compliance criteria, financial information, or format change requirements within the scope of the single audit.
- (15) Coordinate the implementation of approved modifications to the scope of the single audit with affected state agencies.
- (16) Provide listings of report submissions received and processed during the quarter to affected agency single audit contacts after the end of each quarter.

7. PROCEDURES.

a. Agencies will:

- (1) Incorporate audit clause language in Enclosure 1, Audit Clause To Be Used In Agreements With Subrecipients Receiving Federal Awards From The Commonwealth, into all subrecipient agreements containing federal awards, and appropriate compliance requirements into all agreements with for-profit entities receiving federal awards.
- (2) Forward to BOA all subrecipient report submissions received directly from subrecipients or directly from federal agencies and which contain federal pass-through funds, in accordance with Procedures for Submitting the Single Audit Report or Program-Specific Audit Report located on the [Office of the Budget Single Audit Submissions](#) webpage.

b. Office of the Budget, Office of Comptroller Operations, Bureau of Audits will:

- (1) Monitor the receipt of required report submissions from subrecipients and notify affected agencies of those subrecipients who, after written notification by BOA, fail to provide required report submissions.
- (2) Maintain a record of subrecipient report submissions received and forward subrecipient report submissions not covered by this directive, directly to the funding agency for review and resolution.
- (3) Perform technical review of report submissions containing federal pass-through funds received from the commonwealth, in accordance with established procedures and methodology, to ensure that report submissions satisfy [Government Auditing Standards](#) requirements and the provisions of *OMB Circular A-133*.
- (4) Transmit a copy of subrecipient audit reports processed to affected agencies.

- (5) Provide listings of report submissions received and processed during the quarter to affected agency single audit contacts after the end of each quarter.
- (6) Notify affected agencies of those subrecipients who fail to provide an acceptable report submission.

c. Agencies will:

- (1) Evaluate report submissions received from BOA to determine acceptability for program purposes by verifying, at a minimum, that all agency-funded programs are properly included on the applicable financial schedules; that findings affecting the agency contain sufficient information to facilitate a management decision; and that subrecipient has submitted an adequate corrective action plan.
- (2) Notify subrecipient, in writing, of acceptability of report; or, if found unacceptable; of those actions which must be taken to gain acceptance.
- (3) Review subrecipient report submission financial information related to agency programs and make adjustments to agency records. Where necessary, obtain assistance of BCA.
- (4) Make management decisions, within six months after receipt of report submission from BOA, relative to audit disclosures affecting the agency and to those crosscutting findings assigned to the agency for resolution.
- (5) Initiate necessary actions relative to cost settlements or disallowances, and notify BCA of any adjustments to accounting records.
- (6) Monitor subrecipient implementation of corrective actions to ensure that they proceed as rapidly as possible. Where responsible for resolution of crosscutting findings, notify affected agencies upon resolution of such findings.
- (7) Impose or coordinate the imposition of remedial actions in accordance with [Management Directive 325.8, Remedies for Recipient Noncompliance with Audit Requirements](#), in those instances where subrecipients fail to comply with the provisions of *OMB Circular A-133*.

**Enclosure 1 - Audit Clause To Be Used In Agreements With Subrecipients
Receiving Federal Awards From The Commonwealth**

This directive replaces, in its entirety, *Management Directive 325.9*, dated August 26, 2008.

**AUDIT CLAUSE TO BE USED IN AGREEMENTS WITH SUBRECIPIENTS
RECEIVING FEDERAL AWARDS FROM THE COMMONWEALTH**

AUDIT REQUIREMENTS.

The [NAME OF SUBRECIPIENT] must comply with all federal and state audit requirements including: *The Single Audit Act Amendments of 1996; Office of Management and Budget, Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, (OMB Circular A-133) as amended;* and any other applicable law or regulation, and any amendment to such other applicable law or regulation which may be enacted or promulgated by the federal government.

If the [NAME OF SUBRECIPIENT] is a local government or non-profit organization and expends total federal awards of \$500,000 or more during its fiscal year, received either directly from the federal government or indirectly from a recipient of federal funds, the [NAME OF SUBRECIPIENT] is required to have an audit made in accordance with the provisions of *OMB Circular A-133*.

If the [NAME OF SUBRECIPIENT] expends total federal awards of less than \$500,000 during its fiscal year, it is exempt from these audit requirements, but is required to maintain auditable records of federal awards and any state funds which supplement such awards, and to provide access to such records by federal and state agencies or their designees.

SUBMISSION OF AUDIT INFORMATION TO THE COMMONWEALTH.

The [NAME OF SUBRECIPIENT] must submit an electronic copy of the audit report package to the commonwealth, which shall include:

1. Auditor's reports
 - a. Independent auditor's report on the financial statements, which expresses an opinion on whether the financial statements are presented fairly in all material respects in conformity with the stated accounting policies.
 - b. Independent auditor's report on the supplementary Schedule of Expenditures of Federal Awards (SEFA), which should determine and provide an opinion on whether the SEFA is presented fairly in all material respects in relation to the subrecipient's financial statements taken as a whole. This report can be issued separately or combined with the independent auditor's report on the financial statements.
 - c. Report on internal control over financial reporting, compliance and other matters based on an audit of financial statements performed in accordance with [Government Auditing Standards](#).
 - d. Report on compliance with requirements applicable to each major program and report on internal control in accordance with the circular.
 - e. Schedule of findings and questioned costs.

2. Financial statements and notes to the financial statements
3. SEFA and notes to the SEFA
4. Summary schedule of prior audit findings
5. Corrective action plan (if applicable)
6. Data collection form
7. Management letter (if applicable)

In instances where a federal program-specific audit guide is available, the audit report package for a program-specific audit may be different and should be prepared in accordance with the audit guide and *OMB Circular A-133*.

Effective July 1, 2009, the Office of the Budget, Office of Comptroller Operations, Bureau of Audits will begin accepting electronic submission of single audit/program-specific audit reporting packages. Electronic submission is required for the fiscal year ending December 31, 2008 and subsequent years. Instructions and information regarding submission of the single audit/program-specific audit reporting package are available to the public on Single Audit Submissions page of the Office of the Budget website (<http://www.budget.state.pa.us>). The reporting package must be submitted electronically in single Portable Document Format (PDF) file to RA-BOASingleAudit@state.pa.us.

Steps for submission:

1. Complete the Single Audit/Program Specific Audit Reporting Package Checklist available on the Single Audit Submissions page of the Office of the Budget website (<http://www.budget.state.pa.us>). The Single Audit/Program Specific Audit Reporting Package Checklist ensures the [NAME OF SUBRECIPIENT]'s reporting package contains all required elements.
2. Upload the **completed** Single Audit/Program-Specific Audit Reporting Package along with the Single Audit/Program Specific Audit Reporting Package Checklist in a **single** PDF file to an e-mail addressed to RA-BOASingleAudit@state.pa.us. In the subject line of the e-mail [NAME OF SUBRECIPIENT] must identify the exact name on the Single Audit/Program-Specific Audit Reporting Package and the period end date to which the reporting package applies.

[NAME OF SUBRECIPIENT] will receive an e-mail to confirm the receipt of the Single Audit/Program-Specific Audit Reporting Package, including the completed Single Audit/Program Specific Audit Reporting Package Checklist.

GENERAL AUDIT PROVISIONS.

The [NAME OF SUBRECIPIENT] is responsible for obtaining the necessary audit and securing the services of a certified public accountant or other independent governmental auditor. Federal regulations preclude public accountants licensed in the Commonwealth of Pennsylvania from performing audits of federal awards.

The commonwealth reserves the right for federal and state agencies or their authorized representatives to perform additional audits of a financial or performance nature, if deemed necessary by commonwealth or federal agencies. Any such additional audit work will rely on work already performed by the [NAME OF SUBRECIPIENT]'s auditor and the costs for any additional work performed by the federal or state agencies will be borne by those agencies at no additional expense to the [NAME OF SUBRECIPIENT].

Audit documentation and audit reports must be retained by the [NAME OF SUBRECIPIENT]'s auditor for a minimum of five years from the date of issuance of the audit report, unless the [NAME OF SUBRECIPIENT]'s auditor is notified in writing by the commonwealth, the cognizant federal agency for audit, or the oversight federal agency for audit to extend the retention period. Audit documentation will be made available upon request to authorized representatives of the commonwealth, the cognizant federal agency for audit, the oversight federal agency for audit, the federal funding agency, or the Government Accountability Office.