



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF AGING
 Harrisburg, Pa. 17101

PENNSYLVANIA DEPARTMENT OF AGING

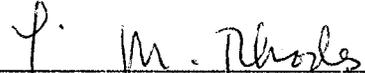
1. File Number: APD #92-01-01		2. Disposition: Rescinds APD #91-01-04	
3. Issuance Date: April 22, 1992		4. Effective Date: April 22, 1992	
5. Program Area: AAA ADMINISTRATION			
6. Origin: Division of Fiscal Management and Support Services		7. Contact: Division of Field Operations; (717) 783-6213	

AGING PROGRAM DIRECTIVE

SUBJECT: SINGLE AUDIT ACT AUDIT REQUIREMENTS

TO: CHAIRPERSONS, NON-PROFIT AAA COUNTY COMMISSIONERS
 GOVERNING BOARDS

COPIES FOR: EXECUTIVE STAFF PA COUNCIL ON AGING
 DIVISION OF FIELD OPERATIONS PDA GRANTEES AND
 AREA AGENCIES ON AGING (AAAs) CONTRACTORS
 AoA REGION III COMPTROLLER
 PA ASSOCIATION OF AREA
 AGENCIES ON AGING

FROM: 
 LINDA M. RHODES
 SECRETARY
 DEPARTMENT OF AGING

PURPOSE and SCOPE

The purpose of this Aging Program Directive (APD) is to ensure that subrecipients of federal pass-through funds or who administer federal financial assistance programs process single audits in accordance with the U.S. Office of Management and Budget (OMB) Circulars A-128 and A-133. OMB Circular A-128, "Audits of State and Local Governments," promulgates the Single Audit Act of 1984 and A-133 applies to the audits of institutions of higher education and other non-profit institutions.

BACKGROUND

This Aging Program Directive contains information necessary for the submission of a single audit, either under OMB Circular A-128 or OMB Circular A-133

as described above. The requirements in this directive supersede the submission of financial and compliance audits of non-profit and multi-county public AAAs and other aging projects to the PA Department of Aging as was done in the past.

DEFINITIONS

Single Audit: An audit performed in accordance with generally accepted auditing standards and the standards for financial related audits contained in the Government Auditing Standards (1988 revision) issued by the U.S. General Accounting Office (GAO), known as the "Yellow Book." More specifically, and as provided for in the Circulars, a single audit determines and reports whether:

- (1) The financial statements of the entity present fairly its financial position and the results of its operations in accordance with generally accepted accounting principles;
- (2) The entity has an internal control structure to provide reasonable assurance that it is managing federal awards in compliance with applicable laws and regulations, and controls that ensure compliance with the laws and regulations that could have a material impact on the financial statements; and
- (3) The entity has complied with laws and regulations that may have a direct and material effect on each major federal program.

For purposes of this directive, "single audit" would include both single audits performed under Circular A-128 as well as organization-wide audits performed under Circular A-133.

Subrecipient: Any person or government department, agency, establishment, or non-profit organization or institution of higher education that receives financial assistance to carry out a program through a primary recipient or other subrecipient, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a direct recipient of federal awards under other agreements.

For purposes of this directive, a subrecipient is not a vendor which receives a procurement contract to provide generally required goods or services to the state that are related to the administrative support of a federal program.

Federal financial assistance (federal awards): Assistance provided by a federal agency in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations, but does not include direct federal cash assistance to individuals. It includes awards received directly from federal agencies, or indirectly through other units of state and local government.

Fixed price or fee for service contracts: Funding agreements which are generally based on pre-established fees or published fee schedules and which provide for the payment of services based on a fixed price, regardless of actual costs incurred.

GAAS: Generally Accepted Auditing Standards deal with measures of the quality of the performance of those acts and the objectives to be attained by the use of the procedures undertaken.

GAGAS: Generally Accepted Government Auditing Standards are standards to be followed for audits of government organizations, programs, activities and functions and of government funds received by contractors, non-profit organizations and other nongovernment organizations. The standards pertain to the auditor's professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports. These standards have been established by the GAO and also incorporate the AICPA Statements on Auditing Standards for financial related audits. These standards are presented in the "Yellow Book."

Independent Auditor: The contracting firm or individual must (1) be Certified Public Accountants (CPA) registered under the CPA Law, Act 23 (March 7, 1984, P.L. 106); (2) meet the independence standard of generally accepted auditing standards and the GAO Government Auditing Standards, 1988 revision, (Yellow Book).

GAAP: Generally Accepted Accounting Principles are rules and procedures established by authoritative bodies or conventions that have evolved through custom and common usage. The codification of "Governmental Accounting and Financial Reporting Standards" as of May 31, 1990 is generally acknowledged as the authoritative publication in the area of accounting for State and local government units. Adherence to GAAP assures that financial reports of all state and local governments contain the same types of financial statements and disclosures.

AUDIT REQUIREMENTS

All Area Agencies on Aging (AAAs) are covered under the Single Audit Act and/or OMB Circulars A-128 or A-133. A checklist for evaluating the financial reporting entity and its potential component units, prepared by the Federal Government Accounting Standards Board, is available to all AAAs from the PA Department of Aging, Bureau of Administrative Services, 231 State Street, Harrisburg, PA 17101-1195. Joinders and multi-county AAAs should pay special attention to this checklist as the answers thereto may determine which county will be responsible for inclusion of the AAA as part of its reporting entity.

As a subrecipient of federal financial assistance, an AAA which is part of local government is subject to all the provisions of the Single Audit Act of 1984 (the Act), 31 U.S.C. §7501 et seq., the Office of Management and Budget's implementing Circular, OMB A-128, "Audits of State and Local Governmental Units," and all other applicable federal and state rules and regulations.

An AAA which is a nongovernmental nonprofit entity is not subject to the Single Audit Act or OMB Circular A-128, but is subject to OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions."

Recipients/subrecipients who receive federal funds through "fixed price" or "fee for service" contracts are subject to certain requirements of OMB Circular A-133. "Fixed price" or "fee for service" contracts are generally based on pre-established fees or published fee schedules. Such contracts indicate that the payment for services is based on a fixed price, regardless of actual costs incurred.

Where entities receive federal funds solely under "fixed price" or "fee for service" contracts, such entities need not have an audit of their financial statements or of their "Schedule of Federal Awards." However, certain tests of such contracts should be made to verify contractual performance. Audits of financial statements are not required for "fixed price" or "fee for service" awards because such awards are generally based on a fixed payment for goods or services rather than as reimbursement for costs incurred.

Entities that receive federal funds under both "fixed price" and "cost reimbursement" type contracts, must have an audit in accordance with the requirements of OMB Circular A-133 since "cost reimbursement" type contracts are present. This audit must also include appropriate tests of the "fixed price" contracts to verify contractual performance.

Recipients/subrecipients that have grant contracts which are intended to be based on provider cost, but are funded during a fiscal period based on a negotiated "fixed price" or "fee for service" basis are not exempt from the financial statement audit requirements of OMB Circular A-133.

The maximum reimbursement restriction within a grant contract does not change the nature of the contract from a "cost reimbursement" type agreement to a "fixed price" agreement even if the subrecipient's actual costs for a contract period exceed the maximum reimbursement amount in the contract and those excess costs are not reimbursed. The contract is still a "cost reimbursement" type contract and the subrecipient is still required to meet the financial statement audit requirements of OMB Circular A-133.

o General Requirements for OMB Circular A-128 and A-133 Audits

If the subrecipient receives federal financial assistance of \$100,000 or more during its fiscal year, either directly from the federal government or indirectly from a recipient of federal funds, OMB Circulars A-128 and A-133 require that the subrecipient shall have an audit made in accordance with the provisions of the respective Circular.

If the subrecipient is a nonprofit institution and receives \$100,000 or more during a fiscal period but receives awards under only one program, the subrecipient may elect to have an organization-wide audit made in accordance with OMB Circular A-133 or have an audit made of the one program (program-specific audit).

If the subrecipient receives at least \$25,000 but less than \$100,000 of federal financial assistance during its fiscal year, the subrecipient may elect to have a single audit made in accordance with OMB Circular A-128 or an organization-wide audit made in accordance with OMB Circular A-133, as appropriate, or have an audit made in accordance with the audit requirements of the laws and regulations governing the program(s) in which it participates.

If the subrecipient receives less than \$25,000 of federal financial assistance during its fiscal year, the subrecipient is exempt from these audit requirements, but is required to maintain records of federal financial assistance and to provide access to such records by federal

agencies or their designees, and to Commonwealth of Pennsylvania representatives.

If the subrecipient is a nonprofit institution that is not subject to the provisions of OMB Circular A-133, or is a for-profit organization, the subrecipient shall be subject to the audit requirements of the laws and regulations governing the program(s) in which it participates.

Period Subject to Audit and Audit Frequency

A single audit or organization-wide audit made in accordance with OMB Circular A-128 or OMB Circular A-133, respectively, shall encompass the fiscal period of the subrecipient and shall be performed on an annual basis.

Program-specific audits shall cover the period as specified in the applicable laws and regulations.

o Specific Requirements for OMB Circular A-128 Audits

For local governmental units subject to the provisions of OMB Circular A-128, the fiscal period used to determine audit requirements will be the fiscal year of the AAA. If a single audit is required, it must be conducted in accordance with the provisions of OMB Circular A-128 and Commonwealth policy. The single audit report must be completed and submitted not later than 13 months after the end of the AAA's audit period unless a longer period is agreed to by the cognizant Federal Agency or the Commonwealth's Office of the Budget.

The AAA must submit five (5) copies of the single audit report to the Office of the Budget, Single Audit Coordinator, at:

Commonwealth of Pennsylvania/Office of the Budget
Comptroller Operations/Bureau of Audits
Wagner Building/931 North Seventh Street
Harrisburg, PA 17120

After processing of the report by Comptroller Operations, a copy of the single audit report will be sent to the Department of Aging.

o Specific Requirements for OMB Circular A-133 Audits

For nonprofit organizations subject to the provisions of OMB Circular A-133, the fiscal period used to determine audit requirements will be the fiscal year of the AAA. Nonprofit institutions receiving \$100,000 or more but receiving awards under only one program have the option of having an audit of their institution prepared in accordance with the provisions of OMB Circular A-133 or having an audit made of the one program. Whether an organization-wide or program audit is required, it must be conducted in accordance with the provisions of OMB Circular A-133. The audit report must be completed and submitted not later than 13 months after the end of the AAA's audit period unless a longer period

is agreed to by the cognizant federal agency or the Commonwealth's Office of the Budget. The AAA shall submit five (5) copies of the audit report to the Office of the Budget, Single Audit Coordinator, at the address listed above. After processing of the report by Comptroller Operations, a copy of the audit report will be sent to the Department of Aging.

o General Audit Provisions

For each one-year period (or fraction thereof) that an audit is required, the AAA is responsible for obtaining the necessary audit. The AAA shall secure the services of an independent Certified Public Accountant.

In accordance with the GAO Government Auditing Standards, 1988 revision, (Yellow Book), such audits must be performed by only certified public accountants or public accountants licensed on or before December 31, 1970, or persons working for a certified public accounting firm or a public accounting firm licensed on or before December 31, 1970.

The audit should adhere to the instructions and include the necessary schedules, reviews, statements and reports as outlined in each Circular. The audit report should attest to the fact that the audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS) for financial audits as contained in the United States General Accounting Office's Government Auditing Standards, 1988 revision, (Yellow Book) the Single Audit Act of 1984 (the Act) OMB Circulars A-128 or A-133 and Commonwealth of Pennsylvania policy.

The AAA shall prepare a Corrective Action Plan to address all findings of noncompliance or internal control weaknesses disclosed in the audit report. For each finding noted, the Corrective Action Plan should include (1) a description of the finding; (2) specific steps to be taken to correct the situation or specific reasons why corrective action is not necessary; (3) a timetable for performance of the corrective action steps; and (4) a description of monitoring to be performed to ensure that the steps are taken. The Corrective Action Plan must be submitted together with the audit report, in accordance with the above-stated procedures.

In addition, the audit resolution process of reviewing, evaluating, responding to, performing and following up findings and related recommendations disclosed during single audit performance should be conducted. The correcting or other required actions on the part of the audited government agency should be completed within six months from the date of receipt of the single audit report.

Audit working papers and audit reports shall be retained for a minimum of three years from the date of the audit report, unless the AAA's auditor is notified in writing by the Commonwealth or the cognizant federal agency to extend the retention period. Audit working papers shall be made available upon request to authorized representatives of the Commonwealth, the cognizant federal agency or the General Accounting Office.

The cost of audits made in accordance with the provisions of the respective Circulars are allowable charges to federal assistance programs.

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 the Commonwealth or federal agencies. Any such additional audit work will rely on work already performed by the AAA's auditor, and the costs for any additional work performed by the Commonwealth or federal agencies will be borne by those agencies at no additional expense to the AAA. However, the Department of Aging reserves the right for federal and state agencies or their authorized representatives to perform additional audits of a financial/compliance, economy/efficiency or program results nature, if deemed necessary.

As a subrecipient covered under the Act and the Circulars, the county or nonprofit institution is required by Commonwealth policy to provide written notification to the Commonwealth as to its intent to perform a single audit or other audit as required by the Act and the Circulars. Such written notification must also include the specific auditor selection, audit starting date and a schedule of federal financial assistance to be audited. If a single audit or other audit will not be performed as required by the Act and the Circulars, written notification with justification must be provided to the Commonwealth.

All written notification must be transmitted to the Office of the Budget, Bureau of Audits, at the address specified below, on a timely basis, immediately upon determination, but prior to the initiation of audit performance. Further, the county or nonprofit institution must also transmit a copy of such written notification to its cognizant Federal agency for reference.

Within thirty days after the completion of the single audit (or any other audit of federal financial assistance performed in compliance with the Act and the Circulars), copies of the single audit reports (or other audit reports) must be distributed in accordance with the Act, the Circular or other relevant federal and Commonwealth policy and regulations, including five copies transmitted to the Commonwealth as follows:

Commonwealth of Pennsylvania/Office of the Budget
Comptroller Operations/Bureau of Audits
Wagner Building/931 N. Seventh Street
Harrisburg, PA 17120

The Department of Public Welfare Comptroller's Office has been designated to perform Commonwealth Single Audit Coordinator responsibilities for those AAAs whose audits were performed to fulfill the provisions of OMB Circular A-128. The Education and Community Services Comptroller's Office performs the same function for those AAAs whose audits were performed to fulfill the provisions

of OMB Circular A-133. In this capacity, these Comptroller's Offices will act as liaison between the Department of Aging and AAAs in all audit matters. The AAAs and their independent auditors are responsible for contacting their Single Audit Coordinator's Office prior to and during audit performances to ensure that all federal and Commonwealth audit policy, regulations, requirements and additional compliance or reporting criteria are known and understood, and any questions and concerns addressed and resolved.

The address and telephone number for the Single Audit Coordinators are as follows:

<u>Comptroller Office</u>	<u>Address and Telephone Number</u>	<u>Areas of Responsibility</u>
Public Welfare	203 Health & Welfare Building Harrisburg, PA 17120 (717) 787-5793	AAAs whose audits were performed to fulfill the provisions of OMB Circular A-128.
Education and Community Services	19th Fl., 333 Market St. Harrisburg, PA 17108 (717) 783-9101	AAAs whose audits were performed to fulfill the provisions of OMB Circular A-133.

Some Area Agencies have chosen to procure independent audit coverage on their activities even though they are no longer required to do so. However, in such situations there shall be no duplication of work performed on both the required single audit and the AAA independent audit. The AAA independent audit shall build on the required single audit.

o Subrecipient Noncompliance with Audit Requirements

PDA will implement a progressive series of remedial actions to be taken when a subrecipient exhibits a continued inability or unwillingness to comply with performance, reporting and resolution requirements for audits of Commonwealth - funded programs.

- A. The progressive series of remedial actions will reflect the unique requirements of each program, taking into account such factors as:
1. The type of financial assistance, i.e., grant, contract, cooperative agreement, loan, etc.;
 2. The nature of financial assistance, i.e., subsidy, cost reimbursement, fixed fee, etc.;

3. The frequency of the financial assistance, i.e., a one-time grant, a multiyear award, ongoing funding, etc.;
 4. The nature and severity of the non-compliance; i.e., corrective action not implemented on minor finding(s), corrective action not implemented on major finding(s), additional information needed to clarify findings or financial information not provided, corrective action plan not provided, audit report not submitted, etc.;
 5. Prior experience with the subrecipient regarding its ability to effectively and efficiently administer a program in accordance with applicable laws and regulations;
 6. The results of other program reviews or other forms of independent oversight of the subrecipient; and
 7. The reasons and justification for the subrecipient's inability or unwillingness to provide necessary information or take required action.
- B. Where subrecipients receive Commonwealth financial assistance from multiple state agencies, the agency providing the largest amount of such assistance shall be the lead agency, responsible for coordinating the imposition of remedial actions, in accordance with the provisions of this directive.

In the event that the agency providing the largest amount of federal funding to the subrecipient does not have any items at issue with the subrecipient, that agency shall notify, in writing, the agency with the next largest amount of federal funding that it should assume the role of lead agency until a lead agency is established.

In those instances where the lead agency cannot readily be established, the Bureau of Audits, Office of the Budget (OB), shall be notified and shall designate a lead agency.

- C. The progressive series of remedial actions will be tailored to the unique aspects of each program, giving consideration to the factors noted in the paragraphs above. Such actions will be implemented in a timely and judicious manner to ensure that those entities who exhibit an inability or unwillingness to comply with the requirements of Circulars A-128 or A-133, and/or Commonwealth policy, rules and regulations relating to audit performance, reporting and resolution are promptly brought into compliance or are properly sanctioned.

Overall timeframes for the implementation of the series of remedial actions will not exceed six months from the date the first remedial action is initiated. At the end of the six-month time period either the appropriate corrective action will be taken by the subrecipient or the final stage of progressive remedial action will be imposed on the recipient.