

## AUDIT REQUIREMENTS

### I. INTRODUCTION

The Department of Health (Department) provides Federal and state financial assistance to a variety of entities. The Contractor/Grantee must comply with all applicable Federal and state Grant requirements including *The Single Audit Act Amendments of 1996; 2 CFR Part 200 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.

Audit requirements may be either a Federal mandate or a Department mandate. **The audit requirements that are applicable to this Contract/Grant are determined by the source(s) of the Contract/Grant funding as described in the following Sections of this Appendix:**

- Section II - Contracts/Grants funded 100 percent by Federal funds
- Section III – Contracts/Grants funded 100 percent by state funds
- Section IV – Contracts/Grants funded by Federal and state funds

Also, audit exemption conditions are described in Section V of this appendix. Additionally, general audit provisions that are applicable to ALL Contracts/Grants are described in Section VI of this Appendix.

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

#### A. General Requirements

If the Contractor/Grantee is a local government or non-profit organization and expends total Federal awards of \$750,000 or more during its fiscal year, received either directly from the Federal government or indirectly from a recipient of Federal funds, the Contractor/Grantee is required to provide the appropriate single or program-specific audit in accordance with the provisions outlined in *2 CFR Part 200.501*.

If the Contractor/Grantee expends total Federal awards of less than the threshold established by *2 CFR 200.501*, it is exempt from Federal audit requirements for that year, but records must be available for review or audit by appropriate officials (or designees) of the Federal agency, pass-through entity, and Government Accountability Office (GAO).

If the Contractor/Grantee is a for-profit entity, it is not subject to the auditing and reporting requirements of *2 CFR Part 200, Subpart F – Audit Requirements (Subpart F)*. However, the Department is responsible for establishing requirements, as necessary, to ensure compliance by for-profit Contractors/Grantees. To accomplish this, the Department reserves the right to perform monitoring during the Contract/Grant and require the following at its discretion:

1. Pre-award audits; and
2. Post-award audits. The post-award audits may be in the form of a financial audit conducted in accordance with [Government Auditing Standards](#), or a single audit report or a program-specific audit report in accordance with *Subpart F*. However, if a post-award audit is required by the Department, it must be directly submitted to the Department. Only single audit reports for local governmental and non-profit Contractors/Grantees are electronically submitted to the Federal Audit Clearinghouse.

In instances where a Federal program-specific audit guide is available, the audit report package for a program-specific audit should be prepared in accordance with the appropriate audit guide, *Government Auditing Standards*, and *Subpart F*.

#### B. Additional Components of the Single Audit Reporting Package

In addition to the requirements of *Subpart F*, the Department requires that the single audit report packages include the following additional components in the Schedule of Expenditures of Federal Awards (SEFA),

or supplemental schedules:

1. A breakdown of Federal funds passed through the Department by Federal Grantor, *Catalog of Federal Domestic Assistance* (CFDA) number, CFDA name and state program name (if different from CFDA name), state program year, and state Contract/Grant number (if applicable);
2. Contract/Grant period beginning and ending dates for Federal funds passed through the Department, by Contract/Grant;
3. Program or award amount for each Department Contract/Grant;
4. Total received during the year for each Department Contract/Grant;
5. Accrued or deferred revenue at the beginning of the year for each Department Contract/Grant;
6. Revenue recognized during the year for each Department Contract/Grant;
7. Accrued or deferred revenue at the end of the year for each Department Contract/Grant.

**C. Submission of the Audit Report**

The Contractor/Grantee must submit an electronic copy of the audit reporting package to the Federal Audit Clearinghouse, which shall include the elements outlined in *Subpart F*.

**D. Submission of the Federal Audit Clearinghouse Confirmation**

The Contractor/Grantee must send a copy of the confirmation from the Federal Audit Clearinghouse to the resource account [RA-BOASingleAudit@pa.gov](mailto:RA-BOASingleAudit@pa.gov).

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

**A. General Requirements**

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

If the body of the Contractor/Grantee's Contract/Grant with the Department contains language superseding the dollar threshold for Department mandated audits identified in this Appendix, the superseding language takes precedence and must be used by the Contractor/Grantee when determining whether the Contractor/Grantee is required to have an audit performed.

When the Contractor/Grantee is required to have a program-specific audit performed, it must be a financial audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Government Accountability Office (GAO). The audit shall meet the audit requirements of the laws and regulations governing the program(s) in which the Contractor/Grantee participates, and the terms of this Contract/Grant. With the written consent of the Department, the Contractor/Grantee may be permitted to vary the audit period for these audits.

The costs of program-specific audits performed in accordance with the provisions of Section III of this Appendix shall be reimbursed by the Department **when said costs are specifically budgeted in the Contract/Grant 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 Statement of Financial Position (balance sheet) for each Contract/Grant the Contractor/Grantee includes in the program-specific audit. Said statement of financial position shall identify any unexpended/unused funds at the end of the audit period.
2. A separate Statement of Contractual Performance, which shall reflect the Contract/Grant budget and reporting period and include a comparison of budgeted to actual expenditures/services, must be prepared for each Contract/Grant the Contractor/Grantee includes in the program-specific audit. Said schedule(s) must reconcile to the state fiscal year(s) affected.
3. Notes to the financial statements. The following must be included:
  - a. Definition of the reporting entity
  - b. Summary of significant accounting policies used in preparing the statements
  - c. Other informative disclosures (as necessary)
4. Auditor's report on the financial statements and any additional statements required in the terms of this Contract/Grant. The report must identify each Contract/Grant included in the program-specific audit by its Department Contract/Grant number.
5. Auditor's report on internal control, including (where applicable) references to Contract/Grant requirements and Department audit guidance. The report must identify each Contract/Grant included in the program-specific audit by its Department Contract/Grant 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.
6. Auditor's report on compliance with laws, regulations, and the provisions of this Contract/Grant, noncompliance with which could have a material effect on the financial statements. The report must identify each Contract/Grant included in the program-specific audit by its Department Contract/Grant number. This report shall include (where applicable) references to Contract/Grant requirements and Department audit guidance.
7. Schedule of Findings and Questioned Costs (if applicable). This schedule shall include the views of responsible officials of the Contractor/Grantee concerning the auditors' findings, conclusions, and recommendations. This schedule shall contain all findings and questioned costs for the financial statements which are required to be reported under *Government Auditing Standards*. 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/Grant. 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/Grant.
  - c. Questioned costs specifically identified by the auditor (known questioned costs). In evaluating the effect of the questioned costs, 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 has a material effect on the financial statements.
8. Corrective Action Plan (if applicable). At the completion of the audit, the Contractor/Grantee 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/Grantee 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/Grantee believes that corrective action is not required, it must provide the

specific reason(s) in the CAP.

9. 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.
10. Management Letter (if applicable). If a letter is issued to management disclosing non-reportable conditions or other matters that warrant the attention of management, it must be furnished to the Department with the audit report.
11. Subcontractor/Subgrantee Audit Requirements. As applicable, the Contractor/Grantee shall have subcontractors/subgrantees obtain audits of their Contracts/Grants in accordance with Section III of this Appendix. The Contractor/Grantee shall make the requirements of Section III of this Appendix applicable to any subcontractor/subgrantee expending \$500,000 or more of state funds under this Contract/Grant during the state fiscal year (i.e., July 1 through June 30), or expending \$500,000 or more of state funds under this Contract/Grant within any successive state fiscal year. If the subcontract/subgrant or any successive period is for a period shorter than the state fiscal year, but the subcontractor/subgrantee expends \$500,000 or more of state funds under this Contract/Grant during said period, the Contractor/Grantee is also required to make the requirements of Section III of this Appendix applicable to the subcontractor/subgrantee. The Contractor/Grantee, NOT the Department, shall be responsible for the receipt, review, and resolution of such audits. The Contractor/Grantee shall follow up on all findings disclosed in the audit report(s). The Contractor/Grantee shall retain such audits for a period of time which is the greater of four years after termination of the Contractor/Grantee's Contract/Grant with the subcontractor/subgrantee or until resolution of any audit exceptions or other claims or actions involving a subcontract/subgrant.

If the body of the Contractor/Grantee's Contract/Grant with the Department contains language superseding the dollar threshold for Department mandated audits identified in this Appendix, the superseding language takes precedence and must be used by the Contractor/Grantee when determining whether the subcontractors/subgrantees are required to have an audit performed of their Contracts/Grants.

### C. Submission of Audit Reports

When the Contractor/Grantee is responsible for obtaining a program-specific audit in accordance with Section III of this Appendix, 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/Grant lasting more than twelve months. The Department will accept electronic submission of program-specific audit reporting packages. **Electronic submission is required for the state fiscal year ending June 30, 2015 and subsequent reporting periods.** The reporting package must be submitted electronically in single Portable Document Format (PDF) file to both the cognizant Project Officer for the Contract/Grant and to the e-mail resource account [RA-DHPROGRAMAUDIT@pa.gov](mailto:RA-DHPROGRAMAUDIT@pa.gov).

#### Steps for electronic submission:

- Complete the [Program-Specific Audit Reporting Package Checklist](#) to ensure your package contains all required elements.
- Upload the **completed** Program-Specific Audit Reporting Package along with the checklist in a **single** PDF file to an e-mail addressed to both the cognizant Project Officer for the Contract/Grant and to the e-mail resource account [RA-DHPROGRAMAUDIT@pa.gov](mailto:RA-DHPROGRAMAUDIT@pa.gov). In the subject line of the e-mail you must identify the exact name on the Program-Specific Audit Reporting Package and the period end date to which the package applies.
- You will receive an e-mail to confirm the receipt of your Program-Specific Audit Reporting Package, including the completed checklist.

Technical assistance with respect to program-specific audits performed in accordance with Section III of this Appendix will be provided by the Department's Audit Resolution Section at the following address and telephone number.

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

##### Conditions Requiring an Audit

- The Contractor/Grantee is required to have a Federally mandated audit made in accordance with the requirements of Section II of this Appendix when the Contractor/Grantee expends more than \$750,000 of total Federal awards received from ALL sources during its fiscal year, regardless of the amount of state funds received under this Contract/Grant during the state fiscal year.
- The Contractor/Grantee is required to have a program-specific audit made in accordance with the requirements of Section III of this Appendix, if the Contractor expends \$500,000 or more of state funds received under this Contract/Grant during the state fiscal year and the Contractor/Grantee is not required to have a Federally mandated audit(s) in accordance with this Appendix that covers the entire state fiscal year.

If the body of the Contractor/Grantee's Contract/Grant with the Department contains language superseding the dollar threshold for Department mandated audits identified in this Appendix, the superseding language takes precedence and must be used by the Contractor/Grantee when determining whether the Contractor/Grantee is required to have an audit performed in accordance with the condition described above.

#### V. AUDIT EXEMPTION CONDITIONS

Unless stated otherwise in the terms of this Contract/Grant, the Contractor/Grantee is not required to have an audit performed when EITHER of the following conditions is applicable:

- The Contractor/Grantee expends less than \$500,000 of state funds received under this Contract/Grant during the state fiscal year (i.e., July 1 through June 30) (for Department mandated audits) AND it expends less than \$750,000 of total Federal awards received from ALL sources during its fiscal year.

If the body of the Contractor/Grantee's Contract/Grant with the Department contains language superseding the dollar threshold for Department mandated audits identified in this Appendix, the superseding language takes precedence and must be used by the Contractor/Grantee when determining whether the Contractor/Grantee is required to have an audit performed.

- The Contract/Grant is funded by either state or Federal funds, and all Contract/Grant monies expended during either the Contractor/Grantee'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/Grantee is not required to have an audit performed, the Contractor/Grantee 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/Grantee is responsible for obtaining the necessary audit and securing the services of a certified public accountant or independent governmental auditor.

The Office of the Budget, Office of Comptroller Operations, Bureau of Audits (Bureau of Audits) may decide

to perform program-specific audits that are required under Section III of this Appendix. The Contractor/Grantee will be given written notification if the Bureau of Audits makes this decision. In the event that the Bureau of Audits does perform the program-specific audit, any audit costs included in the Contract/Grant will revert to the Department. However, unless notified as provided above, the Contractor/Grantee 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/Grantee or its subcontractors/subgrantees 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/Grantee's failure to provide an acceptable audit in accordance with the requirements of this Appendix may result in the Department initiating sanctions against the Contractor/Grantee including, but not limited to, the following actions:

1. Disallow the cost of the audit.
2. Withhold a percentage of the Contract/Grant funding.
3. Withhold or disallow administrative/overhead costs.
4. Suspend subsequent Contract/Grant funding.

**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/Grantee'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/Grantee.

**E. Audit Working Papers and Reports**

Audit documentation and audit reports must be retained by the Contractor/Grantee's auditor for a minimum of five years from the date of issuance of the audit report, unless the Contractor/Grantee'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 (GAO).

**F. Records Retention**

The Contractor/Grantee is required to maintain records of state funds and Federal awards. The Contractor/Grantee shall preserve all books, records and documents related to this Contract/Grant for a minimum of four years from the date of final payment under this Contract/Grant; 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/Grant elsewhere provides for a shorter period; or unless the Department otherwise separately agrees in writing to a shorter period. The Contractor/Grantee 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 Section III, FUNDING SOURCE(S), of the Contract/Grant.