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SUBJECT

Introduction to DPW Audit Policy

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SCOPE

County Commissioners
County Controller Offices
County MH/MR Programs
County Child Welfare Programs
County Human Service Programs
Program Office Deputies
DPW Comptroller's Office
CPA Distribution List

PURPOSE

To provide county program administrators with an explanation of the Department of Public Welfare (DPW) revised audit policy developed in response to the Single Audit Amendments of 1996, and the June 1997 and June 2003 revisions of Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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

BACKGROUND

Since the Federal Single Audit process went into effect in January 1985, the DPW has come to rely heavily upon audits of its subrecipients and vendors, not only for monitoring federal funds, but also for monitoring the application of state and/or local funds as well. The management of DPW grants and contracts is dependent largely on this outside confirmation of essential information. The DPW would like to pass the DPW Administrative Policy for Subrecipient/Vendor Audits down to the counties to assist the county administrator's in monitoring their contracts. The policy was created for use in DPW contracts and to give guidelines to program offices for monitoring through lesser audits.

The three levels of audits relevant to this discussion are:

- (1) A compliance attestation that examines the subrecipient/vendor for compliance with the terms and conditions of the contract, as well as, applicable program requirements,
- (2) Those conducted in accordance with Government Auditing Standards as published by the Comptroller General of the United States, commonly referred to as the Yellow Book. A Yellow Book audit addresses basic financial statements (of an entity, program or contract) and basic testing of compliance requirements and internal controls, which have a material effect upon those statements, and

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Bureau of Financial Operations
Division of Financial Policy & Operations
Audit Resolution Section - Telephone 717-787-8890

- (3) A Single Audit in accordance with Office of Management and Budget (OMB) Circular A-133. The single audit is an entity-wide audit, which expands upon the yellow book audit with mandatory detailed testing of compliance and internal controls pertaining to federal programs.

DISCUSSION

In developing the revised audit policy, the DPW considered three basic options:

- (1) To continue the policy of requiring audits of all contracts valued at \$300,000, or more, and single audits of entities receiving \$500,000 or more in federal funding;
- (2) To return to active monitoring in lieu of audits; or
- (3) To require the contractors to obtain a limited number of audits and/or Compliance Attestation engagements and to absorb those costs in which the federal government has chosen not to participate. Option 3 was determined to be the most appropriate for the DPW.

The determination to require a Yellow Book audit when an entity reaches the threshold of \$500,000 annual expenditures consisting of combined state and federal funding is based upon the federal threshold. Following the theory that the federal government is concerned when annual expenditures reach a total of \$500,000 or more in federal funds, the DPW has adopted that same threshold. However, the DPW's expenditures may consist of a combination of state and federal funds. By extension, county expenditures could consist of a combination of federal, state, and local funding. In adopting this position, the DPW recognizes that certain audit costs may not be eligible for federal funding.

Note that this is DPW policy only and does not extend to other Commonwealth organizations.

Detailed Description of Option 3 as Applied by DPW

For government and non-profit organizations expending a total of \$500,000 or more in federal financial assistance, an audit which meets the federal requirement will be accepted provided that a copy of

- (1) The full report and
- (2) A Compliance Attestation conducted by an independent auditor as specified in the contract and/or the DPW Single Audit Supplement for the DPW's program(s). The audit should be submitted to DPW through the Commonwealth's Bureau of Audits. The incremental cost of completing the Compliance Attestation cannot be charged to federal funding streams but may be allocated to other eligible funding streams.

In the absence of a federally required audit, the entity is responsible for the attached annual audit requirements under the DPW audit policy.

The audit provisions are designed as a tool to be used in monitoring grants and contracts. These provisions may help in receiving more efficient use of interim reporting and existing monitoring techniques. This option provides confirmation of reported information and minimizes additional costs.

DETERMINING AUDIT POLICY IMPACT

Each county and county program should complete an analysis of its own contracts. This can be accomplished easily using a simple spreadsheet application or even a manual listing of the contracts in question and following the steps listed below. Depending upon the program area(s), it is probably best to analyze groups of similar contracts rather than one all-encompassing list.

1. For each contract, list the total amount and provide a column for each of the funding streams, differentiating between federal, state and local funds. From this information, determine the percentage of federal funds per contract. The federal percentage may be the same for all contracts or it may differ from contract to contract.

2. Next list the amount of the budget line item for audit cost and take that amount times the federal funds percentage. This provides the amount of audit cost which may have to be absorbed if ineligible for federal reimbursement.
3. Sort the resulting list by contract amount and then divide the list into categories based upon the thresholds in Option 3 as shown below. Further divide those over \$500,000 based upon the amount of federal funds.

Under \$300,000	No Audit
\$300,000 to \$500,000	Compliance Attestation for High Risk Areas
\$500,000 federal and state combined funds	Yellow Book with Compliance Attestation
\$500,000 or more in federal funds	Single Audit with Compliance Attestation

4. The category of a contract can be shifted based on prior experience. Prior year audits of the contractor may support at least \$500,000 in federal funding from multiple sources, requiring a single audit, which is entirely eligible for federal funding.
5. Use the amounts and categories listed in Steps 2 and 3 above, to determine the amount of audit costs, which are not eligible for federal reimbursement and must be absorbed by other eligible funding streams.

The incremental cost of an audit policy is the federal share of the cost of Yellow Book audits and Compliance Attestation engagements.

WAIVERS OF AUDIT REQUIREMENTS

Program monitoring by the county may be determined to be sufficient to support elimination/waiver of those audit requirements, which are not required by the federal government and/or state-level regulations. This determination should be thoroughly documented.

IMPLEMENTATION

The Single Audit Amendments of 1996 and OMB Circular A-133 revision are effective for audit periods ending after December 31, 2003. Therefore, implementation of revised audit policies should begin immediately and include contracts for the 2003-2004 fiscal year wherever possible. Issues concerning the contracts already in place will need to be handled on a case-by-case basis.

ATTACHMENTS

The following attachments are provided per DPW audit policy:

DPW Administrative Policy for Subrecipient/Vendor Audits
<http://oadev/BFO/AuditPolicies.asp>