

# MANAGEMENT DIRECTIVE

## Commonwealth of Pennsylvania Governor's Office

**Subject:**

State-Level Single Audit Costs

**Number:**

325.5 Amended

**Date:**

August 17, 2009

**By Direction of:**  
Mary A. Soderberg, Secretary of the Budget**Contact Agency:**

Office of the Budget, Office of Comptroller Operations, Bureau of Financial Management (BFM), Telephone 717-787-6496

**This directive establishes policy, responsibilities, and procedures for ensuring adequate funding is provided for state-level single audit responsibilities, and audit costs are charged to federal grants within related appropriations. Responsibilities and procedures have been updated to reflect the Office of the Budget, Office of Comptroller Operations reorganization. Marginal dots are excluded due to major changes.**

- 1. PURPOSE.** To establish policy, responsibilities, and procedures for ensuring adequate funding is provided for state-level single audit responsibilities, and for charging federal grants within related appropriations for state-level single audit costs incurred during the state-level single audit process, in accordance with *Executive Order 1986-1, Commonwealth Single Audit Coordinator and U.S. Office of Management and Budget, Circular A-133, Audits of States, Local Governments and Non-Profit Organizations (OMB Circular A-133)*.
- 2. SCOPE.**
  - a.** This directive applies to all departments, boards, commissions, and councils (hereinafter referred to as "agencies") under the Governor's jurisdiction that administer federal awards, subject to *Executive Order 1986-1, Commonwealth Single Audit Coordinator* and to *OMB Circular A-133*.
  - b.** This directive does not apply to costs incurred by other independent auditors during their examination of subrecipient (subgrantee) federal awards.
- 3. OBJECTIVE.** To ensure that adequate funding is provided for state-level single audit responsibilities, and that state-level single audit costs are charged to federal grants within related appropriations in a practical, fair, consistent, and reasonable manner.

#### 4. DEFINITIONS.

- a. **Budget Period.** The state fiscal year in which the state-level single audit costs are paid.
- b. **Commonwealth Single Audit Coordinator.** Under *Executive Order 1986-1, Commonwealth Single Audit Coordinator*, the Office of the Budget is designated as the Commonwealth Single Audit Coordinator. The Secretary of the Budget has delegated the functions of the Commonwealth Single Audit Coordinator to the Office of Comptroller Operations.
- c. **Deputy Secretary for Comptroller Operations.** Office of the Budget, Office of Comptroller Operations, Chief Accounting Officer.
- d. **Federal Award.** Federal financial assistance and federal cost-reimbursement contracts received directly from the federal government or indirectly from pass-through agencies. It does not include procurement contracts under grants or contracts to buy goods or services from vendors.
- e. **Federal Financial Assistance.** Assistance that non-federal 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, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals under the Medicare and Medicaid programs.
- f. **Government Auditing Standards (commonly referred to as the "Yellow Book").** A publication issued by the U.S. Government Accountability Office, Comptroller General of the United States, that contains standards for audits of government organizations, programs, activities, functions, and of government assistance received by contractors, nonprofit organizations, and other nongovernment organizations.
- g. **Single Audit Report.** A formal written document disclosing the results of the state-level single audit process. This report is a culmination of the auditor's efforts and describes the scope, efforts, and results of the state-level single audit and makes recommendations, when applicable, to correct noted deficiencies.
- h. **Single Auditors.** Independent auditors engaged singly, jointly, or severally to perform the commonwealth's state-level single audit.
- i. **State-Level Single Audit.** A financial audit, as defined in Government Auditing Standards, of the commonwealth's organizations, programs, activities, functions, and federal awards under the provisions of *OMB Circular A-133*.
- j. **State-Level Single Audit Costs.** Costs incurred by the Office of the Budget, Office of Comptroller Operations, Bureau of Audits (BOA) and single auditors implementing and complying with *OMB Circular A-133*.

## 5. POLICY.

- a. The state-level single audit will be performed by single auditors, in accordance with *OMB Circular A-133*. State-level single audits will occur on an annual basis.
- b. State-level single audit costs can be charged to federal grant administrative funds in accordance with the instructions provided in Enclosure 2, Instructions for Charging State-Level Single Audit Costs.
- c. Agencies should budget for and charge state-level single audit costs to individual federal grants within related appropriations in accordance with applicable federal regulations, *Management Directive 110.3, Budgeting and Accounting for Federal Appropriations*, and instructions provided in Enclosure 1, Instructions for Budgeting State-Level Single Audit Costs and Enclosure 2, Instructions for Charging State-Level Single Audit Costs. Methodology employed for charging state-level single audit costs to eligible federal grants, outlined in Enclosure 2, Instructions for Charging State-Level Single Audit Costs, should be consistent with the methodology for calculating estimated agency state-level single audit costs used in the related budgeting process outlined in Enclosure 1, Instructions for Budgeting State-Level Single Audit Costs.
- d. Requests for exceptions to policy, responsibilities, and procedures contained herein must be made by agencies, in writing, to BFM. Responses to such requests will be made, in writing, to requesting agencies by BFM, upon approval of the Deputy Secretary for Comptroller Operations and the Office of the Budget, Governor's Budget Office, Bureau of Budget Analysis.

## 6. RESPONSIBILITIES.

### a. Agencies will:

- (1) Provide for state-level single audit costs incurred during the state-level single audit, as part of the budgetary process, in accordance with this directive.
- (2) On the basis of state-level single audit costs billings received from BFM, charge individual federal grants within related appropriations for state-level single audit costs in accordance with this directive.
- (3) Authorize payments to the Office of the Budget, Office of Comptroller Operations, for state-level single audit costs incurred annually.

### b. Office of the Budget, Office of Comptroller Operations, Bureau of Financial Management will:

- (1) Develop policy for accumulating time and costs incurred in performing Commonwealth Single Audit Coordinator responsibilities.
- (2) Review billings received from single auditors for reasonableness. Summarize allowable single auditors' costs and reimbursable state-level single audit costs incurred by the Office of the Budget.

- (3) Coordinate the billings of state-level single audit costs to applicable commonwealth agencies on the basis of a ratio of total agency federal grant expenditures subject to audit during a given audit period to total commonwealth federal grant expenditures subject to audit during the same audit period.
  - (4) Coordinate the processing of payments to single auditors for state-level audit costs incurred during the performance of the state-level single audit.
  - (5) Review agency requests for alternative funding sources and variances from defined policy and responsibility and issue formal response to such requests upon approval of the Deputy Secretary for Comptroller Operations and the Governor's Budget Office, Bureau of Budget Analysis.
- c. **Office of the Budget, Office of Comptroller Operations, Bureau of Audits** will compile reimbursable state-level single audit costs/hours incurred by the Bureau of Audits staff and forward to BFM.
  - d. **Office of the Budget, Office of Comptroller Operations, Bureau of Commonwealth Accounting** will:
    - (1) Assist agencies in allocating state-level single audit costs to federal grants in accordance with this directive.
    - (2) Monitor agency compliance with audit funding policy contained herein to ensure that state-level single audit costs incurred are charged to federal grants in a practical, fair, consistent, and reasonable manner.
    - (3) Process payments of state-level single audit costs in a timely manner.

## 7. PROCEDURES.

- a. **Action By: Single Auditors.** Perform state-level single audit.
- b. **Action By: Office of the Budget, Office of Comptroller Operations, Bureau of Financial Management/Bureau of Audits.** Perform state-level single audit responsibilities assigned to the Office of the Budget, Office of Comptroller Operations, functioning as Commonwealth Single Audit Coordinator.
- c. **Action By: Single Auditors.** Prepare and forward billings for state-level single audit costs to BFM.
- d. **Action By: Office of the Budget, Office of Comptroller Operations, Bureau of Financial Management.**
  - (1) Analyze and summarize state-level single audit billings and coordinate the processing of payments and reimbursements to the single auditors.

- (2) Summarize costs and hours claimed by the single auditors and the Office of the Budget, Office of Comptroller Operations, respectively.
- (3) Prepare the allocation of state-level single audit costs to applicable agencies for billing purposes.

**e. Action By: Agencies.**

- (1) Budget for state-level single audit costs in accordance with this directive.
- (2) Charge individual federal grants within related appropriations for billed state-level single audit costs in accordance with this directive.
- (3) Authorize payment of state-level single audit costs to the Office of the Budget, Office of Comptroller Operations.

**f. Action By: Office of the Budget, Office of Comptroller Operations, Bureau of Commonwealth Accounting.**

- (1) Assist agencies in allocating state-level single audit costs to federal grants in accordance with this directive.
- (2) Process agencies' payments of state-level single audit costs in a timely manner.
- (3) Monitor agency compliance to section 5.b. of this directive and Enclosure 2, Instructions for Charging State-Level Single Audit Costs.

**Enclosure 1 - Instructions for Budgeting State-Level Single Audit Costs**  
**Enclosure 2 - Instructions for Charging State-Level Single Audit Costs**

**This directive replaces, in its entirety, *Management Directive 325.5*, dated September 27, 2000.**

## INSTRUCTIONS FOR BUDGETING STATE-LEVEL SINGLE AUDIT COSTS

1. Agencies shall plan and budget for state-level single audit costs as part of the normal budgetary process. The amount to be budgeted during a given annual budget period shall be based on a percentage of the agency's total federal grant expenditures incurred during the related annual audit period. Sample budgetary percentages are as follows:

Annual Audit Period	Annual Budget Period	Sample Budgetary Percentages
7/1/XXX1 – 6/30/XXX2	7/1/XXX2 – 6/30/XXX3	.0001876
7/1/XXX2 – 6/30/XXX3	7/1/XXX3 – 6/30/XXX4	.0001797

2. The example on Page 2 of 2, Enclosure 1, Budgeting for State-Level Single Audit Costs, presents a format to be used for allocating each agency's portion of budgeted state-level single audit costs to eligible federal grants for the 7/1/XXX2 to 6/30/XXX3 annual budget period.
3. Estimated state-level single audit costs shall be budgeted to those specific federal grants whose estimated expenditures during a given annual audit period exceed a threshold equal to the lesser of \$5,000,000 or 10 percent of the agency's total estimated federal grant expenditures during the same annual audit period in accordance with paragraphs 3 and 4 of Enclosure 2, Instructions for Charging State-Level Single Audit Costs.

**Note:** BFM will notify affected agencies of actual budgetary percentages to be used to determine estimated federal grant expenditures for each annual audit period.

**Example: Budgeting for State-Level Single Audit Costs**

**Agency:** Department of X X X

**Annual Audit Period:** July 1, XXX1 to June 30, XXX2

**Annual Budget Period:** July 1, XXX2 to June 30, XXX3

Federal Grant Number	Federal Grant Amount	Estimated XXX1/XXX2 Federal Grant Expenditures*	Audit Cost Allocation Ratio	Audit Cost Allocation Percent	Agency's Estimated Audit Costs	Estimated Audit Cost to be Budgeted XXX2/XXX3
<b>Grants above threshold (eligible grants):**</b>						
11	\$30,000,000	\$28,000,000	<u>28,000,000</u> 48,000,000	= 58%	x \$13,132	= \$ 7,617
25	9,500,000	9,000,000	<u>9,000,000</u> 48,000,000	= 19%	x 13,132	= 2,495
30	<u>12,000,000</u>	<u>11,000,000</u>	<u>11,000,000</u> 48,000,000	= 23%	x 13,132	= 3,020
<b>Subtotal</b>	\$51,500,000	\$48,000,000		100%		
<b>Grants below threshold:**</b>						
<b>Various</b>	<u>25,000,000</u>	<u>22,000,000</u>				<u>-0-</u>
<b>Total Grants</b>	<u>\$76,500,000</u>	<u>\$70,000,000</u>		x.0001876		= \$13,132

\*Represents federal portion of program expenditures. State portion is excluded from this calculation.

\*\*Threshold = Lesser of \$5,000,000 or 10 percent of agency's total federal grant expenditures subject to audit.

In the above example, the total budget requirements are computed at .0001876 of the agency's total estimated federal grant expenditures during XXX1/XXX2. The budgeted amount is then distributed to eligible federal grants based on a ratio of each eligible grant's estimated expenditures during the annual audit period to the total estimated expenditures of all eligible grants during the same audit period.

Agencies must be aware that audit cost allocation budgetary percentages are derived from estimated audit costs and estimated federal grant expenditures. Agencies are expected to revise their budgeted amounts to reflect actual conditions and charges, when known.

## **INSTRUCTIONS FOR CHARGING STATE-LEVEL SINGLE AUDIT COSTS**

- 1.** All individual federal grants whose total expenditures subject to audit during a given audit period (fiscal year) exceed a threshold equal to the lesser of \$5,000,000 or 10 percent of an agency's total federal grant expenditures subject to audit for the same period shall be charged a proportionate share of state-level single audit costs. Such eligible grants shall be charged even though they may not have been subject to actual audit during the selection of the audit sample, since they are included in the commonwealth's statewide, state-level single audit scope and will be included in the final single audit report.
- 2.** Quarterly, agencies administering or expending federal grant funds and administering federal financial assistance programs shall be billed/charged their portion of state-level single audit costs on the basis of a ratio of total agency federal grant expenditures subject to audit during a given audit period to total commonwealth federal grant expenditures subject to audit for the same audit period.
- 3.** When expenditures subject to audit are less than the threshold, an individual grant will not be charged state-level single audit costs; rather, the audit costs for these grants will be absorbed by the agency's federal grants whose total expenditures subject to audit exceed the threshold. Consequently, only those federal grants whose total expenditures subject to audit exceed a threshold equal to the lesser of \$5,000,000 or 10 percent of the agency's total federal grant expenditures subject to audit are eligible to be charged for state-level single audit costs and should be included in the allocation process.
- 4.** The order of priority for charging state-level single audit costs to federal grants, as determined in paragraph 1, shall be:
  - To the specific federal grant and appropriation, for the fiscal year (budget period) in which the audit is performed and audit costs are incurred and expended.
  - When federal funds are not available for the fiscal year (budget period) in which the audit is performed and audit costs are incurred or expended, a recommendation and request to use prior or subsequent year funds or another funding source must be prepared by the agency and sent to BFM, for approval.

**Example: Charging of State-Level Single Audit Costs to Eligible Federal Grants**

**Agency:** Department of X X X

**Annual Audit Period:** July 1, XXX1 to June 30, XXX2

**Annual Budget Period:** July 1, XXX2 to June 30, XXX3

**Amount of State-Level Single Audit Costs Billed:** \$15,000

**Grant Composition:**

Federal Grant Number	Federal Grant Amount	XXX1/XXX2		Audit Cost Allocation Ratio	Audit Cost Allocation Percent	Agency's Actual Audit Costs	Actual Audit Cost Allocation
		Federal Expenditures Subject to Audit*	Actual				
<b>Grants above threshold (eligible grants):**</b>							
11	\$30,000,000	\$25,000,000		$\frac{25,000,000}{43,500,000} = 57\%$	x	\$15,000	= \$8,550
25	9,500,000	7,000,000		$\frac{7,000,000}{43,500,000} = 16\%$	x	15,000	= 2,400
30	<u>12,000,000</u>	<u>11,500,000</u>		$\frac{11,500,000}{43,500,000} = 27\%$	x	15,000	= 4,050
<b>Subtotal</b>	\$51,500,000	\$43,500,000					100%
<b>Grants below threshold:**</b>							
<b>Various</b>	<u>25,000,000</u>	<u>21,000,000</u>					<u>-0-</u>
<b>Total Grants</b>	<u>\$76,500,000</u>	<u>\$64,500,000</u>					\$15,000

\*Represents federal portion of program expenditures. State portion is excluded from this calculation.

\*\*Threshold = Lesser of \$5,000,000 or 10 percent of agency's total federal grant expenditures subject to audit.

In the above example, the method of charging state-level single audit costs to eligible federal grants is on the basis of a ratio of the agency's individual eligible federal grant expenditures during a given audit period to its total eligible federal grant expenditures for the same audit period.