



Management Directive

Commonwealth of Pennsylvania

Governor's Office

Management Directive 325.09 Amended – Processing Subrecipient Single Audits of Federal Pass-Through Funds

Date: January 10, 2022

By Direction of: *Greg Thall*
Greg Thall, Secretary of the Budget

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This directive establishes policy, responsibilities, and procedures for processing Subrecipient Single Audits of federal pass-through funds. This amendment changes the contact agency and updates references to federal requirements, definitions, policy, responsibilities, and procedures. Nothing in this directive supersedes federal requirements outlined in the *Uniform Guidance, 2 C.F.R. Part 200*.

1. PURPOSE.

To establish policy, responsibilities, and procedures for processing Subrecipient Single Audits of federal pass-through funds.

2. SCOPE.

- a. Applies to all departments, offices, boards, commissions, and councils under the Governor's jurisdiction (hereinafter referred to as "agencies"). that administer federal programs and provide federal pass-through funds to Subrecipients.
- b. Applies to Subrecipient Single Audit reports for fiscal years beginning on or after December 26, 2014.
- c. Pertains to all Subrecipients required to report to the Federal Audit Clearinghouse (FAC) in accordance with *2 C.F.R. Part 200, Subpart F-Audit Requirements (Subpart F)*, including audits of individual programs that are funded wholly, or in part, with federal pass-through funds.

- d. Applies to 100 percent state-funded programs only if such programs are specifically included within the scope of an entity's Single Audit by the direction of the funding agency, in accordance with the provisions of this directive.
- e. Does not apply to for-profit entities that receive Federal Awards because for-profit Subrecipients are exempt from the requirements of *Subpart F*.

3. OBJECTIVES.

To ensure that Subrecipient Single Audit Report Submissions to the FAC are reviewed, processed, responded to, and followed-up in accordance with the provisions of *Subpart F* and that such Single Audit Report Submissions are used as a management tool to strengthen the administration of federal programs and related governmental operations.

4. DEFINITIONS.

- a. **Agency Single Audit Contact.** An individual 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.
- b. **Audit Resolution.** The process of addressing and resolving findings and related recommendations disclosed during audit performance, including review, evaluation, response, and follow-up procedures. This process also includes making necessary adjustments to the Commonwealth's accounting records to reflect disallowed costs or cost settlements.
- c. **Contract.** A legal instrument by which a non-federal entity purchases property or services needed to carry out the project or program under a Federal Award. The term as used in *2 C.F.R. Part 200* does not include a legal instrument when the substance of the transaction meets the definition of a Federal Award or sub-award even if the non-federal entity considers it a Contract.
- d. **Contractor.** An entity that receives a Contract as defined in this directive.
- e. **Crosscutting Finding.** A Subrecipient's finding that affects the federal pass-through programs of more than one state agency and requires resolution, or the coordination of resolution, by the Lead Agency's Single Audit Coordinator.
- f. **Federal Audit Clearinghouse (FAC).** The clearinghouse designated by the U.S. Office of Management and Budget as the repository of record where non-federal entities are required to transmit the Single Audit Reporting Packages required by *Subpart F*.

- h. Federal Award.** Federal Financial Assistance and federal cost-reimbursement Contracts, under the Federal Acquisition Regulations received by a non-federal entity, either directly from a federal awarding agency or indirectly from a pass-through entity. The term may also refer to the instrument that sets forth terms and conditions, such as a grant agreement or cooperative agreement. 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.
- i. Federal Financial Assistance.** Assistance that non-federal 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 loans, loan guarantees, interest subsidies, and insurance.
- j. Government Auditing Standards.** A publication issued by the U.S. Government Accountability Office, Comptroller General of the United States, within which generally accepted government auditing standards (GAGAS) are promulgated, providing guidance for auditors and audit organizations outlining the requirements for audit reports, professional qualifications for auditors, and audit organization quality controls. Auditors of federal, state, and local government programs use these standards to perform their audits and produce their reports. Commonly referred to as the "Yellow Book".
- k. Lead Agency.** The Commonwealth agency that provided the most pass-through federal funding to the Subrecipient or as otherwise assigned by BAFM.
- l. Management Decision.** The evaluation by agency management of the findings and corrective action plan included in an audit report that affect the agency, and the issuance of a written decision to the auditee as to what corrective action is necessary.
- m. Program-Specific Audit.** A financial audit, as defined in Government Auditing Standards, of one federal program, or multiple federal programs, which are provided for the same general purpose to a Subrecipient.
- n. Single Audit.** A financial audit, as defined in Government Auditing Standards, covering the entire entity, and an audit of the entity's Federal Awards under the provisions of *Subpart F*. The results of the audit are disclosed in a Single Audit report.
- o. Single Audit Report Submission.** A package of information submitted to comply with the reporting requirements of *Subpart F*. Required elements of Single Audit Report Submissions are listed on the Office of the Budget Single Audit Submissions website.
- p. Subrecipient.** A non-federal entity that receives a sub-award from a pass-through entity to carry out a part of a federal program but does not include an individual that is a beneficiary of such programs.

5. POLICY.

- a.** Audits of federal pass-through funds must be received and processed in accordance with *Subpart F*.
- b.** All federal funds and non-cash awards passed through Commonwealth agencies to Subrecipients must be properly accounted for in accordance with *Management Directive 305.12 Amended, Accounting, Reporting, and Cash Management of Federal Grants and Contracts* and *Management Directive 305.21 Amended, Federal Award Payments to Local Governments and Other Subrecipients*.
- c.** Subrecipients must have their audits performed and audit reports submitted annually in accordance with the provisions of the [Audit Clause to be Used in Agreements with Subrecipients Receiving Federal Awards from the Commonwealth](#) (Subrecipient Audit Clause).
- d.** Agencies that provide Federal Awards to for-profit entities shall ensure that the agreement with the for-profit entity describes applicable compliance requirements and the entity's compliance responsibility. Methods to ensure compliance for Federal Awards to for-profit entities include, but are not limited to, pre-award audits, monitoring during the award, and post-award audits. Single Audit Report Submissions submitted but not required by Subpart F should be processed in accordance with agency policy and procedures.
- e.** BAFM provides for the technical review of Single Audit Report Submissions to the FAC, provides timely notification to agencies when Single Audit reports have been accepted by the FAC and when the report contains federal findings, identifies and notifies the agency responsible for issuing a Management Decision or the Lead Agency if multiple agencies are involved.
- f.** Procedures shall be established, documented, and implemented within each agency for effective Audit Resolution of Subrecipient Single Audit Report Submissions. Such procedures may be customized to meet each agency's needs while ensuring compliance with this directive.
- g.** Agencies may be designated to serve as the Lead Agency for the coordination and issuance of a Management Decision if multiple agencies are involved.
- h.** Agencies seeking to have additional compliance factors tested during the Single Audit process must obtain BAFM's approval of both the requirement(s) and the manner of implementation prior to implementing such requirements.
- i.** Agencies seeking to have federal programs treated as major programs for audit coverage purposes must obtain BAFM's approval prior to implementing such requirements.
- j.** Nothing in this directive supersedes federal requirements outlined in the *Uniform Guidance, 2 C.F.R. Part 200*.

6. RESPONSIBILITIES.

- a. **Office of the Budget, Deputy Secretary of Comptroller Operations** shall direct and oversee the development of Commonwealth policy relative to the implementation of *Subpart F*.
- b. **Agency Heads shall:**
 - (1) Establish and maintain administrative and other internal controls and procedures to administer federal programs in accordance with 2 C.F.R. Part 200 and Commonwealth policies.
 - (2) Designate an Agency Single Audit Contact. This individual may be the same person designated by the agency head as the Single Audit contact for state-level single audits, in accordance with *Management Directive 325.07 Amended, Implementation of the Commonwealth's State-Level Single Audit*.
 - (3) Ensure the agency fulfills its role as Lead Agency, if designated.
 - (4) Ensure agency agreements that provide federal pass-through funds to Subrecipients include an audit clause that contains, at a minimum, the requirements set forth in the Subrecipient Audit Clause.
 - (5) Direct the agency's Audit Resolution of Subrecipient Single Audit Report Submissions in accordance with *Subpart F*. Ensure the agency establishes and documents Audit Resolution procedures that meet the agency's needs and instructs personnel on the implementation of such procedures.
 - (6) Notifies BAFM of any fraud or other illegal acts reported by a Subrecipient's auditors if such acts are not already disclosed in the Single Audit Report Submission.
 - (7) Ensure that a Management Decision is issued on all disclosures requiring Audit Resolution within six (6) months of acceptance of the Single Audit report by the FAC. Monitor Subrecipients to ensure timely implementation of all corrective actions required to strengthen or eliminate deficiencies disclosed in Single Audit Report Submissions, in accordance with the provisions of *Subpart F*.
 - (8) Direct the review of Subrecipient Single Audit Report Submission financial information related to agency programs. When required as a result of audit disallowances or cost settlements, direct the adjustment of agency accounting records with the assistance of BAFM.
 - (9) Direct the performance of additional audits to supplement Single Audits, as necessary.

- (10) Obtain BAFM's approval prior to designating federal programs as major programs for purposes of increased audit coverage in accordance with *Subpart F*.
- (11) Determine any additional compliance factors, financial information, or format change requirements that should be included within the scope of the Single Audit process and ensure such factors, information, or requirements are included in the subrecipient grant agreement after approval by BAFM.
- (12) Monitor and conduct program reviews independent of the Subrecipient audit process to meet agency administrative and program needs.
- (13) Impose appropriate remedial action in accordance with 2 C.F.R. § 200.339 and *Management Directive 325.08 Amended, Remedies for Recipient Noncompliance with Audit Requirements* when Subrecipients fail to comply with the requirements of *Subpart F*.

c. Agency Single Audit Contact shall:

- (1) Ensure Subrecipient Single Audit Report Submissions are recognized by agency management as an important source of information for monitoring, evaluating, controlling, and strengthening the administration of federally funded programs, both at the Commonwealth and Subrecipient levels.
- (2) Act as the liaison to Subrecipients, BAFM, and other organizations with respect to Subrecipient Single Audit Report Submissions.

d. BAFM shall:

- (1) Develop Commonwealth policy and procedures for reviewing, evaluating, responding to, and following-up on Subrecipient Single Audit Report Submissions to the FAC in accordance with the provisions of *Subpart F*.
- (2) Determine, based on the universe of Subrecipients that receive federal pass-through funds and non-cash awards from the Commonwealth, that the Subrecipient is audited as required by *Subpart F*.
- (3) Develop and maintain a tracking system for the receipt and distribution of Subrecipient Single Audit Report Submissions in accordance with *Subpart F*.
- (4) Designate a Lead Agency, if necessary.

- (5)** Provide timely notification to agencies when Subrecipient Single Audit reports have been accepted by the FAC and to agencies responsible for issuing a Management Decision when an FAC accepted Single Audit report contains federal findings.
- (6)** Perform technical reviews of Subrecipient Single Audit and Program-Specific Audit Report Submissions under *Subpart F*, in accordance with established procedures and methodology.
- (7)** Act as the liaison to the cognizant federal agency and other federal agencies relative to Commonwealth audit policy and related matters.
- (8)** Provide technical advice and act as the liaison to agencies, Subrecipients, independent auditors, and other interested parties relative to Single Audit matters.
- (9)** Act as the liaison to the federal government and professional organizations relative to substandard performance of independent auditors.
- (10)** Coordinate the process of informing affected federal, Commonwealth, and local government agencies, and other appropriate organizations, of any reported fraud or other illegal acts, regardless if such acts or fraud have been disclosed in Subrecipient Single Audit Report Submissions.
- (11)** Notify affected agencies of Subrecipients that fail to comply with the requirements of *Subpart F* or Commonwealth policy relative to Single Audit Report Submissions, so that agencies may impose appropriate remedial action in accordance with 2 C.F.R. § 200.339 and *Management Directive 325.08 Amended, Remedies for Recipient Noncompliance with Audit Requirements*.
- (12)** Approve or disapprove agency requests to designate federal programs as major programs for purposes of audit coverage in accordance with *Subpart F*. Coordinate such designation with the cognizant federal agency for audit or the oversight federal agency for audit when significant additional audit costs will result.
- (13)** Approve or disapprove agency requests for additional compliance criteria, financial information, or format change requirements within the scope of the Single Audit.
- (14)** Coordinate the implementation of approved modifications to the scope of the Single Audit with affected agencies.
- (15)** Provide a listing of Single Audit Report Submissions processed during the month to each affected Agency Single Audit Contact after the end of each month.

7. PROCEDURE.

a. Agencies.

- (1)** Incorporate the Subrecipient Audit Clause into all Subrecipient agreements containing Federal Awards and incorporate appropriate compliance requirements into all agreements with for-profit entities receiving Federal Awards.
- (2)** Evaluate Single Audit Report Submissions received from BAFM to determine program purpose acceptability by verifying, at a minimum, that all agency-funded programs are properly included on the applicable financial schedules; that findings affecting the agency contain sufficient information to facilitate a Management Decision; and that the Subrecipient has submitted an adequate corrective action plan.
- (3)** Contact the Subrecipient directly regarding the acceptability of the Single Audit report in order to ensure the resolution of assigned findings contained in the report.
- (4)** Consider whether the results of the Subrecipient Single Audit report indicate conditions that necessitate adjustments to agency records, if necessary, with the assistance of BAFM.
- (5)** Issue Management Decisions relative to audit findings and Crosscutting Findings assigned to the agency for resolution, as required by *2 C.F.R. § 200.521*. If responsible for the resolution of Crosscutting Findings, notify the affected agency or agencies upon resolution of such findings.
- (6)** Monitor Subrecipient implementation of corrective actions to ensure completion.
- (7)** Impose or coordinate the imposition of remedial action in accordance with *2 C.F.R § 200.339* and *Management Directive 325.08 Amended, Remedies for Recipient Noncompliance with Audit Requirements* when subrecipients fail to comply with the provisions of *Subpart F*.
- (8)** Serve as the Lead Agency, if designated.

b. BAFM.

- (1)** Monitor the receipt of Single Audit Report Submissions through the FAC and notify affected agencies of Subrecipients that fail to submit the required reports.
- (2)** Maintain a record of Single Audit Report Submissions to the FAC.

- (3) Perform a technical review of Single Audit Report Submissions containing federal pass-through funds received from the Commonwealth, in accordance with established procedures, to ensure that Single Audit Report Submissions satisfy Government Auditing Standards requirements and the provisions of *Subpart F*.
- (4) Convey each Subrecipient audit report processed to the pass-through agency.
- (5) After the end of each quarter, provide each affected Agency Single Audit Contact with a listing of Single Audit Reports processed during the quarter.
- (6) Notifies pass-through agencies of Subrecipients that fail to provide an acceptable Single Audit Report Submission to the FAC.
- (7) Designate a Lead Agency, if necessary.

This directive replaces, in its entirety, *Management Directive 325.09 Amended*, dated December 23, 2014.