


MANAGEMENT DIRECTIVE

Commonwealth of Pennsylvania Governor's Office

Subject: Implementation of the Commonwealth's State-Level Single Audit	Number: 325.7 Amended
Date: December 17, 2014	By Direction of:  Charles B. Zogby, Secretary of the Budget
Contact Agency: Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management, Telephone 717.787.6496	

This directive establishes policy, responsibilities, and procedures for implementing the commonwealth's state-level single audit in accordance with the *Single Audit Act Amendments of 1996 (Act)*, 2 CFR Part 200, Subpart F – Audit Requirements (Subpart F), and other relevant federal and commonwealth single audit policy and regulations. This amendment updates policy, responsibilities, and procedures for the codification of federal award audit requirements. Marginal dots are excluded due to major changes.

- 1. PURPOSE.** To establish policy, responsibilities, and procedures for implementing the commonwealth's state-level single audit in accordance with the *Act*, *Subpart F*, and other relevant federal and commonwealth single audit policy and regulations.
- 2. SCOPE.** This directive applies to all departments, boards, commissions, and councils (hereinafter referred to as "agencies") under the Governor's jurisdiction that administer federal award programs. Agencies not under the Governor's jurisdiction should adopt and implement the policy and procedures contained herein.
- 3. OBJECTIVES.**
 - a.** To ensure the commonwealth implements its state-level single audit in accordance with the *Act*, *Subpart F*, and other relevant federal and commonwealth single audit policy and regulations.

- b. To ensure consistency and accuracy in the preparation and issuance of preliminary, final, and updated final state-level single audit findings (hereinafter referred to as "findings"); agency responses; corrective action plans (CAPs); and quarterly status reports of corrective actions on unresolved prior findings.
- c. To ensure agencies use the state-level single audit to strengthen the commonwealth's administration of federal awards and related agency operations.

4. DEFINITIONS.

- a. **Agency Response.** A written response from an agency to the single auditors regarding a preliminary finding. The response gives the agency's official position on the preliminary finding with the intent to eliminate, or at least lessen the impact of, the finding. If the preliminary finding is not eliminated, the agency response will be included in the final version of the finding, together with any auditors' conclusion.
- b. **Agency Single Audit Contact.** An individual within each agency and appointed by the agency head to represent the agency relative to single audit matters and to act as liaison to the single auditors, the Office of the Budget, and other affected organizations.
- c. **Audit Resolution.** The process of addressing and resolving findings. This process consists of reviewing and evaluating the findings, preparing formal responses, preparing and implementing CAPs, and performing necessary follow-up or monitoring to ensure corrective actions or improvements have been implemented timely.
- d. **Audit Review Committee.** A committee within each agency and established by the agency head to coordinate and perform, or direct the performance of, single audit resolution. The audit review committee also coordinates and performs, or directs the performance of, the review, evaluation, response, and follow-up actions relative to other audit reports, in accordance with *Management Directive 325.10, Review of Auditor General, Treasury, Legislative Budget and Finance Committee, and Other Audit Reports.*
- e. **Commonwealth Single Audit Coordinator.** *Executive Order 1986-1, Commonwealth Single Audit Coordinator* designates the Office of the Budget 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.
- f. **Comptroller Operations Single Audit Coordinator.** The Director of the Bureau of Accounting and Financial Management (BAFM) represents the Office of Comptroller Operations relative to single audit matters and acts as liaison with the single auditors and other affected organizations.
- g. **Corrective Action Plan (CAP).** A document developed by agency management that describes proposed actions to correct findings.

- h. Crosscutting Finding.** A finding that affects more than one state agency and requires resolution, or the coordination of resolution, by the commonwealth single audit coordinator. The resolution of a crosscutting finding that affects statewide systems, policies, or procedures is the responsibility of the Office of the Budget. The resolution of a crosscutting finding that is unique to certain agencies is the responsibility of those agencies and, if necessary, may be coordinated by the Office of the Budget.
- i. Deputy Secretary for Comptroller Operations.** Office of the Budget, Office of Comptroller Operations, Chief Accounting Officer.
- j. Federal Audit Clearinghouse (FAC).** The clearinghouse designated by U.S. Office of Management and Budget as the repository of record where nonfederal entities are required to transmit the single audit reporting packages required by *Subpart F*.
- k. Federal Award.** Federal financial assistance and federal cost-reimbursement contracts under the Federal Acquisition Regulations that a nonfederal entity receives directly from a federal awarding agency or indirectly from a pass-through entity. The term does not include other contracts that a federal agency uses to buy goods or services needed to carry out a project or program under a federal award.
- l. Federal Financial Assistance.** For grants and cooperative agreements, federal financial assistance means assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, non-cash contributions or donations of property, direct appropriations, food commodities, and other financial assistance. For *Subpart F*, federal financial assistance also includes assistance that non-federal entities receive or administer in the form of loans, loan guarantees, interest subsidies, and insurance.
- m. 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, and functions, and audits of government assistance received by contractors, nonprofit organizations, and other nongovernmental organizations.
- n. Letter of Audit Inquiry (LAI).** An inquiry of an agency's counsel concerning litigation, claims, and assessments, both asserted and unasserted, against that agency. The LAI is the independent auditors' primary means of obtaining information relative to actual or potential litigation, claims, and assessments that may have a material impact on the financial statements and federal awards programs under examination.
- o. Management Letter.** Written communication from the auditors to management regarding matters that have no material impact on the financial statements, but should be addressed by management. Items that may appear in the management letter include comments or recommendations for improving operational efficiency, internal controls, or other policies and procedures.
- p. Schedule of Expenditures of Federal Awards (SEFA).** A listing of federal program expenditures for the period covered by the financial statements.

- q. **Single Auditors.** Independent auditors engaged singly, jointly, or severally to perform the state-level single audit.
- r. **Single Audit Finding.** The written disclosure of an internal control deficiency, an instance of noncompliance, or other matters noted by the single auditor, which generally consists of a statement of condition and related criteria, cause, effect, recommendation, and views of agency management.
- s. **Single Audit Management Representations Letter (SAMRL).** Written confirmations requested of commonwealth management by the single auditors, in accordance with generally accepted auditing standards. The SAMRL is intended to confirm oral and written representations made by management to the single auditors, in response to specific inquiries or through the financial statements or schedules; to document the continuing appropriateness of such representations; and to reduce the possibility of misunderstandings concerning the matters that are the subject of the representations. Confirmations of Representations are submitted by agency heads in support of, and as a basis for, the representations made by the Governor in the SAMRL.
- t. **Single Audit Report.** A document disclosing the results of the state-level single audit.
- u. **Single Audit Reporting Package.** Described by *Subpart F* as including financial statements, a schedule of expenditures of federal awards, a summary schedule of prior audit findings, auditor's reports and a corrective action plan.
- v. **State-Level Single Audit.** In general, a single audit is a financial audit, as defined in [Government Auditing Standards](#), covering the entire entity, and an audit of the entity's federal awards under the provisions of *Subpart F*. For the purpose of this directive, "state-level single audit" refers specifically to the financial audit of the commonwealth's organizations, programs, activities, functions, and federal awards under the provisions of *Subpart F*.
- w. **Status Report of Corrective Action.** A report prepared by an agency as of the end of every calendar quarter in accordance with the policy, responsibilities, and procedures in this directive and the [Guidelines for Preparing Quarterly Status Reports of Corrective Action](#). The report addresses all findings included in the prior audit's schedule of findings and questioned costs and summary schedule of prior audit findings. Data from each agency's report is consolidated and posted on the Office of the Budget [website](#) after the end of each quarter. Information from the report submitted for the quarter ending on June 30 of each year is incorporated into the summary schedule of prior audit findings.
- x. **Summary Schedule of Prior Audit Findings.** A schedule contained in the single audit report listing the current status of corrective action activity for prior findings. The schedule addresses the status of corrective action taken to resolve findings, additional action necessary, and communications with federal agencies.

5. POLICY.

- a. The *Act* and *Subpart F* mandate the timely completion of the state-level single audit and submission of the single audit reporting package within 30 days of completion of the state-level single audit but no later than nine months after the end of the commonwealth's fiscal year.
- b. Procedures shall be established and implemented by each agency, and in accordance with this directive, to:
 - (1) Coordinate, monitor, and facilitate the performance of the state-level single audit within the specified time frames.
 - (a) Respond within three business days to requests or inquiries by the single auditors for information relevant to the state-level single audit.
 - (b) Respond to preliminary findings within five business days of receipt of each finding.
 - (c) Prepare and submit a CAP within 10 business days in response to the receipt of final audit findings and management letter comments that affect the agency.
 - (2) Track the status and corrective actions taken in response to prior audit findings.
 - (3) Monitor and report on the implementation of corrective actions through quarterly status reports of corrective action to identify areas of concern or areas where assistance may be required to ensure compliance with the CAP.
- c. Single audit report resolution procedures, as described in the [Guidelines for Preparing Agency Responses to Preliminary Audit Findings](#), [Guidelines for Preparing Corrective Action Plans](#), and Guidelines for Preparing Quarterly Status Reports of Corrective Action, shall be implemented and performed by agencies to ensure agency responses are prepared for all preliminary audit findings, and that required strengthening, correcting, or other actions have been, are being, or will be made as planned, for all final findings.
- d. For each finding, management must complete a CAP using the [CAP template](#). If management disagrees with the finding, the CAP template must include a clear and complete explanation of the reasons for disagreement. If management believes corrective action is unnecessary, it must include in the CAP template specific reasons supporting its position.
- e. Agencies must submit status reports of corrective action within 30 days of the end of each calendar quarter, in accordance with responsibilities and procedures in this directive and the Guidelines for Preparing Quarterly Status Reports of Corrective Action.

- f. The audit review committee, or a designated subcommittee, within each agency shall coordinate and perform, or direct the performance of, single audit resolution, including related follow-up action.
- g. Requests for exceptions to policy and procedures must be made, in writing and with detailed justification, by agency heads to the Deputy Secretary for Comptroller Operations. Approval or disapproval of such requests will be made by the Deputy Secretary for Comptroller Operations to agency heads.

6. RESPONSIBILITIES.

a. Secretary of the Budget shall:

- (1) Direct the development of policies and procedures for implementing the state-level single audit.
- (2) Promote the use of the state-level single audit to improve the commonwealth's administration of federal awards and related governmental operations.

b. Office of the Budget, Deputy Secretary for Comptroller Operations shall:

- (1) Direct and oversee the development of policies and procedures to ensure the implementation of the state-level single audit in accordance with the *Act, Subpart F*, and this directive.
- (2) Promote management's use of the state-level single audit to improve the commonwealth's administration of federal awards and related governmental operations.
- (3) Address any major issues or other areas of concern relating to the state-level single audit that cannot be resolved by the agency or BAFM.
- (4) Approve or disapprove agency requests for exceptions to policy or procedures stated in this directive.
- (5) Consult agencies and the comptroller operations single audit coordinator on technical matters related to the state-level single audit.
- (6) Ensure that the Secretary of the Budget is informed timely of any findings materially impacting commonwealth organizations, programs, activities, and functions.
- (7) Direct the development of CAPs and related quarterly status reports of corrective action for crosscutting findings and for findings that require resolution by the Office of Comptroller Operations.

c. **Office of the Budget, Comptroller Operations Single Audit Coordinator (Bureau of Accounting and Financial Management)** shall:

- (1) Develop policy and procedures to ensure the implementation of the state-level single audit in accordance with the *Act* and *Subpart F* and to promote agency management use of the state-level single audit to improve the commonwealth's administration of federal awards and related governmental operations.
- (2) Perform liaison and coordinating responsibilities between agencies and the single auditors during the performance of the state-level single audit. Address state-level single audit issues that cannot be resolved at the agency or single auditor level.
- (3) Coordinate single audit finding resolution between the affected agency and the single auditors. Assist the agency, when required, in responding to findings or management letter comments.
- (4) Monitor single audit resolution and work with the agencies and the single auditors to close findings.
- (5) Coordinate the dissemination of crosscutting findings to affected agencies.
- (6) Direct or assist the agency and Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management, Federal Accounting Division personnel in the adjustment of the commonwealth's SEFA, as needed, based on the state-level single audit.
- (7) Monitor agency conformance to policy and procedures relating to single audit resolution.
- (8) Coordinate the preparation of, adjustment to, and issuance of the commonwealth's SEFA and note disclosures.
- (9) Review copies of findings and informs the Deputy Secretary for Comptroller Operations of any findings that may materially impact commonwealth programs, activities, and functions.
- (10) Forward copies of findings affecting other Office of Comptroller Operations bureaus to the respective bureau director and coordinates the response and single audit resolution.
- (11) Coordinate the SAMRL process by preparing and facilitating the distribution of SAMRL transmittal packages to agency heads, reviewing confirmations of representations, making appropriate modifications to the Governor's SAMRL, and forwarding it for approval and signature.
- (12) Coordinate the preparation and distribution of LAI packages in accordance with *Management Directive 325.2, Audit Inquiry Relative to Agency Litigation, Claims, and Assessments*.

- (13) Prepare or coordinate the preparation of agency responses, CAPs, and quarterly status reports of corrective action for crosscutting findings, findings pertaining to the Office of Comptroller Operations, and management letter comments.
- (14) Monitor receipt of agency CAPs and quarterly status reports of corrective action and reviews agency responses for appropriateness and completeness.
- (15) Contact agencies that do not submit CAPs or quarterly status reports of corrective action within time frames established in this directive to inform agencies of the necessary action.
- (16) Coordinate the assembly, printing, and distribution of the commonwealth's state-level single audit report, as well as the transmission of the single audit reporting package to the FAC.
- (17) Distribute management letter comments to respective agencies for preparation of a response. Monitor the receipt of responses and forwards responses to the Deputy Secretary for Comptroller Operations.

d. Office of the Budget, Office of Comptroller Operations, Bureau Directors shall:

- (1) Prepare or coordinate the preparation of responses to findings pertaining to their respective bureau's operations, involving BAFM as necessary, and transmit responses to the single auditors.
- (2) Prepare or coordinate the preparation of adjustments to the SEFA and forward to the Comptroller Operations Single Audit Coordinator (BAFM).
- (3) Ensure CAPs, quarterly status reports of corrective action, and responses to management letter comments are prepared and submitted to BAFM timely.
- (4) Ensure corrective actions pertaining to their respective bureau's operations are implemented timely.

e. Agency Head shall:

- (1) Develop policy and procedures for implementation of the state-level single audit in accordance with the *Act, Subpart F*, other relevant federal and commonwealth policies and regulations, and this directive.
- (2) Designate an agency single audit contact and notify BAFM of the name and title of the contact.
- (3) Ensure that the agency single audit contact receives necessary information and assistance to perform liaison responsibilities.
- (4) Ensure the timely evaluation of and response to findings through the agency single audit contact.

- (5) Ensure the accuracy and completeness of the SEFA with respect to the presentation of information for federal awards administered by the agency.
- (6) Ensure the timely review of and response to proposed SEFA adjustments that result from findings.
- (7) Direct the SAMRL process within the agency, including the timely preparation and submission of the agency confirmation of representations.
- (8) Review preliminary, final, and updated final responses to the LAI to ensure completeness.
- (9) Ensure timely resolution of findings that affect the agency.
- (10) Direct the agency's single audit resolution through the audit review committee.
- (11) Ensure formal agency responses to findings are prepared and transmitted to the single auditors.
- (12) Ensure timely preparation and submission of quarterly status reports of corrective action, in accordance with the Guidelines for Preparing Quarterly Status Reports of Corrective Action and responses to management letter comments.

f. Agency Single Audit Contact shall:

- (1) Serve as liaison to the single auditors, BAFM, and other organizations relative to state-level single audit matters affecting the agency.
- (2) Serve on the agency's audit review committee relative to the review, response, and resolution of findings and other state-level single audit issues.
- (3) Coordinate the state-level single audit activities within the agency, including the accumulation, review, and submission of requested information and documentation to the single auditors within three business days of their request, unless a longer time period is agreed upon with the single auditors.
- (4) Arrange and participate, when required, in single auditors' or agency conferences concerning the state-level single audit.
- (5) Coordinate the review of and response to findings affecting the agency and proposed SEFA adjustments reflected in the findings that affect agency programs.
- (6) Coordinate SEFA adjustments with BAFM.
- (7) Monitor the submission of the agency confirmation of representations in conjunction with the SAMRL process.

7. PROCEDURES.

a. Procedure 1: Preparing Agency Responses to Preliminary Findings.

- (1) **Single Auditors.** Issues preliminary findings to officially inform the affected agencies and to obtain the views of agency management.
 - (a) Findings requiring action or response by one agency are issued to the affected agency single audit contact, with a copy to BAFM.
 - (b) Findings requiring action or response only by the Office of Comptroller Operations are issued to the appropriate bureau director, with a copy to BAFM.
 - (c) Crosscutting findings are issued to BAFM.
 - (d) Findings for which the single auditors cannot easily determine whether action or response is required by an agency, the Office of Comptroller Operations, or both, are issued jointly to the agency single audit contact(s) and BAFM.
- (2) **Comptroller Operations Single Audit Coordinator (BAFM).** Reviews jointly-issued preliminary findings to determine whether the agency or the Office of Comptroller Operations will be responsible for ultimate resolution of the finding and forwards the finding to the appropriate agency single audit contact(s) or Office of Comptroller Operations bureau director for a response.
- (3) **Agency Single Audit Contact or Office of Comptroller Operations Bureau Director.**
 - (a) Reviews preliminary findings and prepares the response using the Guidelines for Preparing Agency Responses to Preliminary Audit Findings, involving the agency audit review committee or BAFM, as necessary.
 - (b) Submits the agency response to the single auditors within five business days of date of issuance of the finding, with a copy to BAFM.
- (4) **Single Auditors.**
 - (a) Reviews the responses to preliminary findings to determine disposition as follows:
 - 1 Eliminate findings where the response includes explanations and/or supplemental information sufficient to resolve all issues.
 - 2 Revise findings where the response includes explanations and/or supplemental information that is either sufficient to resolve only some of the issues or that materially changes the context of the issues.

3 Finalize findings where the response does not include explanations and/or supplemental information that resolves or materially changes the disclosures.

(b) Issues a notice of disposition of findings to the affected agency. Either advise the agency that no further action is required when the agency response results in the finding being eliminated, or instruct the agency to prepare a CAP when the agency response results in a final finding.

(5) Agency Single Audit Contacts or Office of Comptroller Operations Bureau Directors. Repeats steps 7.a.(3)(a) and 7.a.(3)(b) when the finding is revised. Prepares a CAP, in accordance with section 7.b. of this directive, when the finding is finalized.

b. Procedure 2: Preparing Corrective Action Plans.

(1) Single Auditors. Issues a final finding, with instruction to the affected agency to prepare and submit a CAP to BAFM.

(2) Agency Single Audit Contacts.

(a) Prepares a CAP using the CAP template and the Guidelines for Preparing Corrective Action Plans, involving the agency's audit review committee or BAFM, as needed.

(b) Submits the CAP to the BAFM single audit finding mailbox (RA-COBFMAuditFinding@pa.gov), within 10 business days of issuance of the final finding.

(3) Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management.

(a) Reviews the CAP in conjunction with the final finding, including the agency response and any single auditors' conclusions, for accuracy, completeness, and consistency with other agency CAPs.

(b) Consults the agency for additions or corrections during the editing process, or when the agency fails to submit a CAP within the time frame required by this directive.

(c) Summarizes and incorporates CAPs into the single audit report for submission to the FAC.

(4) Audit Review Committee. Directs the agency's appropriate program personnel to implement the CAP as soon as possible after receipt of the final audit finding.

c. Procedure 3: Preparing a Quarterly Status Report of Corrective Action.

(1) Agency Head. Accesses the single audit report electronically and shares it with the agency's audit review committee.

(2) Audit Review Committee.

- (a)** Coordinates or directs single audit resolution to ensure that corrective actions are properly initiated.
- (b)** Coordinates, prepares, or directs the timely preparation and submission for agency head approval, the quarterly status report of corrective action, reflecting the current status of implementation of corrective action for findings contained in the single audit report that affect the agency, as well as unresolved prior findings, using the Guidelines for Preparing Quarterly Status Reports of Corrective Action.

(3) Agency Head. Approves and transmits the completed quarterly status report of corrective action via email to BAFM at RA-CO-BFMPASingleAud@pa.gov, within 30 days of the end of each calendar quarter.

(4) Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management.

- (a)** Reviews each agency's quarterly status report of corrective action for accuracy, completeness, and, if applicable, consistency with other agencies' reported corrective actions.
- (b)** Consults each agency, as needed during the review process regarding additions or corrections to the quarterly status report of corrective action or when the agency fails to submit a quarterly status report of corrective action within the time frame required by this directive.
- (c)** Incorporates agencies' quarterly status reports of corrective action into a summarized quarterly status report, for publication at www.budget.pa.gov.

This directive replaces, in its entirety, *Management Directive 325.7*, dated August 20, 2009.