ADMINISTRATIVE BULLETIN

COMMONWEALTH OF PENNSYLVANIA • DEPARTMENT OF HUMAN SERVICES

ISSUE DATE	EFFECTIVE DATE	NUMBER
June 1, 2015	December 26, 2014	2015-03

SUBJECT	BY
Introduction to DHS Audit Policy	Glenn E. Williams, Director Bureau of Administrative Services

SCOPE

County Commissioners
County Controllers
County Child Welfare Programs
County MH/ID Programs
County Child Care Programs
County Human Service Programs
Program Office Deputies
County Domestic Relations Sections
Comptroller Operations, Bureau of Audits
CPA Distribution List

PURPOSE

To provide the Department of Human Services' (DHS) updated audit policy.

DISCUSSION

The attached publication is a complete and up-to date reissue. Particular attention should be paid to the Audit Clause Selection Flowchart. This area contains important guidance regarding when each audit clause is appropriate to use.

NOTE: By distributing this policy, the DHS is not mandating its adoption by counties or county programs. Rather, the DHS is advocating a detailed review of county-level contracts and the adoption of a similar approach, which is within the regulatory limits imposed by the federal and state governments.

SUPERSESSION

Administrative Bulletin 2005-04, dated January 20, 2005

REFER COMMENTS AND QUESTIONS TO: Bureau of Financial Operations
Division of Audit and Review
Audit Resolution Section
RA-pwauditresolution@pa.gov

INTRODUCTION

This Policy contains the following major changes:

1) Simplifies and clarifies when each audit clause is appropriate.
2) Updates the language contained in the audit clauses.
3) Updates the audit thresholds and submission requirements in accordance with the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

Included below is the Department of Human Services (DHS) audit-related policy and guidance pertaining to audits of the DHS' grantees and contractors, otherwise identified here as sub recipients/contractors. It also pertains to the management of the audit process for entities receiving federal and/or state funds passed through the DHS to its sub recipients and/or contractors.

GENERAL POLICY

Under $500,000 of Combined
State/Federal Funding.....No Audit
$500,000 - $749,999 of Combined
State/Federal Funding.....Compliance Attestation
$750,000 or more of Combined
State/Federal Funding.....Yellow Book (GAGAS) Audit with Compliance Attestation
$750,000 or more of
Federal Funding.....Single Audit with Compliance Attestation

NOTE: If a sub recipient meets both the $750,000 or more of combined state/federal funding threshold and also the $750,000 or more of federal funding threshold (which is often the case), the subrecipient must receive a single audit with compliance attestation, unless the auditee is a for-profit organization that only operates one federal program and chooses to submit a program-specific Yellow Book audit as permitted by 45 CFR 75.501(i).

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Attachment I - Audit Clause Selection Flowchart

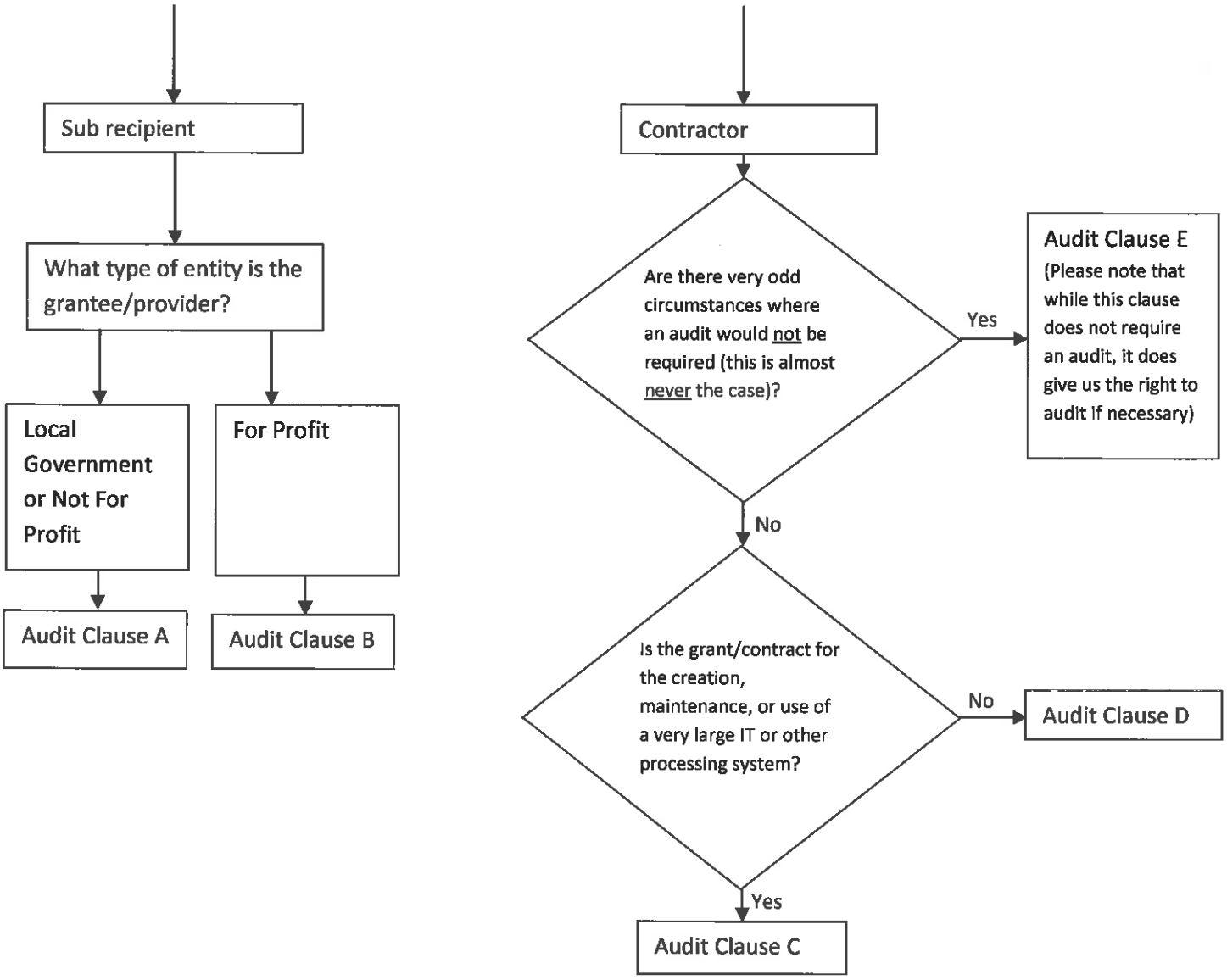
Is the grantee/provider a Subrecipient or a Contractor?
(For additional guidance see 2 CFR §200.330)

Sub recipient:

- Determines who is eligible to receive what Federal assistance
- Has its performance measured in relation to whether objectives of a Federal program were met
- Has responsibility for programmatic decision making
- Is responsible for adherence to applicable Federal program requirements specified in the Federal award
- In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.

Contractor:

- Provides the goods or services within the normal business operations
- Provides similar goods or services to many different purchasers
- Operates in a competitive environment
- Provides goods or services that are ancillary to the operation of the Federal program
- Is not subject to compliance requirements of the Federal program as a result of the agreement, though similar requirements may apply for other reasons



AUDIT CLAUSE A – SUBRECIPIENT
Local Governments and Nonprofit Organizations

The Commonwealth of Pennsylvania, Department of Human Services (DHS), distributes federal and state funds to local governments, non-profit, and for-profit organizations. Federal expenditures are subject to federal audit requirements, and federal and state funding passed through DHS are subject to DHS audit requirements. If any federal statute specifically prescribes policies or specific requirements that differ from the standards provided herein, the provisions of the subsequent statute shall govern. The DHS provides the following audit requirements in accordance with the Commonwealth of Pennsylvania, Governor's Office, Management Directive 325.9, as amended December 23, 2014.

Sub recipient means a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program, but does not include an individual that is a beneficiary of such a program. A sub recipient may also be a recipient of other federal awards received directly from a federal awarding agency. For purposes of this audit clause, a sub recipient **is not** a contractor that receives a procurement contract to provide goods or services that are required to provide the administrative support to carry out a federal program.

A. Federal Audit Requirements – Local Governments and Nonprofit Organizations

A local government and nonprofit organization must comply with all federal audit requirements, including: The Single Audit Act Amendments of 1996; 2 CFR Part 200 as amended; and any other applicable law or regulation, as well as any other applicable law or regulation that may be enacted or promulgated by the federal government.

For years beginning on or after December 26, 2014, a local government or nonprofit organization that expends federal awards of $750,000 or more during its fiscal year, received either directly from the federal government, indirectly from a pass-through entity, or a combination of both, to carry out a federal program, **is required** to have an audit made in accordance with the provisions outlined in 2 CFR Part 200.501. Please note that for periods prior to this, the threshold is still $500,000.

If a local government or nonprofit organization expends **total federal awards of less than $750,000** during its fiscal year, it is exempt from these **federal** audit requirements, but is required to maintain auditable records of federal or state funds that supplement such awards. Records must be available for review by appropriate officials. **Although an audit may not be necessary under the federal requirements, DHS audit requirements may be applicable.**

B. Department of Human Services Audit Requirements

A local government or nonprofit provider must meet the DHS audit requirements.

Where a Single Audit or program-specific audit is conducted in accordance with the federal audit requirements detailed above, such an audit will be accepted by the DHS provided that:

1. A full copy of the audit report is submitted as detailed below; **and**

2. The sub recipient shall ensure that the audit requirements are met for the terms of this contract; i.e., the prescribed Agreed-Upon Procedures (AUP) Report(s) and applicable schedule requirement(s). The incremental cost for preparation of the AUP Report(s) and the schedule cannot be charged to the federal funding stream.

AUDIT CLAUSE A – SUBRECIPIENT
Local Governments and Nonprofit Organizations

The local government or nonprofit organization must comply with all federal and state audit requirements including: the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards contained at 2 CFR 200 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. **In the absence of a federally required audit**, the entity is responsible for the following annual audit requirements, which are based upon the program year specified in this agreement.

Organizations that **expend $750,000 or more in combined state and federal funds, but less than $750,000 in federal funds,** during the program year are required to have an audit of those funds made in accordance with generally accepted *Government Auditing Standards* (The Yellow Book), revised, as published by the Comptroller General of the United States. Where such an audit is not required to meet the federal requirements, the costs related to DHS audit requirements may not be charged to federal funding streams.

If in connection with the agreement, a local government or nonprofit organization **expends $500,000 or more in combined state and federal funds, but less than $750,000 in combined state and federal funds,** during the program year, the sub recipient shall ensure that, for the term of the contract, an independent auditor conducts annual examinations of its compliance with the terms and conditions of this contract. These examinations shall be conducted in accordance with the American Institute of Certified Public Accountants' Statements on Standards for Attestation Engagements, No. 10, Compliance Attestation (SSAE 10), and shall be of a scope acceptable to the DHS. The initial compliance attestation shall be completed for the program year specified in the contract and conducted annually thereafter. The incremental cost for preparation of the SSAE 10 report cannot be charged to federal funding streams.

The sub recipient shall submit the compliance attestation reports (if applicable) to the DHS within 90 days after the program year has been completed. When the compliance attestation reports are other than unqualified, the sub recipient shall submit to the DHS, in addition to the compliance attestation reports, a plan describing what actions the sub recipient will implement to correct the situation that caused the auditor to issue other than an unqualified report, a timetable for implementing the planned corrective actions, and a process for monitoring compliance with the timetable and a contact person who is responsible for the resolution of the situation

If the sub recipient enters into an agreement with a subcontractor(s) for the performance of any primary contractual duties, the audit requirements are applicable to the subcontractor(s) with whom the sub recipient has entered into an agreement. Consequently, the audit requirements should be incorporated into the sub-contractual document as entered by the sub recipient.

A local government or nonprofit entity that **expends less than $500,000 combined state and federal funds** during the program year is exempt from DHS audit requirements, but is required to maintain auditable records for each contract year. Records must be available for review by appropriate officials of the DHS or a pass-through entity.

GENERAL AUDIT PROVISIONS

A local government or nonprofit organization is responsible for obtaining the necessary audit and securing the services of an independent, licensed 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 Commonwealth reserves the right for federal and state agencies, or their authorized representatives, to perform additional audits of a financial and/or performance nature, if deemed necessary by Commonwealth or federal agencies. Any such additional audit work may rely on the work already performed by the sub recipient's auditor, and the costs for any additional work performed by the federal or state agency will be borne by those agencies at no additional expense to the sub recipient.

If it is decided that an audit of this contract will be performed, the sub recipient will be given advance notice. The sub recipient shall maintain books, records, and documents that support the services provided, that the fees earned are in accordance with the contract, and that the sub recipient has complied with the contract terms and conditions. The sub recipient agrees to make available, upon reasonable notice, at the office of the sub recipient, during normal business hours, for the term of this contract and the retention period set forth in this Audit Clause, any of the books, records, and documents for inspection, audit, or reproduction by any state or federal agency or its authorized representative.

The sub recipient shall preserve all books, records, and documents related to this contract for a period of time that is the greater of five years from the contract expiration date, until all 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. If this contract is completely or partially terminated, the records relating to the work terminated shall be preserved and made available for a period of five years from the date of any resulting final settlement.

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

Records that relate to litigation of the settlement of claims arising out of performance or expenditures under this contract to which exception has been taken by the auditors shall be retained by the sub recipient or provided to the Commonwealth at the DHS' option until such litigation, claim, or exceptions have reached final disposition.

Except for documentary evidence delivered pursuant to litigation or the settlement of claims arising out of the performance of the contract, the sub recipient may, in fulfillment of its obligation to retain records as required by this Audit Clause, substitute photographs, microphotographs, or other authentic reproductions of such records after the expiration of two years following the last day of the month of reimbursement to the contractor of the invoice or voucher to which such records relate, unless a shorter period is authorized by the Commonwealth.

AUDIT CLAUSE A – SUBRECIPIENT
Local Governments and Nonprofit Organizations

SUBMISSION OF AUDIT REPORTS TO THE COMMONWEALTH

A. Federally Required Audit Reports

For years beginning prior to December 26, 2014: submit an electronic copy of federally required audit reports 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 in conformity with the stated basis of accounting.

   b. Independent auditor's report on the supplementary Schedule of Expenditures of Federal Awards (SEFA), which should express an opinion on whether the SEFA is fairly stated in all material respects in relation to the sub recipient's basic financial statements taken as a whole. This report can be combined with the independent auditor's report on the basic financial statements or may appear separately in the auditor-submitted document.

   c. Report on internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

   d. Report on compliance and internal control over compliance applicable to each major program in accordance with OMB Circular A-133.

   e. Schedule of findings and questioned costs.

2. Financial statements and notes thereto

3. SEFA and notes thereto

4. Summary schedule of prior audit findings

5. Corrective action plan (if applicable)

6. Data collection form

7. Management letter (if applicable)

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.

AUDIT CLAUSE A – SUBRECIPIENT
Local Governments and Nonprofit Organizations

Instructions and information regarding submission of the single audit/program-specific audit reporting package are available to the public on the 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@pa.gov.

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 the sub recipient'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 in an e-mail addressed to RA-BOASingleAudit@pa.gov. In the subject line of the e-mail the sub recipient 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 sub recipient will receive an email to confirm the receipt of the Single Audit/Program-Specific Audit Reporting Package, including the completed Single Audit/Program Specific Audit Reporting Package Checklist.

For years beginning on or after December 26, 2014: submit an electronic copy of the audit report package to the Federal Audit Clearinghouse, which shall include the elements outlined in 2 CFR Part 200, Subpart F – Audit Requirements (Subpart F).

In addition, the sub recipient must send a copy of the confirmation from the Federal Audit Clearinghouse to the resource account RA-BOASingleAudit@pa.gov.

B. DHS Required Audit Reports and Additional Submission by Sub recipients

1. Independent Accountant's Report on Applying Agreed-Upon Procedures – which consist of the following procedures for the funding provided by this agreement for the contract year ending within the entity's fiscal year end under audit:

   (a) Verify by comparison of the amounts and classifications that the supplemental financial schedules listed below, which summarize amounts reported to DHS for fiscal year ended {CONTRACT YEAR END}, have been accurately compiled, and reflect the audited books and records of (Auditee). Also verify by comparison to the example schedules that these schedules are presented, at a minimum, at the level of detail that directly mirrors the budget page (Rider 3) of the contract. The Schedule of Revenues and Expenditures should mirror the line items on the budget pages of the contract and include a budget and an actual expenditure column pertaining to this period.

   Program Name/ Contract Number Referenced Schedule/Exhibit

   (List each individual schedule for all contracts in which the auditee participated.)

AUDIT CLAUSE A – SUBRECIPIENT
Local Governments and Nonprofit Organizations

(b) Inquire of management regarding adjustments to reported revenues or expenditures, which were not reflected on the reports submitted to DHS for the period in question.

(c) Based on the procedures detailed in paragraphs (a) and (b) above, disclose any adjustments and/or findings and identify which have (have not) been reflected on the corresponding schedules.

(List each separately. Indicate whether it has/has not been reflected on the schedule.)

2. Independent Accountant's Report on Applying Agreed-Upon Procedures – which consist of the following procedures for the entity's fiscal year end under audit. All Local Governments and Nonprofit Organizations who are submitting a single audit in accordance with 2 CFR Part 200, Subpart F are also required to include in their single audit reporting package a supplemental schedule, which is to be subjected to an Agreed-Upon Procedures engagement. The schedule, for which an example is included in this audit clause as Enclosure I, is a reconciliation of the expenditures listed on the Schedule of Expenditures of Federal Awards (SEFA) to the Federal award income received from the Pennsylvania Department of Human Services (DHS), as noted in the revenue audit confirmation received from the Commonwealth of Pennsylvania. The procedures to be performed on the reconciliation schedule are as follows:

(a) Agree the expenditure amounts listed on the reconciliation schedule under the "Federal Expenditures per the SEFA" column to the audited Schedule of Expenditures of Federal Awards (SEFA).

(b) Agree the receipt amounts listed on the reconciliation schedule under the "Federal Awards Received per the audit confirmation reply from Pennsylvania" column to the sub recipient Federal amounts that were reflected in the audit confirmation reply from the Office of Budget, Comptroller Operations.

(c) Recalculate the amounts listed under the "Difference" column.

(d) Agree the amounts listed under the "Difference" column to the audited books and records of the Provider.

(e) Agree the "Detailed Explanation of the Differences" to the audited books and records of the Provider.

(f) Based on the procedures detailed in paragraphs (a) through (e) above, disclose any adjustments and/or findings which have not been reflected on the corresponding schedules (List each separately.).

AUDIT CLAUSE A – SUBRECIPIENT
Local Governments and Nonprofit Organizations

PERIOD SUBJECT TO AUDIT

A federally required audit, conducted in accordance with Subpart F, encompasses the fiscal period of the provider. **Therefore, the period of the federally required audit may differ from the official reporting period as specified in this agreement.** Where these periods differ, the required supplemental schedule(s) of Revenues and Expenditures and the related Independent Accountant's Report on Applying Agreed-Upon Procedures must be completed for the official annual reporting period of this agreement that ended during the period under audit and shall accompany the federally required audit.

CORRECTIVE ACTION PLAN

The provider shall prepare a corrective action plan (CAP) to address all findings of noncompliance, internal control weaknesses, and/or reportable conditions disclosed in the audit report. For each finding noted, the CAP should include: (1) a brief description identifying the findings; (2) whether the provider agrees with the finding; (3) the specific steps taken or to be taken to correct the deficiency or specific reasons why corrective action is not necessary; (4) a timetable for completion of the corrective action steps; (5) a description of monitoring to be performed to ensure that the steps are taken; and (6) the responsible party for the CAP.

REMEDIES FOR NONCOMPLIANCE

The provider's failure to provide an acceptable audit, in accordance with the requirements of the Audit Clause Requirements, may result in the DHS' not accepting the report and initiating sanctions against the provider that may include the following:

- Disallowing the cost of the audit.
- Withholding a percentage of the contract funding pending compliance.
- Withholding or disallowing administrative costs.
- Suspending subsequent contract funding pending compliance.

TECHNICAL ASSISTANCE

Technical assistance on the DHS' audit requirements and the integration of those requirements with the federal Single Audit requirements will be provided by:

Department of Human Services
Bureau of Financial Operations
Division of Audit and Review
Audit Resolution Section
1st Floor, Forum Place
555 Walnut Street
P.O. Box 2675
Harrisburg, Pennsylvania 17105-2675
Email: RA-pwauditresolution@pa.gov

SUBRECIPIENT / CONTRACTOR AUDITS

AUDIT CLAUSE A – SUBRECIPIENT
Local Governments and Nonprofit Organizations
ENCLOSURE I

Entity Name
Year Ended {ORGANIZATION'S FINANCIAL STATEMENT DATE}

SUPPLEMENTAL SCHEDULE

RECONCILIATION
Federal Awards Passed through the Pennsylvania Department of Human Services
Expenditures per the SEFA to Revenue Received per the Pennsylvania Audit Confirmation Reply

CFDA Name	CFDA Number	Federal Expenditures per the SEFA	Federal Awards Received per the audit confirmation reply from Pennsylvania	Difference	Detailed Explanation of the Differences
		$	$	$	

AUDIT CLAUSE B – SUBRECIPIENT
For-Profit Organizations

The Commonwealth of Pennsylvania, Department of Human Services (DHS), distributes federal and state funds to local governments, nonprofit, and for-profit organizations. Federal expenditures are subject to federal audit requirements, and federal and state funding passed through DHS are subject to DHS audit requirements. If any federal statute specifically prescribes policies or specific requirements that differ from the standards provided herein, the provisions of the subsequent statute shall govern. The DHS provides the following audit requirements in accordance with the Commonwealth of Pennsylvania, Governor's Office, Management Directive 325.9, as amended December 23, 2014.

Subrecipient means an entity that expends federal awards received from a pass-through entity to carry out a federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other federal awards received directly from a federal awarding agency. For purposes of this audit clause, a subrecipient **is not** a contractor that receives a procurement contract to provide goods or services that are required to provide the administrative support to carry out a federal program.

A. Federal Audit Requirements – For- Profit Organizations

The for-profit organization must comply with all federal and state audit requirements including: The Single Audit Act Amendments of 1996; 2 CFR Part 200 as amended; and any other applicable law or regulation, as well as any other applicable law or regulation that may be enacted or promulgated by the federal government.

For years beginning on or after December 26, 2014, a for-profit organization **is required** to have an audit if it expends a total of $750,000 or more in federal funds under one or more Department of Health and Human Services (DHHS) federal awards. Title 45, CFR 75.501(i) incorporates the thresholds and deadlines of 2 CFR Part 200 as amended, and provides for-profit organizations with two options regarding the type of audit that will satisfy the audit requirements:

1. A financial audit conducted in accordance with generally accepted *Government Auditing Standards* (The Yellow Book), revised; or

2. An audit that meets the requirements contained in 2 CFR Part 200.

If a for-profit organization expends **total federal awards of less than $750,000** during its fiscal year, it is exempt from these **federal** audit requirements, but is required to maintain auditable records of federal or state funds that supplement such awards. Records must be available for review by appropriate officials. **Although an audit may not be necessary under the federal requirements, DHS audit requirements may be applicable.**

AUDIT CLAUSE B – SUBRECIPIENT
For-Profit Organizations

B. Department of Human Services Audit Requirements

A for-profit provider must meet the DHS audit requirements.

Where a Single Audit or program-specific audit is conducted in accordance with the federal audit requirements detailed above, such an audit will be accepted by the DHS provided that:

1. A full copy of the audit report is submitted as detailed below; **and**

2. The subrecipient shall ensure that the audit requirements are met for the terms of this contract; i.e., the prescribed Agreed-Upon Procedures (AUP) Report(s) and applicable schedule requirement(s). The incremental cost for preparation of the AUP Report(s) and the schedule cannot be charged to federal funding streams.

In the absence of a federally required audit, the entity is responsible for the following annual audit requirements, which are based upon the program year specified in this agreement.

If in connection with the agreement, a for-profit organization **expends $500,000 or more in combined state and federal funds, but less than $750,000 in federal funds,** during the program year, the subrecipient shall ensure that, for the term of the contract, an independent auditor conducts annual examinations of its compliance with the terms and conditions of this contract. These examinations shall be conducted in accordance with the American Institute of Certified Public Accountants' Statements on Standards for Attestation Engagements, No. 10, Compliance Attestation (SSAE 10), and shall be of a scope acceptable to the DHS. The initial compliance attestation shall be completed for the program year specified in the contract and conducted annually thereafter. The incremental cost for preparation of the SSAE 10 report cannot be charged to federal funding streams.

The subrecipient shall submit the compliance attestation reports (if applicable) to the DHS within 90 days after the program year has been completed. When the compliance attestation reports are other than unqualified, the subrecipient shall submit to the DHS, in addition to the compliance attestation reports, a plan describing what actions the subrecipient will implement to correct the situation that caused the auditor to issue other than an unqualified report, a timetable for implementing the planned corrective actions, and a process for monitoring compliance with the timetable and a contact person who is responsible for the resolution of the situation.

If the subrecipient enters into an agreement with a subcontractor(s) for performance of any primary contractual duties, the audit requirements are applicable to the subcontractor(s) with whom the subrecipient has entered into an agreement. Consequently, the audit requirements should be incorporated into the sub-contractual document as entered by the subrecipient.

A for-profit entity that **expends less than $500,000 combined state and federal funds** during the program year is exempt from DHS audit requirements, but is required to maintain auditable records for each contract year. Records must be available for review by appropriate officials of the DHS or a pass-through entity.

AUDIT CLAUSE B – SUBRECIPIENT
For-Profit Organizations

GENERAL AUDIT PROVISIONS

A for-profit organization is responsible for obtaining the necessary audit and securing the services of an independent, licensed 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 Commonwealth reserves the right for state and federal agencies, or their authorized representatives, to perform financial and/or performance audits if deemed necessary by the Commonwealth or federal agencies. Any such additional audit work may rely on the work already performed by the subrecipient's auditor, and the costs for any additional work performed by the federal or state agency will be borne by those agencies at no additional expense to the subrecipient.

If it is decided that an audit of this contract will be performed, the subrecipient will be given advance notice. The subrecipient shall maintain books, records, and documents that support the services provided, that the fees earned are in accordance with the contract, and that the subrecipient has complied with the contract terms and conditions. The subrecipient agrees to make available, upon reasonable notice, at the office of the subrecipient, during normal business hours, for the term of this contract and the retention period set forth in this Audit Clause, any of the books, records, and documents for inspection, audit, or reproduction by any state or federal agency or its authorized representative.

The subrecipient shall maintain books, records, and documents related to this contract for a period of five years from the contract expiration date, until all 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. Any records that support the services provided, that the fees earned are in accordance with the contract, and that the subrecipient has complied with contract terms and conditions must be maintained.

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

Records that relate to litigation of the settlement of claims arising out of performance or expenditures under this contract to which exception has been taken by the auditors shall be retained by the subrecipient or provided to the Commonwealth at the DHS' option until such litigation, claim, or exceptions have reached final disposition.

Except for documentary evidence delivered pursuant to litigation or the settlement of claims arising out of the performance of the contract, the subrecipient may, in fulfillment of its obligation to retain records as required by this Audit Clause, substitute photographs, microphotographs, or other authentic reproductions of such records after the expiration of two years following the last day of the month of reimbursement to the contractor of the invoice or voucher to which such records relate, unless a shorter period is authorized by the Commonwealth.

AUDIT CLAUSE B – SUBRECIPIENT
For-Profit Organizations

SUBMISSION OF AUDIT REPORT TO THE COMMONWEALTH

A. Federally Required Audit Reports

For years beginning prior to December 26, 2014: Submit an electronic copy of federally required audit reports to the Commonwealth, which shall include:

1. Auditor's reports (The reports will vary depending on whether it is an audit that meets the requirements contained in OMB Circular A-133, or a financial audit conducted in accordance with generally accepted Government Auditing Standards (The Yellow Book), revised)

   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 in conformity with the stated basis of accounting.

   b. Independent auditor's report on the supplementary Schedule of Expenditures of Federal Awards (SEFA), which should express an opinion on whether the SEFA is fairly stated in all material respects in relation to the subrecipient's basic financial statements taken as a whole. This report can be combined with the independent auditor's report on the basic financial statements or may appear separately in the auditor-submitted document.

   c. Report on internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

   d. Report on compliance and internal control over compliance applicable to each major program in accordance with OMB Circular A-133.

   e. Schedule of findings and questioned costs.

2. Financial statements and notes thereto

3. SEFA and notes thereto (only for an audit that meets the requirements contained in OMB Circular A-133)

4. Summary schedule of prior audit findings

5. Corrective action plan (if applicable)

6. Management letter (if applicable)

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.

Instructions and information regarding submission of the single audit/program-specific audit reporting package are available to the public on the 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@pa.gov.

SUBRECIPIENT AUDIT CLAUSE B
For-Profit Organization

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 the subrecipient'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 in an e-mail addressed to RA-BOASingleAudit@pa.gov. In the subject line of the e-mail the subrecipient 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 subrecipient will receive an email to confirm the receipt of the Single Audit/Program-Specific Audit Reporting Package, including the completed Single Audit/Program Specific Audit Reporting Package Checklist.

For years beginning on or after December 26, 2014: submit an electronic copy of the audit report package to the Federal Audit Clearinghouse, which shall include the elements outlined in 2 CFR Part 200, Subpart F – Audit Requirements (Subpart F).

In addition, the subrecipient must send a copy of the confirmation from the Federal Audit Clearinghouse to the resource account RA-BOASingleAudit@pa.gov.

B. DHS Required Audit Reports and Additional Submission by Subrecipients

1. Independent Accountant's Report on Applying Agreed-Upon Procedures – which consist of the following procedures for the funding provided by this agreement for the contract year ending within the entity's fiscal year end under audit:

   (a) Verify by comparison of the amounts and classifications that the supplemental financial schedules listed below, which summarize amounts reported to DHS for fiscal year ended {CONTRACT YEAR END}, have been accurately compiled and reflect the audited books and records of (Auditee). Also verify by comparison to the example schedules that these schedules are presented, at a minimum, at the level of detail that directly mirrors the budget page (Rider 3) of the contract. The Schedule of Revenues and Expenditures should mirror the line items on the budget pages of the contract and include a budget and an actual expenditure column pertaining to this period.

Program Name/ Contract Number	Referenced Schedule/Exhibit

   (List each individual schedule for all contracts in which the auditee participated.)

   (b) Inquire of management regarding adjustments to reported revenues or expenditures, which were not reflected on the reports submitted to DHS for the period in question.

(c) Based on the procedures detailed in paragraphs (a) and (b) above, disclose any adjustments and/or findings and identify which have (have not) been reflected on the corresponding schedules.

(List each separately. Indicate whether it has/has not been reflected on the schedule.)

2. Independent Accountant's Report on Applying Agreed-Upon Procedures – which consist of the following procedures for the entity's fiscal year end under audit. All For-Profit Organizations who are submitting a single audit in accordance with Title 45, CFR 75.501(i) are also required to include in their single audit reporting package a supplemental schedule, which is to be subjected to an Agreed-Upon Procedures engagement. The schedule, for which an example is included in this audit clause as Enclosure I, is a reconciliation of the expenditures listed on the Schedule of Expenditures of Federal Awards (SEFA) to the Federal award income received from the Pennsylvania Department of Human Services (DHS), as noted in the revenue audit confirmation received from the Commonwealth of Pennsylvania. The procedures to be performed on the reconciliation schedule are as follows:

(a) Agree the expenditure amounts listed on the reconciliation schedule under the "Federal Expenditures per the SEFA" column to the audited Schedule of Expenditures of Federal Awards (SEFA).

(b) Agree the receipt amounts listed on the reconciliation schedule under the "Federal Awards Received per the audit confirmation reply from Pennsylvania" column to the subrecipient Federal amounts that were reflected in the audit confirmation reply from the Office of Budget, Comptroller Operations.

(c) Recalculate the amounts listed under the "Difference" column.

(d) Agree the amounts listed under the "Difference" column to the audited books and records of the Provider.

(e) Agree the "Detailed Explanation of the Differences" to the audited books and records of the Provider.

(f) Based on the procedures detailed in paragraphs (a) through (e) above, disclose any adjustments and/or findings which have not been reflected on the corresponding schedules (List each separately.).

SUBRECIPIENT AUDIT CLAUSE B
For-Profit Organization

PERIOD SUBJECT TO AUDIT

A federally required audit, conducted in accordance with Subpart F, or Title 45, CFR 75.501(i), as appropriate, encompasses the fiscal period of the auditee. **Therefore, the period of the federally required audit may differ from the official reporting period as specified in this agreement.** Where these periods differ, the required supplemental schedule(s) of Revenues and Expenditures and the related Independent Accountant's Report on Applying Agreed-Upon Procedures must be completed for the official annual reporting period of this agreement that ended during the period under audit and shall accompany the federally required audit.

CORRECTIVE ACTION PLAN

The provider shall prepare a corrective action plan (CAP) to address all findings of noncompliance, internal control weaknesses, and/or reportable conditions disclosed in the audit report. For each finding noted, the CAP should include: (1) a brief description identifying the findings; (2) whether the auditee agrees with the finding; (3) the specific steps taken or to be taken to correct the deficiency or specific reasons why corrective action is not necessary; (4) a timetable for completion of the corrective action steps; (5) a description of monitoring to be performed to ensure that the steps are taken; and (6) the responsible party for the CAP.

REMEDIES FOR NONCOMPLIANCE

The provider's failure to provide an acceptable audit, in accordance with the requirements of the Audit Clause Requirements, may result in the DHS' not accepting the report and initiating sanctions against the Provider that may include the following:

- Disallowing the cost of the audit.
- Withholding a percentage of the contract funding pending compliance.
- Withholding or disallowing administrative costs.
- Suspending subsequent contract funding pending compliance.

TECHNICAL ASSISTANCE

Technical assistance on the DHS' audit requirements and the integration of those requirements with the federal Single Audit requirements will be provided by:

Department of Human Services
Bureau of Financial Operations
Division of Audit and Review
Audit Resolution Section
1st Floor, Forum Place
555 Walnut Street
P.O. Box 2675
Harrisburg, Pennsylvania 17105-2675
Email: RA-pwauditresolution@pa.gov

SUBRECIPIENT / CONTRACTOR AUDITS

AUDIT CLAUSE B – SUBRECIPIENT
For-Profit Organizations
ENCLOSURE I

Entity Name
Year Ended {ORGANIZATION'S FINANCIAL STATEMENT DATE}

SUPPLEMENTAL SCHEDULE

RECONCILIATION
Federal Awards Passed through the Pennsylvania Department of Human Services
Expenditures per the SEFA to Revenue Received per the Pennsylvania Audit Confirmation Reply

CFDA Name	CFDA Number	Federal Expenditures per the SEFA	Federal Awards Received per the audit confirmation reply from Pennsylvania	Difference	Detailed Explanation of the Differences
		$	$	$	

AUDIT CLAUSE C – CONTRACTOR
Service Organizations

The Commonwealth of Pennsylvania, Department of Human Services (DHS), distributes federal and state funds to local governments, nonprofit, and for-profit organizations. Federal expenditures are subject to federal audit requirements, and federal funding and state funding passed through DHS are subject to DHS audit requirements. If any federal statute specifically prescribes policies or specific requirements that differ from the standards provided herein, the provisions of the subsequent statute shall govern.

Contractor means a dealer, distributor, merchant, or other seller providing goods or services to an auditee that are required for the **administrative support** of a program. These goods or services *may be for an organization's own use or for the use of beneficiaries of the federal program. The* contractor's responsibility is to meet the requirements of the procurement contract.

Department of Human Services Audit Requirements

If in connection with the agreement, an entity **expends $500,000 or more in combined state and federal funds** during the program year, the entity shall ensure that, for the term of the contract, an independent auditor conducts annual examinations of its compliance with the terms and conditions of this contract. These examinations shall be conducted in accordance with the American Institute of Certified Public Accountants' Statements on Standards for Attestation Engagements No 10, Compliance Attestation (SSAE 10), and shall be of a scope acceptable to the DHS. The contractor shall also ensure that an independent auditor performs an audit or examination of its controls applicable to the processing of transactions on behalf of the Department. These examinations shall be performed in accordance with Statement on Standards for Attestation Engagements No. 16, Reporting on Controls at a Service Organization (SSAE 16). All SSAE 16 reports provided shall be "Type 2" reports (reports on controls placed in operation and tests of operating effectiveness throughout a specified period of time). The initial SSAE 16 examination shall be conducted for the first official annual reporting period required by this agreement and conducted annually thereafter.

The Commonwealth reserves the right for state and federal agencies, or their authorized representatives, to perform financial and performance audits if deemed necessary. If it is decided that an audit of this contract will be performed, the contractor will be given advance notice. The contractor shall maintain books, records, and documents that support the services provided, that the fees earned are in accordance with the contract, and that the contractor has complied with contract terms and conditions. The contractor agrees to make available, upon reasonable notice, at the office of the contractor, during normal business hours, for the term of this contract and the retention period set forth in this Audit Clause, any of the books, records, and documents for inspection, audit, or reproduction by any state or federal agency or its authorized representative.

The contractor shall preserve all books, records, and documents related to this contract for a period of time that is the greater of five years from the contract expiration date, until all 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. If this contract is completely or partially terminated, the records relating to the work terminated shall be preserved and made available for a period of five years from the date of any resulting final settlement.

AUDIT CLAUSE C – CONTRACTOR
Service Organizations

Records that relate to litigation or the settlement of claims arising out of performance or expenditures under this contract to which exception has been taken by the auditors, shall be retained by the contractor or provided to the Commonwealth at the DHS' option until such litigation, claim, or exceptions have reached final disposition.

Except for documentary evidence delivered pursuant to litigation or the settlement of claims arising out of the performance of this contract, the contractor may, in fulfillment of his obligation to retain records as required by this Audit Clause, substitute photographs, microphotographs, or other authentic reproductions of such records, after the expiration of two years following the last day of the month of reimbursement to the contractor of the invoice or voucher to which such records relate, unless a shorter period is authorized by the Commonwealth.

DHS Required Audit Report Submission

The contractor shall submit the SSAE 10 report and SSAE 16 reports to the DHS within 90 days after the required period of audit has ended. When either the SSAE 10 or SSAE 16 reports are other than unqualified, the contractor shall submit to the DHS, in addition to the audit reports, a plan describing what actions the contractor will implement to correct the situation that caused the auditor to issue a qualified opinion, a timetable for implementing the planned corrective actions, and a process for monitoring compliance with the timetable and the contact person who is responsible for resolution.

Submit **two copies** of the DHS required audit report package.

1. Independent Accountant's Report – on the Attestation of an entity's compliance with specific requirements during a period of time in accordance with the contract and the appropriate schedule, as required.

2. Submit the audit report directly to the program office.

REMEDIES FOR NONCOMPLIANCE

The provider's failure to provide an acceptable audit, in accordance with the requirements of the Audit Clause Requirements, may result in the DHS' not accepting the report and initiating sanctions against the contractor that may include the following:

- Disallowing the cost of the audit.
- Withholding a percentage of the contract funding pending compliance.
- Suspending subsequent contract funding pending compliance.

AUDIT CLAUSE C – CONTRACTOR
Service Organizations

TECHNICAL ASSISTANCE

Technical assistance on the DHS' audit requirements will be provided by:

Department of Human Services
Bureau of Financial Operations
Division of Audit and Review
Audit Resolution Section
1st Floor, Forum Place
555 Walnut Street
P.O. Box 2675
Harrisburg, Pennsylvania 17105-2675
Email: RA-pwauditresolution@pa.gov

AUDIT CLAUSE C – CONTRACTOR
Service Organizations
ENCLOSURE I

The Department of Human Services (DHS) requires an Independent Accountant's Report on the Attestation to be in the format described by the American Institute of Certified Public Accountants (AICPA). The following is the form of report an Independent Accountant should use when expressing an opinion on an entity's compliance with specified requirements during a period of time. For further guidance, refer to the AICPA Professional Standards.

Independent Accountant's Report

[Introductory Paragraph]

We have examined [*name of entity*]'s compliance with [*list specific compliance requirement*] during the [*period*] ended [*date*]. Management is responsible for [*name of entity*]'s compliance with those-requirements. Our responsibility is to express an opinion on [*name of entity*]'s compliance based on our examination.

[Scope Paragraph]

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about [*name of entity*]'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on [*name of en*tity]'s compliance with specified requirements.

[Opinion Paragraph]

In our opinion, [*name of* entity] complied, in all material respects, with the aforementioned requirements for the year ended December 31, 20XX.

[DATE] [SIGNATURE]

SUBRECIPIENT / CONTRACTOR AUDITS

AUDIT CLAUSE D – CONTRACTOR

The Commonwealth of Pennsylvania, Department of Human Services (DHS), distributes federal and state funds to local governments, nonprofit, and for-profit organizations. Federal expenditures are subject to federal audit requirements, and federal funding and state funding passed through DHS are subject to DHS audit requirements. If any federal statute specifically prescribes policies or specific requirements that differ from the standards provided herein, the provisions of the subsequent statute shall govern.

Contractor means a dealer, distributor, merchant, or other seller providing goods or services to an auditee that are required for the **administrative support** of a program. These goods or services may be for an organization's own use or for the use of beneficiaries of the federal program. The contractor's responsibility is to meet the requirements of the procurement contract.

Department of Human Services Audit Requirement

If in connection with the agreement, an entity **expends $500,000 or more in combined state and federal funds** during the program year, the entity shall ensure that, for the term of the contract, an independent auditor conducts annual examinations of its compliance with the terms and conditions of this contract. These examinations shall be conducted in accordance with the American Institute of Certified Public Accountants' Statements on Standards for Attestation Engagements No. 10, Compliance Attestation (SSAE 10), and shall be of a scope acceptable to the DHS. The initial compliance examination shall be completed for the official annual reporting period of this agreement and conducted annually thereafter.

The Commonwealth reserves the right for state and federal agencies, or their authorized representatives, to perform financial and performance audits if deemed necessary. If it is decided that an audit of this contract will be performed, the contractor will be given advance notice. The contractor shall maintain books, records, and documents that support the services provided, that the fees earned are in accordance with the contract, and that the contractor has complied with contract terms and conditions. The contractor agrees to make available, upon reasonable notice, at the office of the contractor, during normal business hours, for the term of this contract and the retention period set forth in this Audit Clause, any of the books, records, and documents for inspection, audit, or reproduction by any state or federal agency or its authorized representative.

The contractor shall preserve all books, records, and documents related to this contract for a period of time that is the greater of five years from the contract expiration date, until all 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. If this contract is completely or partially terminated, the records relating to the work terminated shall be preserved and made available for a period of five years from the date of any resulting final settlement.

Records that relate to litigation or the settlement of claims arising out of performance or expenditures under this contract to which exception has been taken by the auditors, shall be retained by the contractor or provided to the Commonwealth at the DHS' option until such litigation, claim, or exceptions have reached final disposition.

AUDIT CLAUSE D – CONTRACTOR

Except for documentary evidence delivered pursuant to litigation or the settlement of claims arising out of the performance of this contract, the contractor may, in fulfillment of his obligation to retain records as required by this Audit Clause, substitute photographs, microphotographs, or other authentic reproductions of such records, after the expiration of two years following the last day of the month of reimbursement to the contractor of the invoice or voucher to which such records relate, unless a shorter period is authorized by the Commonwealth

DHS Required Audit Report Submission

The contractor shall submit the SSAE 10 report to the DHS within 90 days after the required period of audit has ended. When the SSAE 10 report is other than unqualified, the contractor shall submit to the DHS, in addition to the audit report, a plan describing what actions the contractor will implement to correct the situation that caused the auditor to issue a qualified opinion, a timetable for implementing the planned corrective actions, and a process for monitoring compliance with the timetable.

Submit **two copies** of the DHS required audit report package.

1. Independent Accountant's Report – on the Attestation of an entity's compliance with specific requirements during a period of time in accordance with the contract and the appropriate schedule, as required.

2. Submit the audit report directly to the program office.

REMEDIES FOR NONCOMPLIANCE

The provider's failure to provide an acceptable audit, in accordance with the requirements of the Audit Clause Requirements, may result in the DHS' not accepting the report and initiating sanctions against the contractor that may include the following:

- Disallowing the cost of the audit.
- Withholding a percentage of the contract funding pending compliance.
- Suspending subsequent contract funding pending compliance.

TECHNICAL ASSISTANCE

Technical assistance on the DHS' audit requirements will be provided by:

Department of Human Services
Bureau of Financial Operations
Division of Audit and Review
Audit Resolution Section
1st Floor, Forum Place
555 Walnut Street
P.O. Box 2675
Harrisburg, Pennsylvania 17105-2675
Email: RA-pwauditresolution@pa.gov

AUDIT CLAUSE D – CONTRACTOR
ENCLOSURE I

The Department of Human Services (DHS) requires an Independent Accountant's Report on the Attestation to be in the format described by the American Institute of Certified Public Accountants (AICPA). The following is the form of report an Independent Accountant should use when expressing an opinion on an entity's compliance with specified requirements during a period of time. For further guidance, refer to the AICPA Professional Standards.

Independent Accountant's Report

[Introductory Paragraph]

We have examined [*name of entity*]'s compliance with [*list specific compliance requirement*] during the [*period*] ended [*date*]. Management is responsible for [*name of entity*]'s compliance with those-requirements. Our responsibility is to express an opinion on [*name of entity*]'s compliance based on our examination.

[Scope Paragraph]

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about [*name of entity*]'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on [*name of en*tity]'s compliance with specified requirements.

[Opinion Paragraph]

In our opinion, [*name of* entity] complied, in all material respects, with the aforementioned requirements for the year ended December 31, 20XX.

[DATE] [SIGNATURE]

SUBRECIPIENT / CONTRACTOR AUDITS
EXCEPTIONS

AUDIT CLAUSE E – CONTRACTOR

NOTE: This Audit Clause should not be used in most instances – only for instances when no specific audit requirement is warranted.

The Commonwealth reserves the right for state and federal agencies, or their authorized representatives, to perform financial and performance audits if deemed necessary. If it is decided that an audit of this contract will be performed, the contractor will be given advance notice.

The contractor shall maintain books, records, and documents that support the services provided, that the fees earned are in accordance with the contract, and that the contractor has complied with contract terms and conditions. The contractor agrees to make available, upon reasonable notice, at the office of the contractor, during normal business hours, for the term of this contract and the retention period set forth in this Audit Clause, any of the books, records, and documents for inspection, audit, or reproduction by any state or federal agency or its authorized representative.
The contractor shall preserve all books, records, and documents related to this contract for a period of time that is the greater of five years from the contract expiration date, until all 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. If this contract is completely or partially terminated, the records relating to the work terminated shall be preserved and made available for a period of four years from the date of any resulting final settlement.

Records that relate to litigation or the settlement of claims arising out of performance or expenditures under this contract to which exception has been taken by the auditors, shall be retained by the contractor or provided to the Commonwealth at the Department of Human Services' option until such litigation, claim, or exceptions have reached final disposition.

Except for documentary evidence delivered pursuant to litigation or the settlement of claims arising out of the performance of this contract, the contractor may, in fulfillment of his obligation to retain records as required by this Audit Clause, substitute photographs, microphotographs, or other acceptable reproductions of such records, after the expiration of two years following the last day of the month of reimbursement to the contractor of the invoice or voucher to which such records relate, unless a shorter period is authorized by the Commonwealth.