

APPENDIX E TO SAP

AUDIT REQUIREMENTS**I. INTRODUCTION AND DETERMINATION OF APPLICABLE AUDIT REQUIREMENTS**

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 applicable audit requirements are determined according to the source(s) of the contract's funding.** If the contract is funded by federal funds only or by a combination of federal funds and state funds, the audit requirement is federally mandated and prescribed by the *Single Audit Act, as amended, 31 U.S.C. 7501 et seq.*; U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as amended; and any amendment to such other applicable law or regulation which may be enacted or promulgated by the federal government. If the contract is funded by state funds only, the audit requirement is Department mandated.

The specific audit requirements of OMB Circular A-133 are described in Section II of this Appendix.

The specific audit requirements of Department mandated audits are described in Section III of this Appendix. 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.

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

The source(s) of this contract's funding are identified in Section V of this Appendix.

II. FEDERALLY MANDATED AUDIT REQUIREMENTS (OMB CIRCULAR A-133)**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.

The contractor is required to have a Department mandated (program-specific) audit made in accordance with the requirements of Section III of this Appendix when BOTH of the following conditions apply:

1. The contractor expends less than \$500,000 of total federal awards received from all sources during its fiscal year; AND
2. The contractor expends \$300,000 or more of state funds received under this contract during its fiscal year.

As stated above, Department mandated audits shall be performed in accordance with the requirements of Section III of this Appendix, unless the contractor has been notified in writing by the Department prior to the termination of the applicable audit period that the audit requirement has been waived.

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

1. The contractor expends less than \$300,000 of state funds received under this contract during its fiscal year and it expends less than \$500,000 of total federal awards 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.
2. The contract is funded by either state or federal funds, and all contract monies expended during the contractor's fiscal year are received on a strictly fee for service basis. In addition, all federal awards expended from all sources during the contractor's fiscal year are received on a strictly fee for service basis, regardless of the amount of federal awards expended.

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.

B. Submission of Audit Information to the Commonwealth

The contractor shall submit copies of the audit report package to the Commonwealth, which shall include:

- Data Collection Form;
- Financial statements and schedule of expenditures of federal awards;
- Auditors' reports on the financial statements and schedule of expenditures of federal awards, internal control and compliance as well as a schedule of findings and questioned costs;
- Summary schedule of prior audit findings;
- Corrective action plan; and
- Management letter comments.

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.

The number of copies to be submitted shall equal one for the Office of the Budget's Bureau of Audits (archival copy) plus one for each Commonwealth agency which provided federal pass-through awards to the contractor, as reflected in the contractor's Schedule of Expenditures of Federal Awards. The audit report package shall be submitted to:

OFFICE OF THE BUDGET BUREAU OF AUDITS
 DIVISION OF SUBRECIPIENT AUDIT REVIEW
 BELL TOWER 6TH FLOOR
 303 WALNUT STREET
 HARRISBURG PA 17101

Phone: (717) 783-9120

Fax: (717) 783-0361

III. DEPARTMENT MANDATED AUDIT REQUIREMENTS (PROGRAM-SPECIFIC AUDITS)

A. Period Subject to Audit and General Audit Requirements

The contractor shall have an audit performed when it expends \$300,000 or more of state funds received under this contract within the twelve-month period immediately following the effective date of the contract, or when it expends \$300,000 or more of state funds received under this contract within any successive twelve-month period thereafter, 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 of less than twelve months, but the contract amount expended by the contractor during said period includes \$300,000 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 program-specific 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. General Accounting 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.

B. Minimum Audit Reporting Requirements

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

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. Should the audit period differ from the state fiscal year (i.e., July 1 through June 30), the schedule(s) shall be accompanied by information allowing it/them to be reconciled to the state fiscal period(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.
4. **Auditor's report on internal control**, including (where applicable) references to contract requirements and Department audit guidance. 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. 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 nonreportable conditions or other matters involving the internal control structure, it must be furnished with the audit report.

C. Submission of Department Mandated 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 termination of the contract or 120 days following the end of each twelve-month period (or fraction thereof) 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:

ATTN AUDIT RESOLUTION SECTION
PENNSYLVANIA DEPARTMENT OF HEALTH

BUREAU OF ADMINISTRATIVE AND FINANCIAL SERVICES
 ROOM 830 HEALTH AND WELFARE BUILDING
 PO BOX 90
 HARRISBURG PA 17108

Phone: (717) 783-7280
 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.

D. 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 \$300,000 or more of this contract's state funds within the twelve-month period immediately following the effective date of the contractor's contract, or expending \$300,000 or more of this contract's state funds within any successive twelve-month period thereafter. If the subcontract or any successive period is for a period of less than twelve months, but the subcontractor expends \$300,000 or more of this contract's state funds 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.

IV. 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 Department's Comptroller Office may decide to perform those audits that are Department mandated. The contractor will be given written notification if the Comptroller's Office makes this decision. In the event that the Department's Comptroller Office 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 provide an acceptable audit in accordance with the requirements of this Appendix may result in the Department initiating sanctions against the contractor including, but not limited to, the following actions:

1. Disallow the cost of the audit.
2. Withhold a percentage of the contract funding until the audit is completed satisfactorily and/or audit resolution is achieved.
3. Withhold or disallow administrative/overhead costs until the audit is completed satisfactorily and/or audit resolution is achieved.
4. Suspend subsequent contract funding until the audit is completed satisfactorily and/or the contractor has demonstrated the ability and/or willingness to comply with these contractual audit requirements.

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 Working Papers and Reports

The contractor shall ensure that audit working papers and audit reports are retained by the contractor's auditor for a minimum of four years from the date of issuance of the audit report, unless the contractor's auditor is notified in writing by the Commonwealth or the cognizant or oversight federal agency to extend the retention period. Audit working papers shall be made available upon request to authorized representatives of the Commonwealth, the cognizant or oversight agency, the federal funding agency, or the General Accounting Office for inspection and/or reproduction.

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.

V. CONTRACT FUNDING SOURCE(S)

ALL contracts must identify the amounts of federal and state funding provided by them. This identification must be made in accordance with Management Directive 305.14 Amended, *Identifying Payments to Local Governments and Other Subrecipients*. This identification must include the breakdown of federal and state dollars provided and the related federal and state financial assistance program name and number.