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SUBJECT

Introduction to DPW Audit Policy

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SCOPE

County Commissioners
County Controller Offices
County MH/MR Programs
County Child Welfare Programs
County Human Service Programs
Program Office Deputies
DPW Comptroller's Office
CPA Distribution List

PURPOSE

To provide county program administrators with an explanation of the Department of Public Welfare (DPW) revised audit policy developed in response to the Single Audit Amendments of 1996, and the June 1997 and June 2003 revisions of Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

By distributing this policy, the DPW is not mandating its adoption by counties or county programs. Rather, the DPW is advocating a detailed review of county-level contracts and the adoption of a similar approach, which is within the regulatory limits imposed by federal and state government.

BACKGROUND

Since the Federal Single Audit process went into effect in January 1985, the DPW has come to rely heavily upon audits of its subrecipients and vendors, not only for monitoring federal funds, but also for monitoring the application of state and/or local funds as well. The management of DPW grants and contracts is dependent largely on this outside confirmation of essential information. The DPW would like to pass the DPW Administrative Policy for Subrecipient/Vendor Audits down to the counties to assist the county administrator's in monitoring their contracts. The policy was created for use in DPW contracts and to give guidelines to program offices for monitoring through lesser audits.

The three levels of audits relevant to this discussion are:

- (1) A compliance attestation that examines the subrecipient/vendor for compliance with the terms and conditions of the contract, as well as, applicable program requirements,
- (2) Those conducted in accordance with Government Auditing Standards as published by the Comptroller General of the United States, commonly referred to as the Yellow Book. A Yellow Book audit addresses basic financial statements (of an entity, program or contract) and basic testing of compliance requirements and internal controls, which have a material effect upon those statements, and

REFER COMMENTS AND QUESTIONS TO:

Bureau of Financial Operations
Division of Financial Policy & Operations
Audit Resolution Section - Telephone 717-787-8890

- (3) A Single Audit in accordance with Office of Management and Budget (OMB) Circular A-133. The single audit is an entity-wide audit, which expands upon the yellow book audit with mandatory detailed testing of compliance and internal controls pertaining to federal programs.

DISCUSSION

In developing the revised audit policy, the DPW considered three basic options:

- (1) To continue the policy of requiring audits of all contracts valued at \$300,000, or more, and single audits of entities receiving \$500,000 or more in federal funding;
- (2) To return to active monitoring in lieu of audits; or
- (3) To require the contractors to obtain a limited number of audits and/or Compliance Attestation engagements and to absorb those costs in which the federal government has chosen not to participate. Option 3 was determined to be the most appropriate for the DPW.

The determination to require a Yellow Book audit when an entity reaches the threshold of \$500,000 annual expenditures consisting of combined state and federal funding is based upon the federal threshold. Following the theory that the federal government is concerned when annual expenditures reach a total of \$500,000 or more in federal funds, the DPW has adopted that same threshold. However, the DPW's expenditures may consist of a combination of state and federal funds. By extension, county expenditures could consist of a combination of federal, state, and local funding. In adopting this position, the DPW recognizes that certain audit costs may not be eligible for federal funding.

Note that this is DPW policy only and does not extend to other Commonwealth organizations.

Detailed Description of Option 3 as Applied by DPW

For government and non-profit organizations expending a total of \$500,000 or more in federal financial assistance, an audit which meets the federal requirement will be accepted provided that a copy of

- (1) The full report and
- (2) A Compliance Attestation conducted by an independent auditor as specified in the contract and/or the DPW Single Audit Supplement for the DPW's program(s). The audit should be submitted to DPW through the Commonwealth's Bureau of Audits. The incremental cost of completing the Compliance Attestation cannot be charged to federal funding streams but may be allocated to other eligible funding streams.

In the absence of a federally required audit, the entity is responsible for the attached annual audit requirements under the DPW audit policy.

The audit provisions are designed as a tool to be used in monitoring grants and contracts. These provisions may help in receiving more efficient use of interim reporting and existing monitoring techniques. This option provides confirmation of reported information and minimizes additional costs.

DETERMINING AUDIT POLICY IMPACT

Each county and county program should complete an analysis of its own contracts. This can be accomplished easily using a simple spreadsheet application or even a manual listing of the contracts in question and following the steps listed below. Depending upon the program area(s), it is probably best to analyze groups of similar contracts rather than one all-encompassing list.

1. For each contract, list the total amount and provide a column for each of the funding streams, differentiating between federal, state and local funds. From this information, determine the percentage of federal funds per contract. The federal percentage may be the same for all contracts or it may differ from contract to contract.

2. Next list the amount of the budget line item for audit cost and take that amount times the federal funds percentage. This provides the amount of audit cost which may have to be absorbed if ineligible for federal reimbursement.
3. Sort the resulting list by contract amount and then divide the list into categories based upon the thresholds in Option 3 as shown below. Further divide those over \$500,000 based upon the amount of federal funds.

Under \$300,000	No Audit
\$300,000 to \$500,000	Compliance Attestation for High Risk Areas
\$500,000 federal and state combined funds	Yellow Book with Compliance Attestation
\$500,000 or more in federal funds	Single Audit with Compliance Attestation

4. The category of a contract can be shifted based on prior experience. Prior year audits of the contractor may support at least \$500,000 in federal funding from multiple sources, requiring a single audit, which is entirely eligible for federal funding.
5. Use the amounts and categories listed in Steps 2 and 3 above, to determine the amount of audit costs, which are not eligible for federal reimbursement and must be absorbed by other eligible funding streams.

The incremental cost of an audit policy is the federal share of the cost of Yellow Book audits and Compliance Attestation engagements.

WAIVERS OF AUDIT REQUIREMENTS

Program monitoring by the county may be determined to be sufficient to support elimination/waiver of those audit requirements, which are not required by the federal government and/or state-level regulations. This determination should be thoroughly documented.

IMPLEMENTATION

The Single Audit Amendments of 1996 and OMB Circular A-133 revision are effective for audit periods ending after December 31, 2003. Therefore, implementation of revised audit policies should begin immediately and include contracts for the 2003-2004 fiscal year wherever possible. Issues concerning the contracts already in place will need to be handled on a case-by-case basis.

ATTACHMENTS

The following attachments are provided per DPW audit policy:

DPW Administrative Policy for Subrecipient/Vendor Audits
<http://oadev/BFO/AuditPolicies.asp>

DPW AUDIT POLICIES

<i>Subject:</i>	Subrecipient / Vendor Audit Requirements – DPW Audit Policies		
<i>Issued by:</i>	Office of Administration, Bureau of Financial Operations	<i>Issue Date:</i>	September 25, 1995
		<i>Reissued:</i>	June 30, 2004

INTRODUCTION

This Policy contains the following major changes:

- 1) Increases the threshold for OMB Circular A-133 audit requirements from \$300,000 to \$500,000.
- 2) Increases the threshold for DPW audit requirements from \$100,000 to \$300,000.
- 3) Provides audit clause language applicable to subrecipient and vendor contracts.

Included below is the Department of Public Welfare (DPW) audit-related policy and guidance pertaining to audits of the DPW's grantees and contractors, otherwise identified here as subrecipient/vendors. It also pertains to the management of the audit process for entities receiving federal and/or state funds passed through the DPW to its subrecipients and/or vendors.

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REFERENCES / GOVERNOR'S OFFICE MANAGEMENT DIRECTIVE WEB ADDRESS

www.oa.state.pa.us/oac – Click on “Policies and Procedures,” then “Management Directives”

- Management Directive 215.9, Contractor Responsibility Program
- Management Directive 305.21, Payments to Local Governments and Other Subrecipients
- Management Directive 325.8, Remedies for Recipient Noncompliance with Audit Requirements
- Management Directive 325.9, Processing Audits of Federal Pass-Through Funds

SUBRECIPIENT / VENDOR AUDITS

SECTION I – DEFINITIONS

NOTE: These definitions are provided for the convenience of the user and should not be construed as comprehensive technical definitions of these terms.

Adverse Opinion – A professional opinion made by an auditor indicating that the financial statements **do not** present fairly the financial position, the results of operations, and the cash flows in conformity with generally accepted accounting statements.

American Institute of Certified Public Accountants (AICPA) – The national professional organization of certified public accountants (CPAs) engaged in prompting high professional standards and improving the quality of financial reporting.

Attest Function – The primary function of the independent public accountant is to attest to information (usually financial statements) and to bear witness as to its reliability and fairness. The independent opinion of the CPA lends credibility to audited financial information.

Audit – An examination or investigation by independent public accountants of a set of financial statements, and the accounting records and other supporting evidence both within and outside the client's business.

Audit Clause – The section of a contract or grant agreement that specifies the audit requirements. The section may include, but not be limited to: (1) how the audit is to be performed (i.e., what audit standards and/or guidelines must be met); (2) the contents of the audit report; (3) submission time frames; and (4) possible sanctions for noncompliance.

Audit Finding – A deficiency that the auditor is required to report in the schedules of findings and questioned costs.

Audit Objective(s) – A statement of purpose of the audit. The questions the audit will answer.

Auditee – The entity or organization being audited.

Auditor – A federal, state, or local government audit organization or a CPA that meets the general standards specified in the Generally Accepted Government Auditing Standards (GAGAS). Generally, the term does not include the internal auditors of the entity or organization being audited because they do not meet the GAGAS independence standards to report as external auditors. Pennsylvania public accountants may not audit the federal funds; however, public accountants in the Commonwealth may audit state and local funding.

Auditor Acceptance of Audit Responsibility – Reference by the principal auditor to work done by another auditor. This **does not** constitute a qualification of the principal auditor's report. The reference is made to indicate the degree of responsibility that the principal auditor is assuming in the report. To properly assess total audit coverage, the reports of both auditors should be reviewed. **Note:** When the principal auditor accepts total responsibility, no reference is made to the work of other auditors.

Auditor's Opinion – An expression in the audit report that communicates the auditor's position on whether the financial information of the entity is presented fairly, in all material respects, in conformity with the specified accounting principles applicable to the auditee.

SUBRECIPIENT / VENDOR AUDITS

SECTION I – DEFINITIONS (Cont'd.)

Auditors' Report – An expression of the auditor's conclusion or, if circumstances dictate, the disclaiming/denial of such an opinion regarding the financial information, the results of testing, and/or other information required by the specific audit report engagement. A number of auditor's reports may be included in the audit report package.

Basis of Accounting Note – A note to the financial statements that explains the method used by the auditee to classify its revenues and expenditures, both for maintaining books and records and for preparing the audited financial statements (the two may differ). Common basis of accounting may include: cash, accrual, modified accrual, budgetary, etc.

Budgetary Accounting Note – A note to the financial statements that indicates the budgetary basis of accounting used to maintain the books and records of the auditee, and how that method compares to the method used to prepare the financial statements.

Budgetary Procedures Note – A note to the financial statements that explains the auditee's procedures for obtaining approval(s) of its budget, as well as for implementation of the approved budget.

CFDA Number – The number assigned to a federal program in the *Catalog of the Federal Domestic Assistance* (CFDA).

Cluster of Programs – A grouping of closely related programs that share common compliance requirements. A cluster of programs shall be considered as one program for determining major programs and whether a program-specific audit may be elected.

Cognizant Federal Agency – A federal agency assigned by the Office of Management and Budget (OMB) to: (1) provide technical audit advice and liaison to auditees and auditors; (2) obtain or conduct quality control reviews of selected audits made by nonfederal auditors; (3) advise the auditor and auditee of any deficiencies found in the audits when deficiencies require corrective action by the auditor; and (4) coordinate management decision(s) for audit finding(s) that affect the federal program(s) of more than one agency.

Compliance – Following the requirements, or not violating the prohibitions, contained in statutes, regulations, contracts, grants, and in binding policies and procedures governing an entity's conduct.

Compliance Requirement – Any of the rules and regulations to which an entity is expected to adhere. General reference is usually made to those compliance requirements listed in a compliance supplement.

Compliance Supplement – A document issued by the federal government or the grantor organization that specifies the primary rules and regulations to which an entity is expected to adhere, along with the suggested audit procedures for use by the auditors.

Component Unit – An individual unit/definable area that is combined with other units to make up the audited entity. Definition of the entity is governed by official accounting industry pronouncements.

Conclusion – An expression in the audit report of the auditor's position on an audit objective.

Confirmation – A type of documentation that is created outside of the auditee organization and transmitted directly to the auditors.

SUBRECIPIENT / VENDOR AUDITS

SECTION I – DEFINITIONS (Cont'd.)

Contract Audit – An audit of a government contract for goods and/or services with for-profit, as well as nonprofit, organizations.

Contractual Performance – The result of a service provider's efforts to provide the services specified in a contract/agreement. The financial impact/cost of providing the service(s) should be reported on the schedule(s) of contractual performance.

Control Risk – The risk of a material error occurring and not being detected on a timely basis by internal controls.

Corrective Action – Action taken by the auditee that: (1) corrects identified deficiencies; (2) produces recommended improvements; or (3) demonstrates that audit findings are either valid or do not warrant auditee action.

Corrective Action Plan – A document prepared in response to each audit finding and/or reportable condition by the auditee management that contains: (1) a brief description of the finding; (2) the auditee's position (i.e., agree or disagree); (3) the corrective action taken/to be taken; (4) timetable for implementation; (5) monitoring to be performed; (6) auditee staff responsible to ensure corrective action is taken; and (7) approval by responsible auditee staff.

Department of Public Welfare's (DPW) Single Audit Supplement – The DPW's requirements pertaining to audits of subrecipients. The guidance pertains to state funding, as well as federal funding. Originally published for use in audits of county governments, it may also be used as a tool for the counties that pass federal and state funding to subrecipients to carry out a federal or state program. See the Bureau of Financial Operations web site at: www.dpw.state.pa.us/oa/oaBofPub.asp.

Direct Funding – Funds received by an entity directly or from the federal agency.

Disclaimer of Opinion – A form of report in which the auditors state that they do not express an opinion on a given matter.

Errors – An unintentional mistake or omission in the financial statements, including mistakes in the application of accounting principles (also see Irregularities and Fraud).

Federal Awards – Federal financial assistance and federal cost-reimbursement contracts that nonfederal entities receive directly from federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, grants, or contracts used to buy goods or services from vendor. Any such audits shall be covered by the terms and conditions of the contract.

Federal Financial Assistance – Assistance that nonfederal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance, but does not include amounts received as reimbursement for services rendered to individuals in accordance with guidance issued by the director.

Federal Program – All federal awards to a nonfederal entity assigned a single number in the CFDA, or encompassed in a group of numbers or other category as defined by the director.

SUBRECIPIENT / VENDOR AUDITS

SECTION I – DEFINITIONS (Cont'd.)

Financial Statements – A presentation of financial data and information, including accompanying notes derived from accounting records, to communicate, at a point in time, an entity's financial position and, for a period of time, its results of operations and cash flows or changes in financial position.

Finding (Deficiency) – A logical pulling together of information to arrive at conclusions (or a response to an audit objective on the basis of the sum of the information) about an organization, program activity, function, condition, or other matter that was analyzed or evaluated. A finding is the basis for conclusions and recommendations for corrective action.

Fraud – Misrepresentation by a person of a material fact, known by that person to be untrue or made with reckless indifference as to whether the fact is true, with intent to deceive and with the result that another party is injured.

General Purpose Financial Statements (GPFS) – A set of financial statements issued in connection with the audit, generally consisting of: the balance sheet, related statements of income, retained earnings, and cash flows; accompanied by notes to the financial statements. Titles and statements may vary slightly with the industry.

Generally Accepted Accounting Principles (GAAP) – GAAP refers to the broad guidelines, conventions, rules, and procedures of accounting. GAAP comes from two main sources: (1) Procurements by designated authoritative bodies that must be followed in all applicable cases. The primary designated bodies are the Financial Accounting Principles Board (Opinions), Committee on Accounting Procedures (selected pronouncements), and the Securities and Exchange Commission (regulations for listed companies). (2) Accounting practices developed by respected bodies and industries, or that have evolved over time. This part of GAAP sometimes is difficult to identify by source, the source may be "generally acceptable."

Generally Accepted Auditing Standards (GAAS) – Standards adopted by the AICPA that are binding upon its members and are designed to ensure the quality of the auditors' work.

Generally Accepted Government Auditing Standards (GAGAS) – Standards issued by the Comptroller General of the United States. (The *Single Audit Information Service* makes reference to *Government Auditing Standards* rather than GAGAS).

Indirect Funding – Federal funds that were first passed directly by the federal government to another recipient prior to being passed through to the recipient in question.

Internal Controls – A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations; (2) reliability of financial reporting; and (3) compliance with applicable laws and regulations.

Irregularities – The intentional distortions in financial statements, often accompanied by falsifications in the accounting records.

Local Government – Any unit of local government within a state, including a county, borough, municipality, city, town, township, parish, local public authority, special district, school district, intrastate district, council of governments, and any other instrumentality of local government.

SUBRECIPIENT / VENDOR AUDITS

SECTION I – DEFINITIONS (Cont'd.)

Major Program – A federal program identified in accordance with risk-based criteria prescribed by the director under the Single Audit Act Amendments of 1996, subject to the limitations described under Subsection (b) of the 1996 amendments.

Office of Management and Budget (OMB) – The Executive Office of the President that provides audit guidelines.

Organization-Wide Audit – An audit of a nonprofit organization that includes both the federal awards and the organization-wide financial statements.

Pass-Through Entity/Pass-Through Grantor – An entity that receives federal funds and provides/ passes federal awards to a subrecipient to carry out a federal program.

Program-Specific Audit - A program-specific audit of one federal program in accordance with federal laws, regulations, or audit guides relative to that particular program. By comparison, an A-133 single audit is an organization-wide audit that covers all federal awards and requires an audit of the financial statements of the not-for-profit entity.

Qualified Opinion – A modification of the auditors' standard report, employing an "except for" clause to limit the auditor opinion, indicating that except for some limitation on the scope of the examination, the information presents fairly the condition found.

Questioned Costs – Costs that are questioned by an auditor because of: (1) an audit finding that occurred, or is likely to have occurred, from a violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of the funds, including state or local funds used to match federal funds; (2) an audit finding where the costs at the time of the audit are not supported by adequate documentation; or (3) an audit finding where the costs incurred are unreasonable and do not reflect the actions a prudent person would take in similar circumstances.

Recipient – A nonfederal entity that receives awards directly from a federal agency to carry out a federal program.

Related Party Transaction – A transaction in which one party has the ability to influence significantly the management or operating policies of the other party, to the extent that one of the transacting parties might be prevented from pursuing fully its own separate interests. In addition, please review individual program regulations for additional definitions and restrictions.

Scope – The depth of coverage of audit work, including: (1) the definition of the entity to be audited; (2) the period of time to be covered; (3) the standards to which the auditors are expected to adhere; and (4) the required level of reporting. In the case of single audits the scope is largely defined by the applicable OMB Circular(s).

Single Audit – An audit that includes both the entity's financial statements and the federal awards as described in OMB Circular A-133 §___.500.

Statement of Auditing Standards (SAS) 70 Audit – Represents that a service organization has been through an in-depth audit of the control processes, which generally include information technology and related processes.

SUBRECIPIENT / VENDOR AUDITS

SECTION I – DEFINITIONS (Cont'd.)

Statements on Standards for Attestation Engagements (SSAE) – An examination made in accordance with SSAE, Section 601, Compliance Attestation, will provide a reasonable basis for an opinion on compliance with the terms and conditions of a contract.

Subrecipient – An entity that expends federal awards received from a pass-through entity to carry out a federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency. For purposes of this audit clause, a subrecipient is not a vendor that receives a procurement contract to provide generally required goods or services related to the administrative support of a federal program.

Supplemental Auditors' Opinion/Report – Required when the auditor has been engaged to perform additional/more detailed audit steps that go beyond the requirements of the primary engagement. Used when an auditor is required to audit and report upon a specific contract as part of the entity's single audit. The auditor has the option of either incorporating additional statements regarding the required assurances into the auditor's report on the GPFS or providing a supplemental auditor's report on the additional work performed that refers back to the auditor's report on the GPFS.

Types of Compliance Requirements – Refers to the program requirements that are listed in the compliance supplement for federal funding or the DPW contract. Examples include allowable or unallowable activities, allowable costs/cost principles, cash management, eligibility, matching, level-of-effort, earmarking, and reporting.

Unexpended Balances – A situation where revenues exceed expenditures. The balance usually appears on the balance sheet as deferred revenue or some other type of liability.

Unqualified Opinion – Auditor's opinion of a financial statement given without any reservation. Such an opinion basically states that the auditor feels the company followed all accounting rules appropriately and that the financial reports are an accurate representation of the company's financial condition.

Vendor – A dealer, distributor, merchant, or other seller providing goods or services to an auditee that are required for the **administrative support** of a program. These goods or services may be for an organization's own use or for the use of beneficiaries of the federal program. The vendor's responsibility is to meet the requirements of the procurement contract.

SUBRECIPIENT / VENDOR AUDITS

SECTION II – ROLES AND RESPONSIBILITIES

INTRODUCTION

The purpose of the Single Audit Act is to: (1) promote sound financial management, including effective internal controls, with respect to federal awards administered by non-federal entities; (2) establish uniform requirements for audits of federal awards administered by non-federal entities; (3) promote the efficient and effective use of audit resources; (4) reduce burdens on state and local governments, Indian tribes, and nonprofit organizations; and (5) ensure that federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to Title 31, U.S.C, Chapter 75, as amended.

One noticeable result of the Single Audit Act was a sharp delineation of the roles and responsibilities associated with the audit process. The Office of Management and Budget (OMB) Circulars assign certain responsibilities to the grantor, the subrecipient, the federal cognizant agency, and other participants in the audit process. Previously, such duties may have been similar, but they were much less formal and could vary among the federal agencies. The Single Audit Act set a common standard to be followed and enforced.

In some cases, these responsibilities came as a distinct shock. Some entities had assumed that by passing all or most of the funding to a contractor, they had no responsibility for the program or even for monitoring the contractor. Single Audit findings on subrecipient monitoring brought many of these situations to light.

DISCUSSION

The process of granting and sub-granting funds, and the relationship of the organization involved, can, perhaps, best be viewed as a series of descending tiers or steps. As funds flow down from one level to another, the responsibility to be accountable for the proper administration of those funds also flows down.

At each level, additional funding, as well as additional responsibility, may be added to the flow. For example, the state is accountable to the federal government for the proper administration of federal funds. The county is responsible to the state for both state and federal funding passed through the state. **As the funding and responsibility flow down step-by-step, the accountability for that funding, generally in the form of reports and audits, must flow back up those steps in the same manner.**

Each time an entity, at any level, accepts funding from a higher tier, it must also accept the role of the **recipient** and its associated responsibilities. Each time an entity passes funding to a lower tier, it takes on the role of the **grantor** and the associated responsibilities for properly monitoring the administration of the funding at the new level.

Because of the importance of the recipient and grantor responsibilities, subrecipient monitoring should be an essential part of the auditor's testing in any program. For this reason, the Department of Public Welfare's (DPW) Single Audit Supplement, Common Requirement No. 1, specifies detailed testing of subrecipient monitoring for counties, as well as for the entities with which they contract. Listed below are the basic responsibilities involved in the receipt and pass-through of federal and state funding.

NOTE: Regardless of the actual level, these basic responsibilities are always the same.

SUBRECIPIENT / VENDOR AUDITS

SECTION II – ROLES AND RESPONSIBILITIES (Cont'd.)

A. Recipient Responsibilities

1. Properly accounting for associated revenues and expenditures.
2. Complying with:
 - a. applicable laws and regulations;
 - b. program instructions and requirements;
 - c. reporting requirements; and
 - d. audit requirements.
3. Establishing and maintaining a system of internal controls designed to provide reasonable assurance of compliance with the items listed in 2 above.
4. Operating the program in an efficient and responsible manner.

B. Grantor Responsibilities

1. Administering grants and contracts in an efficient and effective manner through the application of sound management practices.
2. Providing timely and accurate information on the nature of the funding, including:
 - a. source and amount of each funding stream;
 - b. applicable *Catalog of Federal Domestic Assistance* (CFDA) number(s); and
 - c. names of the program(s) at the federal and state levels.
3. Providing clear guidance regarding the recipient's responsibilities, including:
 - a. applicable laws and regulations;
 - b. instructions and requirements for the program(s) in questions;
 - c. reporting requirements (including the format of supplemental information); and
 - d. audit requirements.
4. Providing for technical assistance.
5. Monitoring the recipient's compliance with the items listed in 3 above.
6. Timely review and resolution of the required reports and audits.
7. Taking action, as needed, to enforce the items listed in 3 above.

A grantor should never assume that a recipient is fully aware of its responsibilities. While such responsibilities clearly follow the funding, the agreement between the grantor and the recipient should, nevertheless, spell out **exactly** what is expected. The agreement should cover the recipient requirements, not only in its capacity of having received the funds, but also in the event that the recipient chooses to subgrant all or a portion of the funding in question.

SUBRECIPIENT / VENDOR AUDITS

SECTION II – ROLES AND RESPONSIBILITIES (Cont'd.)

Likewise, a recipient should participate only in agreements where the grantor's expectations are spelled out clearly, either in the agreement itself or by reference to separate instructions and requirements. The recipient is entitled to timely, accurate, and complete information regarding the funding; clear instructions and requirements for the administration of that funding; and technical assistance on those requirements. If such information is not forthcoming, the recipient has the right, and indeed the responsibility, to seek answers to its questions.

At some point in time, many entities take on the role of both recipient and grantor. Therefore, all entities should become thoroughly familiar with the responsibilities of both roles. **Regardless of whether an entity is acting as the recipient or the grantor, there is clearly no excuse for lack of knowledge on the responsibilities associated with the funding received.**

SUBRECIPIENT / VENDOR AUDITS

SECTION III – SANCTIONS POLICY FOR NONCOMPLIANCE WITH AUDIT REQUIREMENTS

POLICY

The Department of Public Welfare's (DPW) Management Directive 325.8, *Remedies for Recipient Noncompliance With Audit Requirements* (see References/Governor's Office Management Directive Web Address), requires state agencies to establish and implement a series of progressive remedial actions to be taken when recipients of Commonwealth financial assistance exhibit a continued inability or unwillingness to comply with performance, reporting, and/or resolution requirements for audits of those funds.

The DPW's policy shall provide the recipient every reasonable opportunity to correct deficiencies prior to initiating financial sanctions. **The intent of the policy is to correct the deficiencies, not to penalize recipients.**

As required by Management Directive 325.8, overall time frames for the implementation of the series of remedial actions should not exceed six months from the date of the Notice of Final Remedial Action.

SCOPE

This policy, and the ensuing procedures, applies to recipients of Commonwealth financial assistance as defined by Management Directive 325.8. As such, recipients receive funding directly from the DPW and are required to have audits performed in accordance with applicable audit standards and directives. Recipients include local governments, nonprofit organizations, institutions of higher education, for-profit organizations, and DPW recipients whose grant or contract requires that an audit be performed in accordance with specified standards/guidance. Such standards/guidance may include, but are not limited to: *Government Auditing Standards*, as issued by the Comptroller General of the United States; the Single Audit Act and the associated Office of Management and Budget (OMB) Circular(s); program instructions and requirements; and contract language.

DEFINITIONS

Definitions provided in Management Directive 325.8 shall also apply for purposes of this Administrative Bulletin.

Financial Sanctions – The suspension or stoppage of all or a portion of payments to a recipient, when that recipient is unwilling or unable to provide an acceptable report package or take corrective action on an audit-related issue.

Progressive Remedial Action – A series of letters, telephone calls, and/or meetings between the recipient and the Office of the Budget, Bureau of Audits (BOA); the Public Health and Human Services (PHHS) Office of the Comptroller; and/or the Bureau of Financial Operations (BFO), Audit Resolution Section (ARS), in an attempt to obtain an acceptable audit report package and/or to undertake corrective action, during the course of which deadlines are set and notice is given regarding the possibility of financial sanctions. This process usually includes at least two written notifications and a final telephone call to the recipient prior to initiating the Notice of Final Remedial Action; however, the extent of the actual process is based upon professional judgment.

SUBRECIPIENT / VENDOR AUDITS

SECTION III –SANCTIONS POLICY FOR NONCOMPLIANCE WITH AUDIT REQUIREMENTS (Cont'd.)

Notice of Final Remedial Action – Notification to the recipient from the Deputy Secretary for Administration (DSA) that the recipient has 30 calendar days from the date of the notice to submit an acceptable Plan of Action for correcting all noted audit deficiencies within six months of the date of this notice, or by an earlier date as specified in the accepted Plan of Action. Otherwise, future payments by the DPW, and possibly by other affected state agencies, will be suspended until acceptable corrective action is implemented.

Plan of Action – An acceptable, detailed plan, which is required to be submitted by the recipient within 30 calendar days from the date of the Notice of Final Remedial Action, describing how the recipient will correct the identified deficiencies within the allotted time frame.

Payment Suspension Package – A package consisting of a copy of the Notice of Final Remedial Action, press release(s), and other pertinent information. The package is submitted to the DSA for signature when the recipient has failed to correct the identified deficiencies, and includes notification that certain future payments will be suspended until acceptable corrective action is implemented.

RESPONSIBILITIES

A. Bureau of Audits and Assistant Comptroller for Audits

The Office of the Budget, BOA, is responsible for the technical review of all audits involving federal funding associated with governments and nonprofit organizations. The PHHS Assistant Comptroller for Audits is responsible for the technical review of all other audits, principally those of for-profit organizations and organizations that receive only state funding.

In addition to the responsibilities outlined in this Bulletin, refer to Management Directive 325.8, *Remedies for Recipient Noncompliance with Audit Requirements*, and Management Directive 325.9, *Processing Audits of Federal Pass-Through Funds* (see References/Governor's Office Management Directive Web Address).

B. Bureau of Financial Operations, Audit Resolution Section

1. Initiates and coordinates the Notice of Final Remedial Action against a recipient upon notification by the BOA or the PHHS Assistant Comptroller for Audits of the recipient's continued failure to submit an acceptable audit report as mandated by federal and/or state requirements.
2. Takes progressive remedial action with recipients who fail to provide audit information in accordance with audit requirements and/or who fail to submit adequate information and/or take corrective action to resolve findings contained in an audit report.
3. Coordinates with other affected state agencies regarding the imposition of remedial action when designated as the lead agency by the BOA.
4. Evaluates the submitted Plan of Action.

SUBRECIPIENT / VENDOR AUDITS

SECTION III –SANCTIONS POLICY FOR NONCOMPLIANCE WITH AUDIT REQUIREMENTS (Cont'd.)

5. Provides written notification to the recipient regarding the acceptance/rejection of the Plan of Action.
6. Monitors the recipient's Plan of Action to ensure timely remedial action.
7. Prepares and submits a Payment Suspension Package for the signature of the DSA, as required, that will:
 - a. Coordinate the suspension of payments with the BFO, Financial Reporting Payment Section (FRPS), and/or the PHHS Office of the Comptroller, Document Review and Control (DDRC), as the final remedial action step; and
 - b. Notify all involved program offices of the remedial action to be taken, including the suspension of payments.

C. Bureau of Financial Operations, Division of Financial Policy and Operations (DFPO)

Suspends payment procedures for the affected county-based grant program(s).

D. PHHS Office of the Comptroller, Document Review and Control (DRC)

Suspends payment procedures for the appropriate contract(s).

PROCEDURES

The BOA and the PHHS Assistant Comptroller for Audits perform technical reviews of the audit reports to ensure that the audits conform to the standards under which they were conducted. The recipient's continued inability or unwillingness to submit an audit report, or to submit an acceptable audit report within the established time frames, are treated in the same manner in the following procedures.

The following action shall be taken:

<u>Actor</u>	<u>Step</u>	<u>Action</u>
BOA Comptroller	1.	Upon determining that a recipient has failed to submit a required audit report, the BOA initiates its established dunning process. A letter is sent to the auditee requesting the submission of the audit report or information regarding why such a report is not required. In accordance with those procedures, when a report or justification is not forthcoming the matter is referred to the BFO/ARS. The Assistant Comptroller for Audits makes similar efforts to obtain the reports under its jurisdiction.

SUBRECIPIENT / VENDOR AUDITS

SECTION III –SANCTIONS POLICY FOR NONCOMPLIANCE WITH AUDIT REQUIREMENTS (Cont'd.)

<u>Actor</u>	<u>Step</u>	<u>Action</u>
BOA Comptroller	2.	Where a deficient audit report has been submitted, transmits a written notice detailing the deficiencies, the possible remedial actions, and the deadline for submitting the required information. Makes a reasonable effort to work with the auditee, via telephone and letters, to resolve the deficiencies. Technical assistance shall be offered.
	3.	When reasonable efforts to resolve the deficiencies have not succeeded, refers the matter to the BFO/ARS for initiation of the sanctions process.

When the BOA or Assistant Comptroller for Audits cannot obtain an acceptable audit report, or when the BFO/ARS cannot obtain an acceptable report in accordance with DPW requirements and/or cannot obtain information adequate to resolve reported findings, the final remedial action process begins.

The following action shall be taken:

<u>Actor</u>	<u>Step</u>	<u>Action</u>
BFO/ARS	1.	<p>Where the DPW has been designated lead agency for the audit in question, drafts a memorandum for the signature of the DSA notifying all other affected state agencies of the DPW's intended actions.</p> <p>Prepares a Notice of Final Remedial Action to the recipient for the signature of the DSA notifying the recipient that:</p> <ul style="list-style-type: none">– final remedial action process has begun;– other affected state agencies have been advised;– the recipient has ten working days from the date of the letter to contact the BFO/ARS regarding its intention to comply with the audit requirements;– the recipient has 30 calendar days from the date of the letter in which to prepare and submit an acceptable plan of action, including details of who will monitor the plan and providing for the periodic submission of evidence of said implementation;– the BFO/ARS and other appropriate staff are available to meet with the recipient during the 30-day period referenced above;

SUBRECIPIENT / VENDOR AUDITS

SECTION III –SANCTIONS POLICY FOR NONCOMPLIANCE WITH AUDIT REQUIREMENTS (Cont'd.)

<u>Actor</u>	<u>Step</u>	<u>Action</u>
		<ul style="list-style-type: none">– should the recipient fail to submit an acceptable Plan of Action, the DPW initiates suspension of payments to the recipient until such time as the requirements have been met. (NOTE: Should the deficiencies involve only certain programs, the payment suspension will be limited to the programs in question.)– the DPW issues a press release to the recipient's local media noting the recipient's failure to obtain an acceptable audit and the potential for stopping payments. (NOTE: This provision is optional and is contingent upon the specific circumstances and discussions with the DPW's Welfare Press and Communications Office.)
DSA	2.	<p>Upon signing the Acceptance Notification, the DSA transmits the notice to the recipient via registered mail with copies to:</p> <ul style="list-style-type: none">– the auditor of record;– the BOA and/or the PHHS Office of the Comptroller;– other affected state agencies;– the Administrative Office of the Pennsylvania Courts (if a county Domestic Relations Section is affected);– all affected program offices; and– the DSA, Executive Deputy Secretary, and the Secretary of Public Welfare.
BFO/ARS	3.	<p>Upon request, meets with recipient to discuss necessary corrective action and provides technical assistance toward the goal of an acceptable Plan of Action. The Plan shall include:</p> <ul style="list-style-type: none">– a statement of the work to be performed and/or information to be submitted;– steps to be taken to complete the Plan;– the timetable or target dates for the steps;– a description of how the recipient will monitor the Plan;

SUBRECIPIENT / VENDOR AUDITS

SECTION III –SANCTIONS POLICY FOR NONCOMPLIANCE WITH AUDIT REQUIREMENTS (Cont'd.)

<u>Actor</u>	<u>Step</u>	<u>Action</u>
BFO/ARS		<ul style="list-style-type: none">– provisions for submitting periodic updates, as required; and– the date the Plan of Action will be completed and the required information received by the DPW. <ol style="list-style-type: none">4. Prepare and submit a letter to the DSA for signature that provides the recipient with a written notification of acceptance for the Plan of Action.5. Upon signing the acceptance letter, the DSA transmits the letter to the recipient via registered mail.6. Monitor the recipient's implementation of the Plan and provide assistance and/or coordinate involvement of other affected state agencies as necessary.7. Should the recipient fail to submit an acceptable Plan of Action to meet the target dates, or to submit the required information by the Plan's stated deadline, prepare a Payment Suspension Package for the signature of the DSA. The package should include:<ul style="list-style-type: none">– notification to the recipient that the next scheduled payment(s) will be suspended until acceptable corrective action is completed;– a memorandum to the DPW's Welfare Press and Communications Office requesting that an attached press release be issued to the recipient's local media (if this option is selected);– notification to the BFO/FRPS (for county grants) and/or the PHHS/DRC (for contracts) that all future payments to the recipient should be suspended until further notice; and– notification to the Contractor Responsibility Program pursuant to Management Directives 215.9 and 325.8.8. Upon signing the acceptance letter, the DSA transmits the notice to the recipient via registered mail with copies to:<ul style="list-style-type: none">– the auditor of record;– the BOA and/or the PHHS Office of the Comptroller;

SUBRECIPIENT / VENDOR AUDITS

SECTION III –SANCTIONS POLICY FOR NONCOMPLIANCE WITH AUDIT REQUIREMENTS (Cont'd.)

<u>Actor</u>	<u>Step</u>	<u>Action</u>
BFO/ARS		<ul style="list-style-type: none">– other affected state agencies;– The Administrative Office of the Pennsylvania Courts (if a county Domestic Relations Section is affected);– all affected program offices; and– the DSA, Executive Deputy Secretary, and the Secretary of Public Welfare. <p>9. For county payments only, notify and coordinate payment suspension with the PHHS/DRC.</p> <p>10. Monitor the situation and coordinate activities with the involved DPW program offices, other affected state agencies, and/or the PHHS/DRC.</p> <p>11. Upon receipt and acceptance of the required information, or notification of the completion of the action plan, prepare an acceptance notification to the recipient for the signature of the DSA that includes:</p> <ul style="list-style-type: none">– notification that the information/action(s) are acceptable; and that suspended payments will be released.
DSA	12.	Upon signing the acceptance letter, the DSA transmits the notice to the recipient via registered mail with copies to: <ul style="list-style-type: none">– the auditor of record;– the BOA and/or the PHHS Office of the Comptroller;– other affected state agencies;– The Administrative Office of the Pennsylvania Courts (if a county Domestic Relations Section is affected);– all affected program offices; and– the DSA, Executive Deputy Secretary, and the Secretary of Public Welfare.
BFO/FRPS	13.	Upon receiving a copy of the acceptance notification letter, release suspended payments to recipient.

SUBRECIPIENT / VENDOR AUDITS

SECTION IV – AGENCY IMPLEMENTATION OF THE SUBRECIPIENT SINGLE AUDIT AND VENDOR AUDIT POLICY

PURPOSE

A. Subrecipient

To provide guidance to program and administrative staff on their responsibilities in the implementation of Management Directive 305.21, *Payments to Local Governments and Other Subrecipients*. The Department of Public Welfare (DPW) is required to identify and account for payments of federal and state funds to local governments and subrecipients, along with the related federal and state financial assistance program names and numbers.

B. Vendor

To provide guidance to the program and administrative staff on their responsibility to effectively monitor the terms and conditions in contracts for goods and services to vendors and determine what audit clause requirements are necessary.

BACKGROUND

The Single Audit Act Amendments of 1996 and the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, require that the DPW inform its subrecipients of the source and amount of federal funding passed through the DPW.

The audit requirements stem from the need of these organizations to use information on the source and amount of all federal and state funding received. In making the determination as to whether the entity is required to have a single audit or an audit in accordance with DPW audit requirements.

POLICY

A. Subrecipient

1. Program and/or administrative staff are required to provide the following to **each** subrecipient:
 - a. The breakdown of the amount of federal and state funding passing through the DPW;
 - b. The federal agency from which the funding was received;
 - c. The federal program name for each funding stream; and
 - d. The *Catalog of Federal Domestic Assistance* (CFDA) number for each funding stream.
2. The requirements extend to **all** subrecipients, even where such payment does not involve a contract or grant agreement.
3. Subrecipients shall be promptly notified of any changes in the original funding breakdown.
4. Where the federal and state breakdown is not known at the time a grant or contract is executed, the DPW must notify the subrecipient(s) when the breakdown becomes known.

SUBRECIPIENT / VENDOR AUDITS

SECTION IV – AGENCY IMPLEMENTATION OF THE SUBRECIPIENT SINGLE AUDIT AND VENDOR AUDIT POLICY (Cont'd.)

5. Information pertaining to grants or contracts should be provided to all subrecipients, regardless of their status – nonprofit, for-profit, or government entity.
6. The policies stated in “1” through “5” above pertain to interagency agreements.

B. Vendor

The procurement process should include specific terms and conditions in the contract that will be audited against for compliance in an attestation engagement. When a contract is with a service organization and involves processing of financial, programmatic, and/or operational transactions (including organizations responsible for developing, providing and/or maintaining software) for the DPW, a Statement of Accounting Standards 70 (SAS 70), *Reports on the Processing of Transactions by Service Organizations*, have been required as part of an audit. The new standard is intended for all entities that use a service company for conducting transactions and maintaining related accountability, and/or for recording transactions and information processing.

IMPLEMENTATION

Deputy Secretaries and Office Heads shall ensure that:

1. all affected staff becomes familiar with the provisions of Management Directive 305.21.
2. affected staff are aware of the funding source information currently available, and that this information is forwarded to contractors, grantees, and other subrecipients.
3. procedures are established for the timely and accurate forwarding of information on the source and amount of federal funds to all subrecipients.
4. all affected staff become familiar with the Standards for Attestation Engagement (SSAE), Section 601, *Compliance Attestation*, and the SAS 70, *Reports on the Processing of Transactions by Service Organizations*, to ensure that procedures are established to determine the proper monitoring of the contract, along with the terms and conditions of the contract, to meet the program office's needs.

RESOURCES

1. The CFDA is available on the web at www.cfda.gov. If you do not have access to the web and need assistance, contact the BFO/ARS at (717) 787-8890. For the compliance on the CFDA, go to http://www.whitehouse.gov/omb/circulars/a133_compliance/01/01toc.html.
2. The CFDA number is generally available on the documents that accompany federal grants; however, the PHHS Office of the Comptroller, Division of Youth Grants and Cash Management, at (717) 787-9302, and Public Welfare Grant Accounting, at (717) 783-8428, may be contacted for assistance on this area. **CFDA numbers may change; therefore, the CFDA number should be confirmed annually.**

SUBRECIPIENT / VENDOR AUDITS

SECTION V – OTHER AUDIT-RELATED CONTRACT PROVISIONS

INTRODUCTION

It is important to ensure that contracts and grant agreements include specific information on the program's needs. The Single Audit Act, and the related Office of Management and Budget (OMB) Circular(s), standardized the content and format of the required audit reports. The audits are often entity-wide, and an individual program's financial information is presented as part of a much larger financial statements. The required Schedule of Expenditures of Federal Awards may have a line item for specific programs or individual grants; however, the information is required to be presented on the entity's fiscal year, not on the Department of Public Welfare's (DPW) program year.

Many program offices are quite careful to ensure that the proper audit clause is included in all agreements, but, when the audits arrive, the information still does not meet the needs of the program. Other programs are getting the needed information; however, the contracts do not actually contain such a requirement.

The nature and format of the information needed for the resolution of a contract or grant should be specified in the terms and conditions of the contract.

DISCUSSION

The DPW's procurement process allows for the program office to specify the content and format of information required for the resolution of contracts and grants.

The program office is responsible for any and all special requirements specified to the contract/grant in question. Where audited information is needed in a required format and/or time frame, or where special audit procedures are required, the terms of the contract/grant should contain clear and specific reference to these requirements.

Audit Clauses A through D state:

In addition to the compliance requirements specified by the Federal Government for Federally funded programs and regardless of the type of audit performed, the Department of Public Welfare requires that certain tests be conducted and that information specific to this contract be submitted in a prescribed format. These requirements are contained in the terms of the contract.

These provisions were established to enable the program office to specify its needs. In addition, the statement in each audit clause is the basis to enforce the receipt of the required information. However, the audit clause by itself may not provide for the receipt of adequate information.

SPECIAL REQUIREMENTS

Special requirements can be as complicated as the DPW's Single Audit Supplement, or as simple as the addition of a sentence to the terms of the contract. Programs that require a budget to be submitted and approved may simply require that a budget-to-actual presentation at the same level of detail be received with the audit. Other programs have more detailed requirements for the testing and presentation of audited information.

SUBRECIPIENT / VENDOR AUDITS

SECTION V – OTHER AUDIT-RELATED CONTRACT PROVISIONS (Cont'd.)

An exhibit of the required schedule should be attached to the Audit Clause. The schedule could be a Revenue and Expenditure Schedule or a Contractual Units of Service Schedule.

NOTE: A contract/grant should not be considered adequate simply because the program currently receives the required information in the desired format. **To ensure the receipt of adequate information, the contract must make an active statement regarding those requirements.** Without such provision, the receipt of adequate information is usually the result of an established relationship between the program, the provider, and the provider's auditor. Should **any one of the players change**, the program runs the risk of losing access to the information needed to manage and resolve the contract. Further, this loss will not be evident until the receipt and processing of the audit in the Office of the Comptroller, by which time additional "faulty" contracts for at least one subsequent period are already in place and subsequent audits may have been completed.

Finally, where the contract is likely to be part of a larger, entity-wide audit such as a Single Audit, the contract/grant language should specify that **the information is required regardless of the level of the audit.** An Independent Accountant's Report on the Attestation, **which is to be in the format described by the American Institute of Certified Public Accountants**, is to be submitted with that audit, especially where special tests are required.

Assistance with these additional requirements is available from several areas. The Bureau of Financial Operations (BFO), Division of Audit and Review, and the BFO, Audit Resolution Section (ARS), are available to assist in determining the information to be requested and the required format. Examples of special tests, provisions, and the required formats are contained in the Single Audit Supplement, which is available through the BFO/ARS. The Office of the Comptroller, Contract Management Division, provides assistance in writing the contract language for specific contract audits.

SUBRECIPIENT / VENDOR AUDITS

SECTION VI – STANDARD AUDIT CLAUSES

POLICY

All grants with **subrecipients must have** an audit requirement as part of the grant agreement; contracts with **vendors should have** an audit requirement as part of the contract, as provided below:

Audit Clause A – Subrecipient Contracts: Local Governments and Nonprofit Organizations, as attached to this Section, provides standard audit language that meets the requirements of the federal Single Audit Act Amendments of 1996; the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as amended; and the Department of Public Welfare (DPW) audit requirements.

Audit Clause B – Subrecipient Contracts: For-Profit Organizations, as attached to this Section, provides standard audit language that meets the requirements of the Department of Health and Human Services (DHHS), which has specified requirements for nonfederal audits of for-profit (commercial) organizations and the DPW audit requirements.

Audit Clause C – Vendor Contracts: Service Organizations, as attached to this Section, provides standard audit language that meets the requirement for service organizations that contract to process and maintain data records.

Audit Clause D – Vendor Contracts, as attached to this Section, provides standard audit language for a vendor when the program office determines that a financial and performance audit is needed.

Audit Clause E – Vendor Contracts: Exceptions, as attached to this Section, provides standard audit language for a vendor to adhere to the record retention requirements, and the right for state and federal auditors to perform audits if deemed necessary.

These audit clauses are specifically designed to accommodate the requirements listed above and should be used in their entirety. The language cannot be modified without the approval/ authorization of the Bureau of Financial Operations (BFO), Audit Resolution Section (ARS). Note that the federal audit requirement is a matter of law and cannot be waived. The DPW audit requirements may, in some cases, be waived with the approval of the Secretary of the DPW and the Office of the Comptroller or their designees.

CRITERIA FOR DETERMINING THE AUDIT CLAUSE TO BE USED

The following definitions are to be used to determine if the contractor/grantee is a:

Subrecipient – An entity that expends federal awards received from a pass-through entity to carry out a federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency. For purposes of this audit clause, a subrecipient **is not** a vendor that receives a procurement contract to provide generally required goods or services related to the administrative support of a federal program.

Vendor – A dealer, distributor, merchant, or other seller providing goods or services to an auditee that are required for the **administrative support** of a program. These goods or services may be for an organization's own use or for the use of beneficiaries of the federal program. The vendor's responsibility is to meet the requirements of the procurement contract.

SUBRECIPIENT / VENDOR AUDITS

SECTION VI – STANDARD AUDIT CLAUSES (Cont'd.)

The test for a subrecipient relationship is whether a subrecipient receives federal financial assistance from a recipient to carry out a program. Where a recipient enters into a procurement contract to buy goods or services, the other party to the contract is not a subrecipient for purposes of a Single Audit. The answer is the same, regardless of the type of entity involved (governmental, nonprofit, for-profit, etc.) or the form of the agreement between the parties.

Follow the criteria below to determine the correct audit clause to be used.

A. Audit Clause A – Subrecipient Contracts

This audit clause is to be used if the grantee is:

1. A local government entity, regardless of the amount provided. This includes, but is not limited to, counties and related authorities (i.e., housing or redevelopment authorities, etc.), cities and related authorities, school districts, intermediate units, and/or community colleges.
2. A nonprofit entity, regardless of the amount provided.

Audit Clause A will also be used when, in the judgment of the Office of the Comptroller and/or the BFO, the service to be provided under the contract is sufficiently complex, unusual, or sensitive that an audit is warranted.

B. Audit Clause B – Subrecipient Contracts

This audit clause is to be used if the grantee is:

1. A for-profit (commercial) organization that receive DHHS funds.

C. Audit Clause C – Vendor Contracts

This audit clause is to be used if the contractor is:

1. A service organization where a financial and performance audit is deemed necessary.
2. A service organization that processes financial, programmatic, and/or operational transactions and maintain records (i.e., electronic data processing service centers, bank trustees, insurance companies, or benefits administrators).

D. Audit Clause D – Vendor Contracts

This audit clause is to be used if the contractor is:

1. A vendor where a financial and performance audit is deemed necessary.

SUBRECIPIENT / VENDOR AUDITS

SECTION VI – STANDARD AUDIT CLAUSES (Cont'd.)

E. Audit Clause E – Vendor Contracts: Exceptions

Certain contracts and grants do not require specific audit completion requirements; however, minimum audit and retention requirements must be included. These exceptions include, but are not limited to, the following:

1. Facilities management short form contracts; and
2. Stipends.

PROGRAM OFFICE RESPONSIBILITIES

The program office is responsible for any special requirements specific to the contract/grant in question. **Where audited information is needed in a required format and/or time frame, or where special audit procedures are required, the terms of the contract/grant must contain clear and specific reference to these requirements.** Program offices should contact the Office of the Comptroller, Contract Management Division, or the BFO/ARS for assistance in writing language for specific audits.

Audit requirements governed by federal regulations cannot be waived. Audit requirements governed by DPW regulation may, in some cases, be waived with the approval of the Secretary of DPW and the Office of the Comptroller or their designees.

Should the audit requirement be waived, the terms of the contract/grant should so state. Where the determination to waive the audit requirement is made after the contract/grant is issued, the contractor/grantee should be notified in writing.

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE A – SUBRECIPIENT Local Governments and Nonprofit Organizations

The Commonwealth of Pennsylvania, Department of Public Welfare (DPW), distributes federal and state funds to local governments, nonprofit, and for-profit organizations. Federal expenditures are subject to federal audit requirements, and federal and state funding passed through DPW are subject to DPW audit requirements. If any federal statute specifically prescribes policies or specific requirements that differ from the standards provided herein, the provisions of the subsequent statute shall govern. The DPW provides the following audit requirements in accordance with the Commonwealth of Pennsylvania, Governor's Office, Management Directive 325.9, as amended August 26, 2008.

Subrecipient means an entity that expends federal awards received from a pass-through entity to carry out a federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency. For purposes of this audit clause, a subrecipient **is not** a vendor that receives a procurement contract to provide goods or services that are required to provide the administrative support to carry out a federal program.

A. Federal Audit Requirements – Local Governments and Nonprofit Organizations

A local government and nonprofit organization must comply with all federal audit requirements, including: the Single Audit Act, as amended; the revised Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*; and any other applicable law or regulation, as well as any other applicable law or regulation that may be enacted or promulgated by the federal government.

A local government or nonprofit organization that expends federal awards of \$500,000 or more during its fiscal year, received either directly from the federal government, indirectly from a pass-through entity, or a combination of both, to carry out a federal program, **is required** to have an audit made in accordance with the provisions of OMB Circular A-133, as revised.

If a local government or nonprofit organization expends **total federal awards of less than \$500,000** during its fiscal year, it is exempt from these **federal** audit requirements, but is required to maintain auditable records of federal or state funds that supplement such awards. Records must be available for review by appropriate officials. **Although an audit may not be necessary under the federal requirements, DPW audit requirements may be applicable.**

B. Department of Public Welfare Audit Requirements

A local government or nonprofit provider must meet the DPW audit requirements.

Where a Single Audit or program-specific audit is conducted in accordance with the federal audit requirements detailed above, such an audit will be accepted by the DPW provided that:

1. A full copy of the audit report is submitted as detailed below; **and**
2. The subrecipient shall ensure that the audit requirements are met for the terms of this contract; i.e., the prescribed Attestation Report and applicable schedule requirement(s). The incremental cost for preparation of the Attestation Report and the schedule cannot be charged to the federal funding stream.

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE A – SUBRECIPIENT Local Governments and Nonprofit Organizations

The local government or nonprofit organization must comply with all federal and state audit requirements including: the Single Audit Act Amendments of 1996; Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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. **In the absence of a federally required audit**, the entity is responsible for the following annual audit requirements, which are based upon the program year specified in this agreement.

Institutions that **expends \$500,000 or more in combined state and federal funds** during the program year is required to have an audit of those funds made in accordance with generally accepted *Government Auditing Standards* (The Yellow Book), revised, as published by the Comptroller General of the United States. Where such an audit is not required to meet the federal requirements, the costs related to DPW audit requirements may not be charged to federal funding streams.

If in connection with the agreement, a local government or nonprofit organization **expends \$300,000 or more in combined state and federal funds** during the program year, the subrecipient shall ensure that, for the term of the contract, an independent auditor conducts annual examinations of its compliance with the terms and conditions of this contract, as well as applicable program regulations. These examinations shall be conducted in accordance with the American Institute of Certified Public Accountants' Statements on Standards for Attestation Engagements (SSAE), Section 601, *Compliance Attestation*, and shall be of a scope acceptable to the DPW. The initial Section 601 compliance examination shall be completed for the program year specified in the contract and conducted annually thereafter. The independent auditor shall issue a report on its compliance examination as defined in SSAE, Section 601. The incremental cost for preparation of the SSAE cannot be charged to federal funding streams.

The subrecipient shall submit the SSAE, Section 601, audit report (if applicable) to the DPW within 90 days after the program year has been completed. When SSAE, Section 601, audit reports are other than unqualified, the subrecipient shall submit to the DPW, in addition to the audit reports, a plan describing what actions the subrecipient will implement to correct the situation that caused the auditor to issue a qualified report, a timetable for implementing the planned corrective actions, a process for monitoring compliance with the timetable, and a contact person who is responsible for the resolution of the situation.

If the subrecipient enters into an agreement with a subcontractor(s) for the performance of any primary contractual duties, the audit requirements are applicable to the subcontractor(s) with whom the subrecipient has entered into an agreement. Consequently, the audit requirements should be incorporated into the sub-contractual document as entered by the subrecipient.

A local government or nonprofit entity that **expends less than \$300,000 combined state and federal funds** during the program year is exempt from DPW audit requirements, but is required to maintain auditable records for each contract year. Records must be available for review by appropriate officials of the DPW or a pass-through entity.

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE A – SUBRECIPIENT Local Governments and Nonprofit Organizations

GENERAL AUDIT PROVISIONS

A local government or nonprofit organization 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 and/or performance nature, if deemed necessary by Commonwealth or federal agencies. Any such additional audit work will rely on the work already performed by the subrecipient's auditor, and the costs for any additional work performed by the federal or state agency will be borne by those agencies at no additional expense to the subrecipient.

The Commonwealth reserves the right for state and federal agencies, or their authorized representatives, to perform financial and/or performance audits if deemed necessary. If it is decided that an audit of this contract will be performed, the subrecipient will be given advance notice. The subrecipient shall maintain books, records, and documents that support the services provided, that the fees earned are in accordance with the contract, and that the subrecipient has complied with the contract terms and conditions. The subrecipient agrees to make available, upon reasonable notice, at the office of the subrecipient, during normal business hours, for the term of this contract and the retention period set forth in this Audit Clause, any of the books, records, and documents for inspection, audit, or reproduction by any state or federal agency or its authorized representative.

The subrecipient shall preserve all books, records, and documents related to this contract for a period of time that is the greater of five years from the contract expiration date, until all questioned costs or activities have been resolved to the satisfaction of the Commonwealth, or as required by applicable federal laws and regulations, whichever is longer. If this contract is completely or partially terminated, the records relating to the work terminated shall be preserved and made available for a period of five years from the date of any resulting final settlement.

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

Records that relate to litigation of the settlement of claims arising out of performance or expenditures under this contract to which exception has been taken by the auditors shall be retained by the subrecipient or provided to the Commonwealth at the DPW's option until such litigation, claim, or exceptions have reached final disposition.

Except for documentary evidence delivered pursuant to litigation or the settlement of claims arising out of the performance of the contract, the subrecipient may, in fulfillment of his obligation to retain records as required by this Audit Clause, substitute photographs, microphotographs, or other authentic reproductions of such records after the expiration of two years following the last day of the month of reimbursement to the contractor of the invoice or voucher to which such records relate, unless a shorter period is authorized by the Commonwealth.

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE A – SUBRECIPIENT Local Governments and Nonprofit Organizations

SUBMISSION OF AUDIT REPORTS TO THE COMMONWEALTH

A. Federally Required Audit Reports

Submit federally required audit reports in accordance to OMB Circular A-133, Subsection __.320, *Report Submission*. Please include the following with the submission to the Commonwealth:

1. Data Collection Form;
2. Financial statements and a Schedule of Expenditures of Federal Awards (SEFA);
3. Auditor's reports on the financial statements, the SEFA , internal control, and compliance, as well as a schedule of findings and questioned costs;
4. Summary schedule of prior audit findings;
5. Corrective Action Plan; and
6. Management letter comments.

The number of copies to be submitted to the Commonwealth of Pennsylvania shall equal one for the Bureau of Audits (archival copy), plus one for each Commonwealth agency that provided federal pass-through awards to the entity, as reflected in the entity's SEFA. The audit report package should be submitted to the:

Office of the Budget / Bureau of Audits
Division of Subrecipient Audit Review
6th Floor, Verizon Tower, Strawberry Square
303 Walnut Street
Harrisburg, Pennsylvania 17101
Phone: (717) 783-9120 FAX: (717) 783-0361

After processing of the report by the Bureau of Audits, a copy will be sent to the DPW.

B. DPW Required Audit Reports and Additional Submission by Subrecipients

Submit **three copies** of the DPW required audit report package.

1. Independent Accountant's Report – on the Attestation of an entity's compliance with specific requirements during a period of time in accordance with the contract and the appropriate schedule, as required.

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE A – SUBRECIPIENT Local Governments and Nonprofit Organizations

2. In addition, if OMB Circular A-133, §__.320 (e), *Submission by Subrecipients*, applies, please submit the audit requirements directly to:

U.S. Postal Service: Department of Public Welfare
Bureau of Financial Operations
Division of Financial Policy and Operations
Audit Resolution Section
3rd Floor, Bertolino Building
P. O. Box 2675
Harrisburg, Pennsylvania 17102-2675

Special Deliveries: 3rd Floor, Bertolino Building
1401 North Seventh Street
Harrisburg, Pennsylvania 17102
Phone: (717) 787-8890 Fax: (717) 772-2522

PERIOD SUBJECT TO AUDIT

A federally required audit, made in accordance with OMB Circular A-133, encompasses the fiscal period of the provider. **Therefore, the period of the federally required audit may differ from the official reporting period as specified in this agreement.** Where these periods differ, the required supplement schedule(s) and Independent Auditor's Report on the Attestation must be completed for the official annual reporting period of this agreement that ended during the period under audit and shall accompany the federally required audit.

CORRECTIVE ACTION PLAN

The provider shall prepare a corrective action plan (CAP) to address all findings of noncompliance, internal control weaknesses, and/or reportable conditions disclosed in the audit report. For each finding noted, the CAP should include: (1) a brief description identifying the findings; (2) whether the provider agrees with the finding; (3) the specific steps to be taken to correct the deficiency or specific reasons why corrective action is not necessary; (4) a timetable for completion of the corrective action steps; and (5) a description of monitoring to be performed to ensure that the steps are taken (6) the responsible party for the CAP.

REMEDIES FOR NONCOMPLIANCE

The provider's failure to provide an acceptable audit, in accordance with the requirements of the Audit Clause Requirements, may result in the DPW's not accepting the report and initiating sanctions against the provider that may include the following:

- Disallowing the cost of the audit.
- Withholding a percentage of the contract funding pending compliance.
- Withholding or disallowing administrative costs.
- Suspending subsequent contract funding pending compliance.

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE A – SUBRECIPIENT Local Governments and Nonprofit Organizations

TECHNICAL ASSISTANCE

Technical assistance on the DPW's audit requirements, and the integration of those requirements with the federal Single Audit requirements, will be provided by:

Department of Public Welfare
Bureau of Financial Operations
Division of Financial Policy and Operations
Audit Resolution Section
3rd Floor, Bertolino Building
P.O. Box 2675
Harrisburg, Pennsylvania 17105-2675
Phone: (717) 787-8890 FAX: (717) 772-2522

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE A – SUBRECIPIENT Local Governments and Nonprofit Organizations ENCLOSURE I

The Department of Public Welfare (DPW) requires an Independent Accountant's Report on the Attestation to be in the format described by the American Institute of Certified Public Accountants (AICPA). The following is the form of report an Independent Accountant should use when expressing an opinion on an entity's compliance with specified requirements during a period of time. For further guidance, refer to the AICPA guidelines.

Independent Accountant's Report

[Introductory Paragraph]

We have examined [*name of entity*]'s compliance with [*list specific compliance requirement*] during the [*period*] ended [*date*]. Management is responsible for [*name of entity*]'s compliance with those requirements. Our responsibility is to express an opinion on [*name of entity*]'s compliance based on our examination.

[Scope Paragraph]

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about [*name of entity*]'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on [*name of entity*]'s compliance with specified requirements.

[Opinion Paragraph]

In our opinion, [*name of entity*] complied, in all material respects, with the aforementioned requirements for the year ended December 31, 20XX.

[DATE]

[SIGNATURE]

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE B – SUBRECIPIENT For-Profit Organizations

The Commonwealth of Pennsylvania, Department of Public Welfare (DPW), distributes federal and state funds to local governments, nonprofit, and for-profit organizations. Federal expenditures are subject to federal audit requirements, and federal and state funding passed through DPW are subject to DPW audit requirements. If any federal statute specifically prescribes policies or specific requirements that differ from the standards provided herein, the provisions of the subsequent statute shall govern. The DPW provides the following audit requirements in accordance with the Commonwealth of Pennsylvania, Governor's Office, Management Directive 325.9, as amended August 26, 2008.

Subrecipient means an entity that expends federal awards received from a pass-through entity to carry out a federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency. For purposes of this audit clause, a subrecipient **is not** a vendor that receives a procurement contract to provide goods or services that are required to provide the administrative support to carry out a federal program.

A. Federal Audit Requirements – For-Profit Organizations

The for-profit organization must comply with all federal and state audit requirements including: the Single Audit Act Amendments of 1996; Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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.

A for-profit organization **is required** to have an audit if it expends a total of \$500,000 or more in federal funds under one or more Department of Health and Human Services (DHHS) federal awards. Title 45, CFR 74.26, incorporates the thresholds and deadlines of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, but provides for-profit organizations with two options regarding the type of audit that will satisfy the audit requirements:

1. An audit made in accordance with generally accepted *Government Auditing Standards* (The Yellow Book), revised; or
2. An audit that meets the requirements contained in OMB Circular A-133.

A for-profit organization **is required** to have an audit, in accordance with the above audit requirements, if it expends a total of \$500,000 or more of federal awards directly or indirectly during its fiscal year.

If a for-profit organization expends **total federal awards of less than \$500,000** during its fiscal year, it is exempt from these **federal** audit requirements, but is required to maintain auditable records of federal or state funds that supplement such awards. Records must be available for review by appropriate officials. **Although an audit may not be necessary under the federal requirements, DPW audit requirements may be applicable.**

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE B – SUBRECIPIENT For-Profit Organizations

B. Department of Public Welfare Audit Requirements

A for-profit provider must meet the DPW audit requirements.

Where a Single Audit or program-specific audit is conducted in accordance with the federal audit requirements detailed above, such an audit will be accepted by the DPW provided that:

1. A full copy of the audit report is submitted as detailed below; **and**
2. The subrecipient shall ensure that the audit requirements are met for the terms of this contract; i.e., the prescribed Attestation Report and applicable schedule requirement(s). The incremental cost for preparation of the Attestation Report and the schedule cannot be charged to the federal funding stream.

In the absence of a federally required audit, the entity is responsible for the following annual audit requirements, which are based upon the program year specified in this agreement.

If in connection with the agreement, a for-profit organization **expends \$300,000 or more in combined state and federal funds** during the program year, the subrecipient shall ensure that, for the term of the contract, an independent auditor conducts annual examinations of its compliance with the terms and conditions of this contract. These examinations shall be conducted in accordance with the American Institute of Certified Public Accountants' Statements on Standards for Attestation Engagements (SSAE), Section 601, *Compliance Attestation*, and shall be of a scope acceptable to the DPW. The initial Section 601 compliance examination shall be completed for the program year specified in the contract and conducted annually thereafter. The independent auditor shall issue a report on its compliance examination as defined in SSAE, Section 601. The incremental cost for preparation of the SSAE cannot be charged to federal funding streams.

The subrecipient shall submit the SSAE, Section 601, audit reports (if applicable) to the DPW within 90 days after the program year has been completed. When the SSAE, Section 601, audit reports are other than unqualified, the subrecipient shall submit to the DPW, in addition to the audit reports, a plan describing what actions the subrecipient will implement to correct the situation that caused the auditor to issue a qualified report, a timetable for implementing the planned corrective actions, and a process for monitoring compliance with the timetable and a contact person who is responsible for the resolution of the situation.

If the subrecipient enters into an agreement with a subcontractor(s) for performance of any primary contractual duties, the audit requirements are applicable to the subcontractor(s) with whom the subrecipient has entered into an agreement. Consequently, the audit requirements should be incorporated into the sub-contractual document as entered by the subrecipient.

A for-profit entity that **expends less than \$300,000 combined state and federal funds** during the program year is exempt from DPW audit requirements, but is required to maintain auditable records for each contract year. Records must be available for review by appropriate officials of the DPW or a pass-through entity.

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE B – SUBRECIPIENT For-Profit Organizations

GENERAL AUDIT PROVISIONS

A for-profit organization 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 state and federal agencies, or their authorized representatives, to perform financial and/or performance audits if deemed necessary by the Commonwealth or federal agencies. Any such additional audit work will rely on the work already performed by the subrecipient's auditor, and the costs for any additional work performed by the federal or state agency will be borne by those agencies at no additional expense to the subrecipient.

The Commonwealth reserves the right for state and federal agencies, or their authorized representatives, to perform financial and/or performance audits if deemed necessary. If it is decided that an audit of this contract will be performed, the subrecipient will be given advance notice. The subrecipient shall maintain books, records, and documents that support the services provided, that the fees earned are in accordance with the contract, and that the subrecipient has complied with the contract terms and conditions. The subrecipient agrees to make available, upon reasonable notice, at the office of the subrecipient, during normal business hours, for the term of this contract and the retention period set forth in this Audit Clause, any of the books, records, and documents for inspection, audit, or reproduction by any state or federal agency or its authorized representative.

The subrecipient shall maintain books, records, and documents related to this contract for a period of five years from the contract expiration date, until all questioned costs or activities have been resolved to the satisfaction of the Commonwealth, or as required by applicable federal laws and regulations, whichever is longer. Any records that support the services provided, that the fees earned are in accordance with the contract, and that the subrecipient has complied with contract terms and conditions must be maintained. The subrecipient agrees to make available, upon reasonable notice, at the office of the subrecipient, during normal business hours, for the term of this contract and the retention period set forth in this Audit Clause, any of the books, records, and documents for inspection, audit, or reproduction by any state or federal agency or its authorized representative.

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

Records that relate to litigation of the settlement of claims arising out of performance or expenditures under this contract to which exception has been taken by the auditors shall be retained by the subrecipient or provided to the Commonwealth at the DPW's option until such litigation, claim, or exceptions have reached final disposition.

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE B – SUBRECIPIENT For-Profit Organizations

Except for documentary evidence delivered pursuant to litigation or the settlement of claims arising out of the performance of the contract, the subrecipient may, in fulfillment of his obligation to retain records as required by this Audit Clause, substitute photographs, microphotographs, or other authentic reproductions of such records after the expiration of two years following the last day of the month of reimbursement to the contractor of the invoice or voucher to which such records relate, unless a shorter period is authorized by the Commonwealth.

SUBMISSION OF AUDIT REPORT TO THE COMMONWEALTH

A. Federally Required Audit Reports

Submit federally required audit reports in accordance to OMB Circular A-133, Subsection __.320, *Report Submission*. Please include the following with the submission to the Commonwealth:

1. Data Collection Form;
2. Financial statements and a Schedule of Expenditures of Federal Awards (SEFA) (**not applicable** to a Yellow Book audit);
3. Auditor's reports on the financial statements, the SEFA, internal control, and compliance, as well as a schedule of findings and questioned costs;
4. Summary schedule of prior audit findings;
5. Corrective Action Plan; and
6. Management letter comments.

The number of copies to be submitted to the Commonwealth of Pennsylvania shall equal one for the Bureau of Audits (archival copy), plus one for each Commonwealth agency that provided federal pass-through awards to the entity, as reflected in the entity's SEFA. The audit report package should be submitted to the:

Office of the Budget / Bureau of Audits
Division of Subrecipient Audit Review
6th Floor, Verizon Tower, Strawberry Square
303 Walnut Street
Harrisburg, Pennsylvania 17101
Phone: (717) 783-9120 FAX: (717) 783-0361

After processing of the report by the Bureau of Audits, a copy will be sent to the DPW.

SUBRECIPIENT / VENDOR AUDITS

SUBRECIPIENT AUDIT CLAUSE B For-Profit Organization

B. DPW Required Audit Reports and Additional Submission by Subrecipients

Submit **three copies** of the DPW required audit report package.

1. Independent Accountant's Report – on the Attestation of an entity's compliance with specific requirements during a period of time in accordance with the contract and the appropriate schedule, as required.
2. In addition, if OMB Circular A-133, §__.320 (e), *Submission by Subrecipients*, applies, please submit the audit requirements directly to:

U.S. Postal Service: Department of Public Welfare
Bureau of Financial Operations
Division of Financial Policy and Operations
Audit Resolution Section
3rd Floor, Bertolino Building
P. O. Box 2675
Harrisburg, Pennsylvania 17102-2675

Special Deliveries 3rd Floor, Bertolino Building
1401 North Seventh Street
Harrisburg, Pennsylvania 17102
Phone: (717) 787-8890 Fax: (717) 772-2522

PERIOD SUBJECT TO AUDIT

A federally required audit, made in accordance with OMB Circular A-133, encompasses the fiscal period of the auditee. **Therefore, the period of the federally required audit may differ from the official reporting period as specified in this agreement.** Where these periods differ, the required supplement schedule and an Independent Auditor's Report on the Attestation must be completed for the official annual reporting period of this agreement that ended during the period under audit and shall accompany the federally required audit.

CORRECTIVE ACTION PLAN

The provider shall prepare a corrective action plan (CAP) to address all findings of noncompliance, internal control weaknesses, and/or reportable conditions disclosed in the audit report. For each finding noted, the CAP should include: (1) a brief description identifying the findings; (2) whether the auditee agrees with the finding; (3) the specific steps to be taken to correct the deficiency or specific reasons why corrective action is not necessary; (4) a timetable for completion of the corrective action steps; and (5) a description of monitoring to be performed to ensure that the steps are taken. (6) the responsible party for the CAP.

SUBRECIPIENT / VENDOR AUDITS

SUBRECIPIENT AUDIT CLAUSE B For-Profit Organization

REMEDIES FOR NONCOMPLIANCE

The provider's failure to provide an acceptable audit, in accordance with the requirements of the Audit Clause Requirements, may result in the DPW's not accepting the report and initiating sanctions against the Provider that may include the following:

- Disallowing the cost of the audit.
- Withholding a percentage of the contract funding pending compliance.
- Withholding or disallowing administrative costs.
- Suspending subsequent contract funding pending compliance.

TECHNICAL ASSISTANCE

Technical assistance on the DPW's audit requirements, and the integration of those requirements with the federal Single Audit requirements, will be provided by:

Department of Public Welfare
Bureau of Financial Operations
Division of Financial Policy and Operations
Audit Resolution Section
3rd Floor, Bertolino Building
P.O. Box 2675
Harrisburg, Pennsylvania 17105-2675
Phone: (717) 787-8890 FAX: (717) 772-2522

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE B For-Profit Organization ENCLOSURE I

Independent Accountant's Report

The Department of Public Welfare (DPW) requires an Independent Accountant's Report on the Attestation to be in the format described by the American Institute of Certified Public Accountants (AICPA). The following is the form of report an Independent Accountant should use when expressing an opinion on an entity's compliance with specified requirements during a period of time. For further guidance, refer to the AICPA guidelines.

Independent Accountant's Report

[Introductory Paragraph]

We have examined *[name of entity]*'s compliance with *[list specific compliance requirement]* during the *[period]* ended *[date]*. Management is responsible for *[name of entity]*'s compliance with those requirements. Our responsibility is to express an opinion on *[name of entity]*'s compliance based on our examination.

[Scope Paragraph]

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about *[name of entity]*'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on *[name of entity]*'s compliance with specified requirements.

[Opinion Paragraph]

In our opinion, *[name of entity]* complied, in all material respects, with the aforementioned requirements for the year ended December 31, 20XX.

[DATE]

[SIGNATURE]

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE C – VENDOR Service Organizations

The Commonwealth of Pennsylvania, Department of Public Welfare (DPW), distributes federal and state funds to local governments, nonprofit, and for-profit organizations. Federal expenditures are subject to federal audit requirements, and federal funding and state funding passed through DPW are subject to DPW audit requirements. If any federal statute specifically prescribes policies or specific requirements that differ from the standards provided herein, the provisions of the subsequent statute shall govern.

Vendor means a dealer, distributor, merchant, or other seller providing goods or services to an auditee that are required for the **administrative support** of a program. These goods or services may be for an organization's own use or for the use of beneficiaries of the federal program. The vendor's responsibility is to meet the requirements of the procurement contract.

Department of Public Welfare Audit Requirements

If in connection with the agreement, an entity **expends \$300,000 or more in combined state and federal funds** during the program year, the entity shall ensure that, for the term of the contract, an independent auditor conducts annual examinations of its compliance with the terms and conditions of this contract. These examinations shall be conducted in accordance with the American Institute of Certified Public Accountants' Statements on Standards for Attestation Engagements (SSAE), Section 601, *Compliance Attestation*, and shall be of a scope acceptable to the DPW. The contractor shall also ensure that an independent auditor performs an audit of its policies and procedures applicable to the processing of transactions. These audits shall be performed in accordance with the Statement on Auditing Standards 70 (SAS 70), *Reports on the Processing of Transactions by Service Organizations*. The initial SAS 70 audit shall be completed for the official annual reporting period of this agreement and conducted annually thereafter. The independent auditor shall issue reports on its compliance examination, as defined in the SSAE, Section 601, and on the policies and procedures placed in operation and the tests of operating effectiveness, as defined in SAS 70.

The Commonwealth reserves the right for state and federal agencies, or their authorized representatives, to perform financial and performance audits if deemed necessary. If it is decided that an audit of this contract will be performed, the contractor will be given advance notice. The contractor shall maintain books, records, and documents that support the services provided, that the fees earned are in accordance with the contract, and that the contractor has complied with contract terms and conditions. The contractor agrees to make available, upon reasonable notice, at the office of the contractor, during normal business hours, for the term of this contract and the retention period set forth in this Audit Clause, any of the books, records, and documents for inspection, audit, or reproduction by any state or federal agency or its authorized representative.

The contractor shall preserve all books, records, and documents related to this contract for a period of time that is the greater of five years from the contract expiration date, until all questioned costs or activities have been resolved to the satisfaction of the Commonwealth, or as required by applicable federal laws and regulations, whichever is longer. If this contract is completely or partially terminated, the records relating to the work terminated shall be preserved and made available for a period of five years from the date of any resulting final settlement.

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE C – VENDOR Service Organizations

Records that relate to litigation or the settlement of claims arising out of performance or expenditures under this contract to which exception has been taken by the auditors, shall be retained by the contractor or provided to the Commonwealth at the DPW's option until such litigation, claim, or exceptions have reached final disposition.

Except for documentary evidence delivered pursuant to litigation or the settlement of claims arising out of the performance of this contract, the contractor may, in fulfillment of his obligation to retain records as required by this Audit Clause, substitute photographs, microphotographs, or other authentic reproductions of such records, after the expiration of two years following the last day of the month of reimbursement to the contractor of the invoice or voucher to which such records relate, unless a shorter period is authorized by the Commonwealth.

DPW Required Audit Report Submission

The contractor shall submit the SSAE, Section 601, and SAS 70 audit reports to the DPW within 90 days after the required period of audit has ended. When either the SSAE, Section 601, or SAS 70 audit reports are other than unqualified, the contractor shall submit to the DPW, in addition to the audit reports, a plan describing what actions the contractor will implement to correct the situation that caused the auditor to issue a qualified report, a timetable for implementing the planned corrective actions, and a process for monitoring compliance with the timetable and the contact person who is responsible for resolution.

Submit **two copies** of the DPW required audit report package.

1. Independent Accountant's Report – on the Attestation of an entity's compliance with specific requirements during a period of time in accordance with the contract and the appropriate schedule, as required.
2. Submit the audit report directly to the program office.

REMEDIES FOR NONCOMPLIANCE

The provider's failure to provide an acceptable audit, in accordance with the requirements of the Audit Clause Requirements, may result in the DPW's not accepting the report and initiating sanctions against the contractor that may include the following:

- Disallowing the cost of the audit.
- Withholding a percentage of the contract funding pending compliance.
- Suspending subsequent contract funding pending compliance.

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE C – VENDOR Service Organizations

TECHNICAL ASSISTANCE

Technical assistance on the DPW's audit requirements, will be provided by:

Department of Public Welfare
Bureau of Financial Operations
Division of Financial Policy and Operations
Audit Resolution Section
3rd Floor, Bertolino Building
P.O. Box 2675
Harrisburg, Pennsylvania 17105-2675
Phone: (717) 787-8890 FAX: (717) 772-2522

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE C – VENDOR Service Organizations ENCLOSURE I

The Department of Public Welfare (DPW) requires an Independent Accountant's Report on the Attestation to be in the format described by the American Institute of Certified Public Accountants (AICPA). The following is the form of report an Independent Accountant should use when expressing an opinion on an entity's compliance with specified requirements during a period of time. For further guidance, refer to the AICPA guidelines.

Independent Accountant's Report

[Introductory Paragraph]

We have examined [*name of entity*]'s compliance with [*list specific compliance requirement*] during the [*period*] ended [*date*]. Management is responsible for [*name of entity*]'s compliance with those requirements. Our responsibility is to express an opinion on [*name of entity*]'s compliance based on our examination.

[Scope Paragraph]

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about [*name of entity*]'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on [*name of entity*]'s compliance with specified requirements.

[Opinion Paragraph]

In our opinion, [*name of entity*] complied, in all material respects, with the aforementioned requirements for the year ended December 31, 20XX.

[DATE]

[SIGNATURE]

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE D – VENDOR

The Commonwealth of Pennsylvania, Department of Public Welfare (DPW), distributes federal and state funds to local governments, nonprofit, and for-profit organizations. Federal expenditures are subject to federal audit requirements, and federal funding and state funding passed through DPW are subject to DPW audit requirements. If any federal statute specifically prescribes policies or specific requirements that differ from the standards provided herein, the provisions of the subsequent statute shall govern.

Vendor means a dealer, distributor, merchant, or other seller providing goods or services to an auditee that are required for the **administrative support** of a program. These goods or services may be for an organization's own use or for the use of beneficiaries of the federal program. The vendor's responsibility is to meet the requirements of the procurement contract.

Department of Public Welfare Audit Requirement

If in connection with the agreement, an entity **expends \$300,000 or more in combined state and federal funds** during the program year, the entity shall ensure that, for the term of the contract, an independent auditor conducts annual examinations of its compliance with the terms and conditions of this contract. These examinations shall be conducted in accordance with the American Institute of Certified Public Accountants' Statements on Standards for Attestation Engagements (SSAE), examinations, Section 601, *Compliance Attestation*, and shall be of a scope acceptable to the DPW. The initial SSAE, Section 601, compliance examination shall be completed for the official annual reporting period of this agreement and conducted annually thereafter. The independent auditor shall issue a report on its compliance examination, as defined in the SSAE, Section 601.

The Commonwealth reserves the right for state and federal agencies, or their authorized representatives, to perform financial and performance audits if deemed necessary. If it is decided that an audit of this contract will be performed, the contractor will be given advance notice. The contractor shall maintain books, records, and documents that support the services provided, that the fees earned are in accordance with the contract, and that the contractor has complied with contract terms and conditions. The contractor agrees to make available, upon reasonable notice, at the office of the contractor, during normal business hours, for the term of this contract and the retention period set forth in this Audit Clause, any of the books, records, and documents for inspection, audit, or reproduction by any state or federal agency or its authorized representative.

The contractor shall preserve all books, records, and documents related to this contract for a period of time that is the greater of five years from the contract expiration date, until all questioned costs or activities have been resolved to the satisfaction of the Commonwealth, or as required by applicable federal laws and regulations, whichever is longer. If this contract is completely or partially terminated, the records relating to the work terminated shall be preserved and made available for a period of five years from the date of any resulting final settlement.

Records that relate to litigation or the settlement of claims arising out of performance or expenditures under this contract to which exception has been taken by the auditors, shall be retained by the contractor or provided to the Commonwealth at the DPW's option until such litigation, claim, or exceptions have reached final disposition.

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE D – VENDOR

Except for documentary evidence delivered pursuant to litigation or the settlement of claims arising out of the performance of this contract, the contractor may, in fulfillment of his obligation to retain records as required by this Audit Clause, substitute photographs, microphotographs, or other authentic reproductions of such records, after the expiration of two years following the last day of the month of reimbursement to the contractor of the invoice or voucher to which such records relate, unless a shorter period is authorized by the Commonwealth

DPW Required Audit Report Submission

The contractor shall submit the SSAE, Section 601 audit report to the DPW within 90 days after the required period of audit has ended. When the SSAE, Section 601, audit report is other than unqualified, the contractor shall submit to the DPW, in addition to the audit reports, a plan describing what actions the contractor will implement to correct the situation that caused the auditor to issue a qualified report, a timetable for implementing the planned corrective actions, and a process for monitoring compliance with the timetable.

Submit **two copies** of the DPW required audit report package.

1. Independent Accountant's Report – on the Attestation of an entity's compliance with specific requirements during a period of time in accordance with the contract and the appropriate schedule, as required.
2. Submit the audit report directly to the program office.

REMEDIES FOR NONCOMPLIANCE

The provider's failure to provide an acceptable audit, in accordance with the requirements of the Audit Clause Requirements, may result in the DPW's not accepting the report and initiating sanctions against the contractor that may include the following:

- Disallowing the cost of the audit.
- Withholding a percentage of the contract funding pending compliance.
- Suspending subsequent contract funding pending compliance.

TECHNICAL ASSISTANCE

Technical assistance on the DPW's audit requirements, will be provided by:

Department of Public Welfare
Bureau of Financial Operations
Division of Financial Policy and Operations
Audit Resolution Section
3rd Floor, Bertolino Building
P.O. Box 2675
Harrisburg, Pennsylvania 17105-2675
Phone: (717) 787-8890 FAX: (717) 772-2522

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE D – VENDOR ENCLOSURE I

The Department of Public Welfare (DPW) requires an Independent Accountant's Report on the Attestation to be in the format described by the American Institute of Certified Public Accountants (AICPA). The following is the form of report an Independent Accountant should use when expressing an opinion on an entity's compliance with specified requirements during a period of time. For further guidance, refer to the AICPA guidelines.

Independent Accountant's Report

[Introductory Paragraph]

We have examined *[name of entity]*'s compliance with *[list specific compliance requirement]* during the *[period]* ended *[date]*. Management is responsible for *[name of entity]*'s compliance with those requirements. Our responsibility is to express an opinion on *[name of entity]*'s compliance based on our examination.

[Scope Paragraph]

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about *[name of entity]*'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on *[name of entity]*'s compliance with specified requirements.

[Opinion Paragraph]

In our opinion, *[name of entity]* complied, in all material respects, with the aforementioned requirements for the year ended December 31, 20XX.

[DATE]

[SIGNATURE]

SUBRECIPIENT / VENDOR AUDITS

AUDIT CLAUSE E – VENDOR Exceptions

NOTE: This Audit Clause should not be used in most instances – only for instances when no specific audit requirement is warranted.

The Commonwealth reserves the right for state and federal agencies, or their authorized representatives, to perform financial and performance audits if deemed necessary. If it is decided that an audit of this contract will be performed, the contractor will be given advance notice. The contractor shall maintain books, records, and documents that support the services provided, that the fees earned are in accordance with the contract, and that the contractor has complied with contract terms and conditions. The contractor agrees to make available, upon reasonable notice, at the office of the contractor, during normal business hours, for the term of this contract and the retention period set forth in this Audit Clause, any of the books, records, and documents for inspection, audit, or reproduction by any state or federal agency or its authorized representative.

The contractor shall preserve all books, records, and documents related to this contract for a period of time that is the greater of five years from the contract expiration date, until all questioned costs or activities have been resolved to the satisfaction of the Commonwealth, or as required by applicable federal laws and regulations, whichever is longer. If this contract is completely or partially terminated, the records relating to the work terminated shall be preserved and made available for a period of four years from the date of any resulting final settlement.

Records that relate to litigation or the settlement of claims arising out of performance or expenditures under this contract to which exception has been taken by the auditors, shall be retained by the contractor or provided to the Commonwealth at the Department of Public Welfare's option until such litigation, claim, or exceptions have reached final disposition.

Except for documentary evidence delivered pursuant to litigation or the settlement of claims arising out of the performance of this contract, the contractor may, in fulfillment of his obligation to retain records as required by this Audit Clause, substitute photographs, microphotographs, or other acceptable reproductions of such records, after the expiration of two years following the last day of the month of reimbursement to the contractor of the invoice or voucher to which such records relate, unless a shorter period is authorized by the Commonwealth.