Aug. 17, 2015

Via Electronic Mail
David R. Bryan, CPA CGMA
Manager, Audit Resolution Section
Bureau of Financial Operations
Department of Human Services
Harrisburg, PA 17110

Re: Department of Human Services Single Audit Supplement

Dear Mr. Bryan:

The Pennsylvania Institute of Certified Public Accountants (PICPA) working group appreciates the opportunity to comment on the DHS’s draft 2015 Single Audit Supplement. The PICPA is a professional association of more than 22,000 members working to improve the CPA profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The working group is composed of practitioners from international, regional, and small public accounting firms who audit not-for-profit and/or state and local government entities.

Our comments are included below in two sections: one for new comments and one for comments carried forward from our review of the 2014 DPW Compliance Supplement that are still relevant. Note, we did not have an opportunity to review Appendix I, as these documents were not available. If you would like a comprehensive review of the guide we would need to consider the form and content of Appendix I.

We appreciate your consideration of our comments. We are available to discuss any of these comments with you at your convenience.

Sincerely,

Allison M. Henry, CPA CGMA
Vice President – Technical & Professional Standards

cc: Brian Lyman, CPA, Bureau of Audits – Office of the Budget
Section I- New Comments for 2015

- Page ii. – Thresholds – Under "Entities required to have a Single Audit," it should be clearer what the effective dates are for the $750,000 threshold. We suggest including information regarding the prior thresholds to reduce errors and being clear which thresholds apply to which year. Additionally, it should be made more clear that the Dec. 26, 2014 date applies to contracts, i.e., if the contract is dated before Dec. 26, 2014, then the old OMB circulars apply, and if dated on or after Dec. 26, 2014, Uniform Guidance applies.

- Page ii. – We recommend a note that an audit may include both sets of OMB and DHS guidance depending on the dates of the contracts.

- Page iii. – Top of the page – Need to define acronym "AICPA."

- Page iii. – Second to last paragraph – We request that clarification be added as to whether the terms “contractors” or “subrecipients” are referring to the definition in accordance with the new circular.

- Page iii. – Last paragraph – The language referring to the auditor making a statement is unclear. Is this referring to an “in relation to report,” or supplemental report? The language also seems to suggest that the report, or “statement” is optional. Can the auditor opt out? The additional language suggesting that the county may submit the DHS-approved schedules as supplement is not clear as to whether if this is occurring you have to submit the entire audit package and not just the supplemental reports.

- Page iv. – Second paragraph – We recommend using language consistent with the OMB guidance.

- Page iv. – Third paragraph, underlined sentence – Should say, “This supplemental schedule as well as...” The first “as” is missing.

- Page v. – Last paragraph – We noted that the draft guide does not consistently use the updated wording from new OMB guidance. This section refers to contractor; however contracted and subgranted mean the opposite thing. It is unclear whether the intent is to require contractors, or whether the language should be changed.

- Page vi. – Third paragraph – Define "FFA."

- Page vi. – Under Audit Costs – The link is not directing to this topic.
• Page vi. – Last paragraph – Refers to a “provider-prepared schedule amended.” It is not clear what is being amended.

• Page vii. – Second paragraph – Refers to the audited supplementary schedules. However, the supplementary schedules are not audited. The opinion is an “in relation to” opinion.

• Page vii. – Under the first example – It is unclear whether this coding shows the federal funds. If so, this should be clarified.

• Page viii. – First paragraph under report submission requires the auditor to submit a copy of the confirmation to the Federal Audit Clearinghouse to the Office of the Budget, Bureau of Audits. However, the OMB Circular specifically notes that grantor agencies should be getting the information from the Federal Audit Clearinghouse and should not require additional submissions from the auditor.

• Page ix. – The audit package submission requirements include provider audit reports (in the case that the independent auditors will not express an opinion on schedules prepared and audited by the provider’s auditors). It is unclear why this is being required.

• Page ix. – Fourth bullet on list – Define further “Provider audit reports.” The definition in parenthesis is not clear.

• Attachment 1a – Page 1 – Referencing Appendix 1, it states that the 2015 submission should be accompanied by a supplemental financial schedule for the period Jan. 1, 2012 to June 30, 2013. This does not appear to be the correct period.

• Common – 2 – Item 1 – First paragraph indicates that “…instructions should be used to completely audit internal control....” However, the independent auditor is not auditing internal control.

• Common – 3 – Suggested Audit Procedures – #4 refers to granted and subcontracted, this language is not consistent. See comment regarding Page v. above.

• Common – 3 – Item 4 – The following sentence is unclear, “Ensure that information identifying the source(s) of funds... (i.e., federal agency, state agency, CFDA number, etc.), state contract/grant number in a timely manner…” It appears that "state contract/grant number should be within the parentheses.

• Common – 4 – First paragraph under compliance requirement debarred/suspended – Use of consistent language. See comment regarding Page v. above.
Appendix 2 – Page II. – 2 – The first sentence under the note indicates that the supplemental schedule should be subjected to an agreed upon procedures engagement. However, the schedule is not subjected to an agreed upon procedures engagement, but rather agreed upon procedures. We recommend removing the word “engagement” for added clarity.

Appendix 2 – It is unclear whether the reconciliation applies below the county level. Are auditors required to confirm with the DHS payments from the treasury for all clients?

Section II. – Items Carried Forward

General Comments

- The document does not clearly and consistently delineate between the auditor and auditees’ responsibilities. For example, in numerous instances the auditor is directed to prepare financial schedules. However, the preparation of the financial schedules is the responsibility of management. The working group suggests clearly separating management’s responsibilities from the auditors’ responsibilities.
- The guidance for auditees for subrecipient monitoring is provided in numerous places throughout the documents. This guidance would be better consolidated in one section for the auditees’ responsibilities.
- Use of a risk based approach – Many of the sections within the guide contain extensive procedures that do not appear to be coordinated from a global risk-based approach.
- The word “examine” has a specific meaning within AICPA professional standards. Therefore, including an audit procedure to “examine” an item creates confusion.
- The general requirement to trace to supporting documentation does not clearly specify what is to be traced to supporting documentation. Is the requirement that the auditor should trace selected items to supporting detail? For example, Section 7 – pages 5 and 6.
- Many procedures require the auditor to “test” without clarifying that the auditor can test a selection of items.
- The number of items bolded and underlined makes the document difficult to read and its frequent use results in a loss of effectiveness.
- In numerous instances the guidance refers to DHS audit policy, or Commonwealth policy. This policy lacks clarity.

Specific Comments

The following comments include recommended changes intended to streamline and refresh the guidance for improved clarity, as well as comments and questions for further discussion with the joint DHS/PICPA working group.

- Reference to the Federal Matching Rates – There are specific qualifications for the Enhanced Federal Matching that are vague as each state has different criteria. It would be helpful if the Commonwealth would define the qualifications that are in place and
those that will change under the Affordable Care Act; for example, the expansion of Medicaid in the Commonwealth. Including a reference in a Program Notice would be helpful and may improve compliance in reporting.

- Introduction page iii. – Purpose
  - The reference to “additional” in the first sentence is unclear as it is not clear what it is in addition to.
  - The second stated purpose is a contracting issue and it is not clear why it is included in the audit guide.
  - The third stated purpose is directing the recipient organizations on subrecipient monitoring. It is not clear whether this belongs in the audit guide or whether the guide at some point can be restructured so that the auditees’ responsibilities are separate from the auditors’ responsibilities. Further the term “lower tier agency” could be changed to “subrecipient.”
  - The Note repeats what is stated in the fourth purpose. The first, and fourth purposes and the note could be combined into one or two brief sentences on the audit requirements and the second and third could be a separate section for auditees.
  - The last paragraph (2015 in section on Appendix I) on the page indicates that the auditor should provide certain supplemental schedules. This paragraph would fall better under a section on Audit Report Submission. Additionally, it is important to distinguish the responsibilities of the auditee and the auditor. The word “provide” ascribes too much responsibility on the auditor. The auditee prepares and the auditor opines and includes the auditee’s schedules and the audit opinions in a reporting package.

- Introduction page iv. (2015 included on page ii)
  - Note “the county is responsible “to submit” changes to “for submitting.” The second to last sentence includes “in place of the county” should be “instead of the county.”
  - In bold print (2015 no longer in bold) at the bottom of the page “whether or not a joinder should be included in the financial statements “or”…” Should the “or” be “of?”

- Introduction page v. – The guidance notes that changes for auditing any joinder should be mailed to the DPW with a copy going to the Office of Budget. An email address could be substituted for the addresses and reference to carbon paper removed.
  - The note regarding the county’s responsibility for subrecipients is repeated several times.
  - The guidance that “in addition, it is essential that auditors understand their auditing…” is already included in the guidance for auditing federal awards and is not needed.

- Introduction page vi.
- HealthChoices – The reference to the funding not being “below the state level” is unclear. The word “however,” is better changed to “therefore.”
- Second to last paragraph – “Many county audits are conducted on a calendar year…” Should this be “calendar year basis?”
- Content of the Schedules – This paragraph is not accurate and its purpose is unclear. Recommend removing the paragraph.

- Introduction page vii.
  - The note at top of the page appears to relate to the section on roster of personnel adjustments.
  - Roster of Personnel Adjustments – As this section relates to the contents of the agreed upon procedures engagement, we suggest moving it to Appendix I. Additionally, this section refers to the “audited” schedules. Typically, supplemental schedules are not audited.
  - Identification of DPW State and Federal Funding – As this section relates to the preparation of the supplemental schedules, we suggest moving it to Appendix I.

- Introduction page vii. – Record Retention – This is not needed as U.S. GAAS and GAGAS already have record retention guidance.

- Introduction page viii. – Request for Extensions – This section includes an address for extension requests to be mailed. We recommend this be changed to an e-mail address.

- Introduction page ix. – Requests for Confirmation – Does not include an address where the confirmations can be sent. The section contains specific guidance for the PROMISE payments including an email address for digital confirmations. It is unclear if this separate guidance is needed. Can this guidance be standardized?

- Introduction page x. – The sample request for confirmation is tedious to complete with many clients being unwilling to pull it together. Instead, would it be possible for the state to send a report in this format for the auditors to tie out to the client records?

- Introduction page xi. – Points of Contact – Reference to DPW audit policy – See comments above. There is also a reference to Commonwealth policy. This reference is similarly unclear. Is there a written commonwealth audit policy? If so, can a link to the policy be provided? Clarification could be helpful to determine where to direct questions.

- Common – page 2 – Requirement 1
  - The instructions for determining major programs are confusing.
  - The second sentence under determining major programs starts with “for all CFDA numbers that fund DPW programs…” This is unclear and suggests that if you spent any funds under a CFDA number covered by the supplement then you need to complete that section. So, the purpose of the A/B determination is unclear.
  - Instead of referencing A-133, just say what they want the auditor to do.
  - The Note regarding “the major program threshold has remained the same for Type A programs at…” should be “the larger of” $300,000.
The verbiage “completely examine internal control and compliance” is not consistent with professional standards.

It is not clear what is required for low risk type A being switched out for high-risk type B programs.

The DPW major program rule presents some practice challenges.

The note at the bottom of the page indicates that the auditor “should do the best to determine which programs receive” 93.667 and 93.778 funds. The auditee should be responsible for identifying the source of the funds.

- Common – page 3 – The reference in the first paragraph to the 1996 OMB Circular A-133 is outdated. The suggested audit procedures seem to be the auditee’s procedures for subrecipient monitoring while the section beginning with “evaluate the auditee’s system” provides the relevant audit procedures.

- Common – page 4 – Under Compliance Requirement 3 – The reference to 45 CFR Part 76 is not valid. Furthermore the system for entities suspended or debarred has been replaced.

- Common – page 5 – Compliance 4 – Change wording to the following to enhance clarity. Also, is Drug Free Work Place Act a compliance requirement?
  - “In accordance with the Drug-Free Work Place Act, the Commonwealth of Pennsylvania is prohibited from entering into a contract involving an expenditure of $25,000 or more of federal funding with a contractor or an individual who does not certify that it is a drug-free workplace, and who does not establish several conditions and requirements that have to be met in order to certify it is a drug-free workplace.”

  - For Drug-Free Workplace Act – Consider rewording to indicate that if it’s a state requirement it is also a county requirement.
  - Add reference to Circular A-122 in the two places where Circular A-87 is referenced.
  - Is the requirement that the payrolls are documented in accordance with “generally accepted practice,” accurate?
  - Is the guidance A. through C. needed? Is it repeated in the OMB guidance?

- Common – page 7
  - Shouldn’t there be a reference to Circulars A-121 and A122?
  - The note at top of page (and towards the bottom of the page and on Common – page 8) indicates that the procedures apply unless the area has already been “thoroughly tested.” The scope of “thoroughly tested” is unclear.
  - Compliance Requirement 7 – Is the note related to DPW programs and depreciation needed?

- Appendix 1 – Unknown Status as Appendix 1 was not provided for our review.

- Appendix 1 – page 2
- The Note at the top of the page is confusing and the reference to the 1996 Single Audit Act is outdated.
- The third paragraph indicates that the auditor is asked “to give certain assurances relevant to these schedules.” This statement is not consistent with the type of report that the auditor is being asked to provide. Specifically, the auditor provides no assurance in an agreed upon procedures engagement. If assurance is needed, the nature of the engagement and the related report should be changed.
- The last paragraph includes a comment on the county’s requirements for subrecipient monitoring. This is repeated in several locations throughout the supplement.

**Appendix 1 – page 3**
- The example at the top of the page regarding consulting with the county for instructions is not needed.
- The second paragraph includes a reference to assurance provided by the auditor which is inaccurate. See previous comment. The information in the paragraph is repeated elsewhere.
- The fourth paragraph is also repeated.
- The second to last paragraph provides specific guidance on the preparation of the schedules which would be better placed in a section on the auditees’ responsibilities for preparing the schedules.
- The note at the bottom of the page is also repeated elsewhere.

**Appendix 1 – page 4 –** The section on the content of the schedules is not accurate and unneeded.

**Appendix 1 – page 5 –** While the procedures are instructional, the agreed upon procedures report would be better referenced to the AICPA guidance to ensure that the guidance is evergreen.

**Appendix 1 – page 12 –** Is titled “No Longer in Use?”

**Appendix 2 – page 3 –** Propose changing the first full paragraph to the following for enhanced clarity.
- The distinguishing factors between a Subrecipient and Vendor are further described in OMB Circular A-133. A-133 defines a subrecipient as “…an entity that receives federal assistance passed through from a prime recipient or another subrecipient to carry out or administer a program” (emphasis added). The definition goes on to provide several distinguishing characteristics, most of which refer to the programmatic responsibilities and requirements to which a subrecipient is expected to adhere.

**Appendix 2 (2015 Appendix 3) – page 2 –** The wording in the third paragraph begins with “to facilitate passing down these requirements” is unclear. The guidance towards the bottom of the page covers subrecipient and vendor considerations. It is unclear whether this guidance is unneeded as it is included in the federal guidance.

**Appendix 2 (2015 Appendix 3) – page 3**
In the middle of page, the guidance refers to “compliance with the DPW Audit Policy.” As previously discussed above, the reference to DPW audit policy is unclear unless there is a specific written audit policy.

The guidance regarding applicable reporting for subrecipients includes the requirement that for-profit organization is required to have an audit if it expends over $500,000 (2015 $750,000) is stated several times.

The last sentence indicates that “although an audit may not be necessary under the federal requirements, DPW (2015 DHS) audit requirements may be applicable.” As this is the DPW (2015 DHS) audit guide specific requirements should be noted and referenced.

- Appendix 2 (2015 Appendix 3) – page 4 – Subrecipient and Vendor – As guidance for subrecipient and vendors is included in the federal guidance, adding a reference to the relevant federal guidance would enhance consistency and user understanding.

- Appendix 3 (2015 Appendix 4) – page 2 – The guidance that indicates the following: “Please add the additional columns to the SEFA” is somewhat unclear and could be better stated “This detail can be included by adding additional columns.”

- Appendix 3 (2015 Appendix 4) – Schedules – Example of a county SEFA – This schedule is not in compliance with the federal guidance. For example, federal guidance requires programs to be presented together and totals provided for each program. In the sample schedule provided the CFDA numbers are not grouped together based on the programs. Therefore, practitioners who prepare a schedule of federal awards using this format are not complying with applicable federal guidance and are therefore committing an ethics violation.

- Appendix 4 (2015 Appendix 5) – page 3 – The first paragraph provides guidance for considering whether the funding is FFA. The guidance is somewhat cumbersome. Also, it might be helpful if it could be streamlined into a chart.

- Section 1 – page 2 – Program procedures – Is this intended to be cash basis?

- Section 1 – page 6 – In the second to last paragraph and throughout document requires the auditor to “certify the results.” This language conflicts with professional standards.

- Section 1 – page 7 – First paragraph under D, reporting requirement – Clarification is needed that this is in fact cash basis.

- Section 1 – page 13 – Under V. A. Supplemental Financial Schedules – The meaning is unclear. No examples are provided of schedules in Appendix I.

- Section 1 – page 13 – Under V. B. Supplemental Report on Testing as a Major Program – Language indicates that the auditors should prepare certain schedules as a part of the audit documentation. Here and throughout the guide all references to the auditor preparing the schedules should be revised. Also, the required format is not clear.

- Section 1 – page 14 – Under D. Single Audit Report Findings with Questioned Costs – It is not appropriate if requests are being made for more than workpapers.
• Section 3 – page 6 – Notes that the “preparer must accumulate the line item costs from the supplementary schedules submitted with the invoices.” This is not an appropriate procedure for the auditor and it is unclear who is intended to be the preparer.

• Section 4 – page 7 – Includes a procedure that includes a qualifier that “if funding is not immediately passed down…” The meaning of this phrase is unclear and interpretations could vary.

• Section 5 – page 6
  o Under suggested audit procedures at the top of the page – Consider requiring the auditor to test service documentation records instead of disbursements to determine if services are allowable.
  o In the next line, the reference to “program budget is unclear. Examine program records to determine whether the level of Family Support Services (FSS) expenditures is at least five percent, but does not exceed ten percent, of the program budget.”
  o Under the compliance requirement related to allowable costs – The procedure to “test selected expenditures and related source documentation to ascertain that costs incurred for the commitment of individuals are allowable,” is frequently immaterial and passed on by auditors.

• Section 5 – page 7 – Is the note in the middle of the page regarding the HealthChoices program still relevant?

• Section 5 – page 8 – Under the suggested audit procedures at the top of the page – The regulations section for liability determinations is 4305. These are outdated and many new services have been added since they were published, it then becomes difficult to determine the applicability of the regulations in various situations. Recommend issuing comprehensive guidance.

• Section 5 – page 10 (2015 page 11) – Under compliance requirements for indirect costs, the funding to be included in “MH allocation” is not defined.

• Section 5 – page 13 (2015 page 15) – At the top of the page the suggested audit procedure needs an explanation as to how to apply the limits when a position is also funded by sources to which the limits do not apply.

• Section 5 – page 14 (2015 page 15) – Includes a procedure to “ascertain whether the program purchased any goods or services from a related party….verify that the cost of such goods or services is the lower of the allowable cost to the related organization or the market price of comparable goods or services.” The intent of this procedure is unclear and potentially inappropriate. A request to get market values is not an appropriate audit procedure. Auditors can test market price documentation developed by the provider. Also, it is not clear in this situation what the allowable cost is.

• Section 6 – page 7 – Under compliance requirements TSM/SC – This is usually not material.

• Section 6 – page 10 – The suggested audit procedures (for the County) towards the bottom of the page, are generally not material.
• Section 6 – page 14 – At the top of page under suggested audit procedures – “Determine that the base salaries claimed…” Can this be changed to use sampling?
• Section 6 – page 15 – The step in the second paragraph starting with “ascertain whether the program…” is almost impossible to complete as written. Auditors can inquire and look for evidence of related party transactions, but cannot ensure that all are identified.
• Section 7 – Page 3 Top of page – Change “Test expenditures” to “test a sample of expenditures.”
• Section 7 – page 4 – The suggested audit procedures (for the Provider of Service or the Administering County should be re-written to say that the auditor should look for support that eligibility was determined, as auditor cannot ascertain that the child meets the eligibility requirement.
• Section 7 – page 8 – The requirement to “ascertain whether administrative costs charged to the Waiver Program meet the definition of “Administrator’s Office Costs” and are adequately documented,” is this meant to trace a sample to supporting documents?
• Section 8 pages 13 and 14 – Under Suggested Audit Procedures
  o Examine the inventory for the applicable fiscal year. Is this meant to be inventory records or the actual inventory itself?
  o Verify that the title of fixed assets with a unit price of $300 or more and that were acquired with grant funds remains with the county. This step is virtually impossible to complete as written. Is this meant to be a sample? What is intended with this step? Something more than determining if there is a receipt? If this is a search for liens, this should specify.