


# MANAGEMENT DIRECTIVE

Commonwealth of Pennsylvania  
Governor's Office

<b>Subject:</b> Processing Audits of Federal Pass-Through Funds	<b>Number:</b> 325.9 Amended
<b>Date:</b>  December 23, 2014	<b>By Direction of:</b>  Charles B. Zogby, Secretary of the Budget
<b>Contact Agency:</b> Office of the Budget, Office of Comptroller Operations, Bureau of Audits, Telephone 717.783.0114	

**This directive establishes policy, responsibilities, and procedures for processing subrecipient single audit reports. This amendment updates the audit clause used in agreements between commonwealth agencies and subrecipients; and other applicable portions of the directive as a result of the codification of federal award audit requirements in 2 CFR Part 200 Subpart F – Audit Requirements (hereinafter referred to as "Subpart F"). Subpart F supersedes U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Marginal dots are excluded due to major changes.**

1. **PURPOSE.** To establish policy, responsibilities, and procedures for processing subrecipient single audit reports.
2. **SCOPE.**
  - a. Applies to all departments, boards, commissions, and councils (hereinafter referred to as "agencies") under the Governor's jurisdiction 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 *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. **OBJECTIVE.** To ensure that 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.** For the purpose of this directive, "contract" means 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 CFR Part 200* does not include a legal instrument, even if the non-federal entity considers it a contract, when the substance of the transaction meets the definition of a federal award or sub-award.
- d. **Contractor.** An entity that receives a contract as defined in this directive.
- e. **Crosscutting Finding.** An audit finding that affects more than one state agency.
- f. **Deputy Secretary for Comptroller Operations.** Office of the Budget, Office of Comptroller Operations, Chief Accounting Officer.
- g. **Federal Audit Clearinghouse (FAC).** The clearinghouse designated by the 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*.
- h. **Federal Award.** Federal financial assistance and federal cost-reimbursement contracts, received by a non-federal entity directly from a federal awarding agency or indirectly via a pass-through entity under the Federal Acquisition Regulations. 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.** For grants and cooperative agreements, federal financial assistance means 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 assistance that non-federal entities receive or administer in the form of loans, loan guarantees, interest subsidies, and insurance.
- j. **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 nongovernment organizations.
- k. **Management Decision.** The evaluation by agency management of the findings and recommendations included in an audit report that affect the agency, and the issuance of a written decision by management concerning its response to such findings and recommendations, including actions necessary to resolve the findings and recommendations.
- l. **Program-Specific Audit.** A financial audit, as defined in Government Auditing Standards, of one federal program, or multiple federal programs which are provided for the same general purpose to a subrecipient. More specifically, and as provided for in *Subpart F*, the auditor performs an audit of the financial statements in accordance with generally accepted government auditing standards and the program-specific federal audit guide provided by the respective federal agency, if available; obtains an understanding of and performs tests of internal controls over the federal program(s); and performs procedures to determine compliance with laws, regulations, and provisions of contracts or grant agreements that could have a direct and material effect on the federal program(s).
- m. **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.
- n. **Single Audit Report Submission.** For purposes of this directive, a single audit report submission is 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.
- o. **Subrecipient.** A non-federal entity that receives a sub-award from a pass-through entity to carry out a part of a federal program, excluding an individual that is a beneficiary of such a program. For purposes of this directive, the definition of subrecipient does not include a contractor that receives a procurement contract to provide goods or services related to the administrative support of a federal program.

## 5. POLICY.

- a. Audits of federal pass-through funds must be received and processed in accordance with *Subpart F*.
- b. All federal funds and noncash awards passed through commonwealth agencies to subrecipients must be properly accounted for in accordance with *Management Directive 305.12, Accounting, Reporting, and Cash Management of Federal Grants and Contracts and Management Directive 305.21, Payments to Local Governments and Other Subrecipients*.
- c. Subrecipients must have their audits performed and audit reports submitted annually in accordance with the provisions of the [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 not within the scope of this directive should be processed in accordance with agency policy and procedures.
- e. The Office of the Budget, Office of Comptroller Operations, Bureau of Audits (BOA) provides for the technical review of single audit report submissions to the FAC. A single audit report with findings shall be transmitted to the agency through which the federal funding passed within two months of receipt by the FAC. If the single audit report submission was rejected by BOA because it did not include items required by *Subpart F* or contained deficiencies that delayed processing by BOA, BOA shall have two additional months, either from the date of resubmission or receipt of additional information needed to process the single audit report, to transmit the report to the appropriate agency.
- 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 seeking to have additional compliance factors tested during the single audit process must obtain BOA approval of both the requirement(s) and the manner of implementation prior to implementing such requirements.
- h. Agencies seeking to have federal programs treated as major programs for audit coverage purposes must obtain BOA approval prior to implementing such requirements.

## 6. RESPONSIBILITIES.

- a. **Deputy Secretary for Comptroller Operations** shall direct and oversee the development of commonwealth policy relative to the implementation of *Subpart F*.

**b. Agency Head shall:**

- (1) Establish and maintain administrative and other controls and procedures to administer federal programs in accordance with *2 CFR 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 325.7, Implementation of the Commonwealth's State-Level Single Audit Process*.
- (3) 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.
- (4) 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.
- (5) Notify BOA of any fraud or other illegal acts reported by a sub-recipient's auditors if such acts are not already disclosed in the single audit report submission.
- (6) Ensure that a management decision is made on all disclosures requiring audit resolution by the agency within six months of receipt of the single audit report by the FAC, unless the single audit report submission was rejected by BOA because it did not include items required by *Subpart F* or contained deficiencies that delayed processing by BOA. 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*.
- (7) 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 the Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management (BAFM).
- (8) Direct the performance of additional audits to supplement single audits, as necessary.
- (9) Obtain BOA approval prior to designating federal programs as major programs for purposes of increased audit coverage in accordance with *Subpart F*.
- (10) Determine any additional compliance factors, financial information, or format change requirements that should be included within the scope of the single audit process and ensure such factors, information, or requirements are included in the subrecipient grant agreement after approval by BOA.

- (11) Monitor and conduct program reviews independent of the subrecipient audit process to meet agency administrative and program needs.
- (12) Impose appropriate remedial action in accordance with *2 CFR Part 200.338* and *Management Directive 325.8, 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, BOA, and other organizations with respect to subrecipient single audit report submissions.

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

- (1) Develop commonwealth policy and procedures for reviewing, evaluating, responding to, and following-up 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 noncash 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*. Ensure single audit reports with findings are transmitted within the timeframes specified in section 5.e. of this directive to the agencies through which federal funding passed.
- (4) Perform technical reviews of subrecipient single audit and program-specific report submissions under *Subpart F*, in accordance with established procedures and methodology.
- (5) Act as the liaison to the cognizant federal agency and other federal agencies relative to commonwealth audit policy and related matters.
- (6) Provide technical advice and act as the liaison to commonwealth agencies, subrecipients, independent auditors, and other interested parties relative to single audit matters.
- (7) Act as the liaison to the federal government and professional organizations relative to substandard performance of independent auditors.

- (8) 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.
- (9) 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 CFR Part 200.338* and *Management Directive 325.8, Remedies for Recipient Noncompliance with Audit Requirements*.
- (10) 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.
- (11) Approve or disapprove agency requests for additional compliance criteria, financial information, or format change requirements within the scope of the single audit.
- (12) Coordinate the implementation of approved modifications to the scope of the single audit with affected state agencies.
- (13) 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. PROCEDURES.

- a. **Agencies.** 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.
- b. **Office of the Budget, Office of Comptroller Operations, Bureau of Audits.**
  - (1) Monitor the receipt of single audit report submissions through the FAC and notify affected agencies of subrecipients that, after written notification by BOA, 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) Transmit each subrecipient audit report processed to the pass-through agency.

- (5) Provide a listing of single audit report submissions to the FAC and processed during the month to each affected agency single audit contact after the end of each month.
- (6) Notifies pass-through agencies of subrecipients that fail to provide an acceptable single audit report submission to the FAC.

**c. Agencies.**

- (1) Evaluate single audit report submissions received from BOA 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.
- (2) 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.
- (3) 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.
- (4) Issue management decisions relative to audit findings and crosscutting findings assigned to the agency for resolution, as required by *2 CFR 200.521*. If responsible for the resolution of crosscutting findings, notify the affected agency or agencies upon resolution of such findings.
- (5) Monitor subrecipient implementation of corrective actions to ensure completion.
- (6) Impose or coordinate the imposition of remedial action in accordance with *2 CFR Part 200.338* and *Management Directive 325.8, Remedies for Recipient Noncompliance with Audit Requirements* when subrecipients fail to comply with the provisions of *Subpart F*.

**This directive replaces, in its entirety, *Management Directive 325.9*, dated July 16, 2013.**