

## AUDIT REQUIREMENTS

### I. INTRODUCTION

The Department of Health (Department) provides Federal and state financial assistance to a variety of entities. Audit requirements may be either a Federal mandate or a Department mandate. **The audit requirements that are applicable to this contract are determined by the source(s) of the contract's funding as described in the following Sections of this Appendix.**

General audit provisions that are applicable to ALL contracts are described in Section VI of this Appendix.

### II. CONTRACTS FUNDED 100 PERCENT BY FEDERAL FUNDS - (Federally Mandated Audits)

The audit requirement for contracts that are 100 percent federally funded is federally mandated and prescribed by *The Single Audit Act Amendments of 1996; Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133), 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. The specific audit requirements of *OMB Circular A-133* are as follows:

#### A. General Requirements

If the contractor is a local government or non-profit organization and expends total Federal awards of \$500,000 or more during its fiscal year, received either directly from the Federal government or indirectly from a recipient of Federal funds, the contractor is required to have an audit made in accordance with the provisions of *OMB Circular A-133*.

#### B. Minimum Audit Reporting Requirements

The contractor must submit an electronic copy of the audit report package to the Commonwealth, which shall include:

1. Auditor's reports.
  - a. Independent auditor's report on the financial statements, which expresses an opinion on whether the financial statements are presented fairly in all material respects with conformity with the stated accounting policies.
  - b. Independent auditor's report on the supplementary Schedule of Expenditures of Federal Awards (SEFA), which should determine and provide an opinion on whether the SEFA is presented fairly in all material respects in relation to the subrecipient's financial statements taken as a whole. This report can be issued separately or combined with the independent auditor's report on the financial statements.
  - c. Report on internal control over financial reporting, compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
  - d. Report on compliance with requirements applicable to each major program and report on internal control in accordance with the circular.
  - e. Schedule of findings and questioned costs.
2. Financial statements and notes to the financial statements.
3. SEFA and notes to the SEFA.
4. Summary schedule of prior audit findings.
5. Corrective action plan (if applicable).
6. Data collection form.
7. Management letter (if applicable).

While not required by *OMB Circular A-133*, it is recommended that either the SEFA or the notes to the SEFA provide the following information to make the schedule easier to use:

- Grant Period Beginning/Ending Date
- Program or Award Amount
- Total Received During the Year
- Accrued or (Deferred) Revenue at Beginning of Year
- Revenue Recognized
- Accrued or (Deferred) Revenue at End of Year

In instances where a Federal program-specific audit guide is available, the audit report package for a program-specific audit may be different and should be prepared in accordance with the audit guide and *OMB Circular A-133*.

### **C. Submission of Audit Reports**

Effective July 1, 2009, the Office of the Budget, Office of Comptroller Operations, Bureau of Audits will begin accepting electronic submission of single audit/program-specific audit reporting packages. Electronic submission is required for the fiscal year ending December 31, 2008 and subsequent years. Instructions and information regarding submission of the single audit/program-specific audit reporting package are available to the public on Single Audit Submissions page of the Office of the Budget website (<http://www.budget.state.pa.us>). The reporting package must be submitted electronically in single Portable Document Format (PDF) file to [RA-BOASingleAudit@state.pa.us](mailto:RA-BOASingleAudit@state.pa.us).

#### **Steps for submission:**

1. Complete the Single Audit/Program Specific Audit Reporting Package Checklist available on the Single Audit Submissions page of the Office of the Budget website (<http://www.budget.state.pa.us>). The Single Audit/Program Specific Audit Reporting Package Checklist ensures that the contractor's reporting package contains all required elements.
2. Upload the **completed** Single Audit/Program-Specific Audit Reporting Package along with the Single Audit/Program-Specific Audit Reporting Package Checklist in a **single** PDF file to an e-mail addressed to [RA-BOASingleAudit@state.pa.us](mailto:RA-BOASingleAudit@state.pa.us). In the subject line of the e-mail the contractor must identify the exact name on the Single Audit/Program-Specific Audit Reporting Package and the period end date to which the reporting package applies.

The contractor will receive an e-mail to confirm the receipt of the Single Audit/Program-Specific Audit Reporting Package, including the completed Single Audit/Program Specific Audit Reporting Package Checklist.

### **III. CONTRACTS FUNDED 100 PERCENT BY STATE FUNDS - (Department Mandated Audits)**

The audit requirement for contracts that are 100 percent state funded is Department mandated. The specific audit requirements of Department mandated audits are as follows:

#### **A. General Requirements**

The contractor shall have an audit performed when it expends \$500,000 or more of state funds under this contract during the state fiscal year (i.e., July 1 through June 30), unless notified in writing by the Department prior to the termination of the applicable audit period that the audit requirement has been waived. If the contract or any successive period is for a period shorter than the state fiscal year, but the contract amount expended by the contractor during said period includes \$500,000 or more of state funds, the contractor is also required to have an audit performed for the entire contract or successive period, unless notified in writing by the Department prior to the termination of the applicable audit period that the audit requirement has been waived.

When the contractor is required to have a Department mandated audit performed, it must be a financial audit made in accordance with the provisions of generally accepted government auditing standards (GAGAS) issued in the U.S. Government Accountability Office's *Government Auditing Standards* ("Yellow Book"), latest revision as of the time of the audit; the audit requirements of the laws and regulations governing the program(s) in which the contractor participates; and the terms of this contract. With the written consent of the Department, the contractor may be permitted to vary the audit period for these audits.

The costs of Department mandated audits shall be reimbursed by the Department **when said costs are specifically budgeted in the contract's budget as audit expenses.**

**B. Minimum Audit Reporting Requirements**

When a program-specific audit is performed, the audit report must include the following at a minimum:

1. A separate Schedule of Contractual Performance, which shall reflect the contract's budget and reporting period and include a comparison of budgeted to actual expenditures/services, must be prepared for each contract the contractor includes in the program-specific audit. Said schedule(s) must reconcile to the state fiscal year(s) affected.
2. Notes to the financial schedule(s). The following must be included:
  - a. Definition of the reporting entity
  - b. Summary of significant accounting policies used in preparing the schedule(s)
  - c. Other informative disclosures (as necessary)
3. Auditor's report on the financial schedule(s) and any additional schedules required in the terms of this contract. The report must identify each contract included in the program-specific audit by its Department contract number.
4. Auditor's report on internal control, including (where applicable) references to contract requirements and Department audit guidance. The report must identify each contract included in the program-specific audit by its Department contract number. This report shall describe the scope of testing of internal control and the results of the tests, and, where applicable, refer to the separate Schedule of Findings and Questioned Costs described below.
5. Auditor's report on compliance with laws, regulations, and the provisions of this contract, noncompliance with which could have a material effect on the financial schedules. The report must identify each contract included in the program-specific audit by its Department contract number. This report shall include (where applicable) references to contract requirements and Department audit guidance.
6. Schedule of Findings and Questioned Costs (if applicable). This schedule shall include the views of responsible officials of the contractor concerning the auditors' findings, conclusions, and recommendations. This schedule shall contain all findings and questioned costs for the financial schedules which are required to be reported in accordance with GAGAS. Specifically, the auditor shall report the following as audit findings in this schedule:
  - a. Reportable conditions in internal control over the program(s) (state and/or Federal) that provide funding under this contract. The auditor shall identify reportable conditions which are individually or cumulatively material weaknesses.
  - b. Material noncompliance with the provision of laws, regulations, and the provisions of this contract.
  - c. Questioned costs specifically identified by the auditor (known questioned costs). In evaluating the effect of questioned costs on the opinion on compliance, the auditor shall consider the best estimate of total costs questioned (likely questioned costs), not just the known questioned costs. In reporting questioned costs, the auditor shall include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.
  - d. Known fraud that affects a program (state and/or Federal) that provides funding under this contract. The auditor is not required to make an additional reporting when the auditor confirms that the fraud was reported outside of the auditor's reports under the direct reporting requirements of GAGAS.
7. Corrective Action Plan (if applicable). At the completion of the audit, the contractor shall prepare a corrective action plan (CAP) to address each audit finding included in the audit report. The CAP shall provide the name(s) of the contact person(s) responsible for corrective action(s), the corrective action(s) planned, and the anticipated completion date(s) for the corrective action(s) planned. Further, if the contractor does not agree with an audit finding, it must clearly and completely explain the nature of its

disagreement with the finding in the CAP. Finally, if the contractor believes that corrective action is not required, it must provide the specific reason(s) in the CAP.

8. Status of Prior Audit Findings and Recommendations (if applicable). The auditor shall report the status of uncorrected material findings and recommendations from prior audits that affect the current audit.
9. Management Letter (if applicable). If a letter is issued to management disclosing non-reportable conditions or other matters involving the internal control structure, it must be furnished with the audit report.
10. Subcontractor Audit Requirements. As applicable, the contractor shall have subcontractors obtain audits of their contracts in accordance with Section III of this Appendix. The contractor shall make the requirements of Section III of this Appendix applicable to any subcontractor expending \$500,000 or more of state funds under this contract during the state fiscal year (i.e., July 1 through June 30), or expending \$500,000 or more of state funds under this contract within any successive state fiscal year. If the subcontract or any successive period is for a period shorter than the state fiscal year, but the subcontractor expends \$500,000 or more of state funds under this contract during said period, the contractor is also required to make the requirements of Section III of this Appendix applicable to the subcontractor. The contractor, NOT the Department, shall be responsible for the receipt, review, and resolution of such audits. The contractor shall follow up on all findings disclosed in the audit report(s). The contractor shall retain such audits for a period of time which is the greater of four years after termination of the contractor's contract with the subcontractor or until resolution of any audit exceptions or other claims or actions involving a subcontract.

#### **C. Submission of Audit Reports**

When the contractor is responsible for obtaining a Department mandated audit, the audit report must be completed and submitted within 120 days of the end of the state fiscal year (i.e., June 30) or 120 days following the end of each state fiscal year in case of a contract lasting more than twelve months. The contractor shall submit three (3) copies of the audit report to the Department of Health, at:

Pennsylvania Department of Health  
Bureau of Administrative and Financial Services  
Division of Contracts, Audit Resolution Section  
Room 824 Health and Welfare Building  
625 Forster Street  
Harrisburg, PA 17120-0701

Phone: (717) 787-1022  
Fax: (717) 783-3794

Technical assistance with respect to Department mandated audits will be provided by the Department's Audit Resolution Section at the above-listed address and telephone number.

#### **IV. CONTRACTS FUNDED BY FEDERAL AND STATE FUNDS**

##### **A. Conditions Requiring an Audit**

- The contractor is required to have a Department mandated audit made in accordance with the requirements of Section III of this Appendix when the contractor expends less than \$500,000 of total Federal awards received from ALL sources during its fiscal year; AND the contractor expends \$500,000 or more of State funds received under this contract during the state fiscal year.
- The contractor is required to have a Federally mandated audit made in accordance with the requirements of Section II of this Appendix when the contractor expends \$500,000 or more of total Federal awards received from ALL sources during its fiscal year, regardless of the amount of State funds received under this contract during the state fiscal year.

#### **V. AUDIT EXEMPTION CONDITIONS**

Unless stated otherwise in the terms of this contract, the contractor is not required to have an audit performed of this contract when EITHER of the following conditions is applicable:

- The contractor expends less than \$500,000 of state funds received under this contract during the state

fiscal year (i.e., July 1 through June 30) (for Department mandated audits) AND it expends total Federal awards of less than \$500,000 received from ALL sources (i.e., any and all other Federal awards expended during the contractor's fiscal year, received either directly from the Federal government or indirectly from a recipient of Federal funds) during its fiscal year.

- The contract is funded by either state or Federal funds, and all contract monies expended during either the contractor's fiscal year (for Federally mandated audits) or during the state fiscal year (i.e., July 1 through June 30) (for Department mandated audits) are received on a strictly fee for service basis.

However, even if the contractor is not required to have an audit performed, the contractor is required to maintain auditable records of Federal awards and any state funds which supplement such awards, and to provide access to such records by Federal and state agencies or their designees.

## **VI. GENERAL AUDIT PROVISIONS**

### **A. Auditor Selection**

The contractor 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 Office of the Budget, Office of Comptroller Operations, Bureau of Audits may decide to perform those audits that are Department mandated. The contractor will be given written notification if the Office of the Budget, Office of Comptroller Operations, Bureau of Audits makes this decision. In the event that the Office of the Budget, Office of Comptroller Operations, Bureau of Audits does perform the audit, any audit costs included in the contract will revert to the Department. However, unless notified as provided above, the contractor is required to arrange for the audit as described above.

### **B. Questioned Costs**

Any questioned costs identified as such in audit reports of either the contractor or its subcontractors shall be returned to the cognizant Federal and/or state agencies providing the financial assistance, unless resolved to the satisfaction of said entities.

### **C. Sanctions (Remedies for Noncompliance with Audit Requirements)**

The contractor's failure to comply with performance, reporting, and resolution requirements for audits of Commonwealth-funded programs in accordance with the requirements of this Appendix may result in the Department implementing remedial actions toward the contractor including, but not limited to, the following:

1. Withhold a portion of the contract funding until the problem is resolved.
2. Withhold or disallow overhead costs until the problem is resolved.
3. Suspend the contract until the problem is resolved.

### **D. Additional Audits**

The Commonwealth reserves the right for Federal and state agencies or their authorized representatives to perform additional audits of a financial or performance nature, if deemed necessary by Commonwealth or Federal agencies. Any such additional audit work will rely on work already performed by the contractor's auditor, and the costs for any additional work performed by the Federal or state agencies will be borne by those agencies at no additional expense to the contractor.

### **E. Audit Documentation and Audit Reports**

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

### **F. Records Retention**

The contractor is required to maintain records of state funds and Federal awards. The contractor shall preserve all books, records and documents related to this contract for a minimum of four years from the date of

final payment under this contract; or until all findings, 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, unless this contract elsewhere provides for a shorter period; or unless the Department otherwise separately agrees in writing to a shorter period. The contractor shall provide Federal and state agencies or their designees access to such books, records and documents for inspection, audit or reproduction.

**G. Funding Source(s)**

The audit report must identify the amounts of Federal and state funding that is included in the report. This identification must include the breakdown of Federal and state dollars provided and the related Federal and state financial assistance program name and number. This identifying information is provided in the paragraph entitled, FUNDING SOURCE(S), of the contract.