



# MENTAL RETARDATION BULLETIN

COMMONWEALTH OF PENNSYLVANIA · DEPARTMENT OF PUBLIC WELFARE

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**SUBJECT:**  
**Issuance of Audit Guide for Non-State  
Operated Intermediate Care Facilities for  
the Mentally Retarded.**

**BY:**  
  
Kevin T. Casey  
Deputy Secretary for Mental Retardation

## SCOPE:

Non-State Operated Intermediate Care Facilities for the Mentally Retarded (ICFs/M.R.) Administrators.

## PURPOSE:

To transmit the Department of Public Welfare's *Audit Guide to the I.C.F/M.R. Program*. This bulletin replaces Bulletin 00-91-26 dated October 31, 1991 and 00-92-22 dated August 31, 1992.

## BACKGROUND:

On July 5, 1996, the President signed the Single Audit Act Amendments of 1996 (31 USC, Chapter 75). The Single Audit Act Amendments of 1996 extended the statutory audit requirement to nonprofit organizations and substantially revised various provisions of the 1984 Act. On July 30, 1997 and the June 2003, the Office of Management and Budget (O.M.B.) issued revisions to Circular A-133 (62 FR 35278). The revisions implemented the Single Audit Act Amendments of 1996; extended O.M.B. Circular A-133's coverage to states, local governments, and Indian tribal governments; and rescinded O.M.B. Circular A-128.

In order to accurately reflect the changes in the Pennsylvania Code (as amended November 26, 1994), the Single Audit Act Amendments of 1996, and the 1997 and 2003 revisions of the O.M.B. Circular A-133 and the 2003 revision of the *Government Auditing Standards* (Yellow Book), the Department of Public Welfare, Office of Mental Retardation (O.M.R.), is reissuing the *Audit Guide to the I.C.F/M.R. Program*.

## DISCUSSION

The *Audit Guide to the I.C.F/M.R. Program* and Generally Accepted Government Auditing Standards (G.A.G.A.S.) as issued by the Comptroller General of the United States (Yellow Book), as well as the Single Audit Act Amendments of 1996 and the revised O.M.B. Circular A-133 should be used in auditing the I.C.F/M.R. Program

## **REFER COMMENTS AND QUESTIONS TO:**

James Williamson, Manager, Special Audits Section, Bureau of Financial Operations,  
P.O. Box 2675, Harrisburg, PA 17105-2675. Telephone: (717) 787-6064.

**PENNSYLVANIA**  
**DEPARTMENT OF PUBLIC WELFARE**  
Improving the quality of life for all Pennsylvanians

**AUDIT GUIDE TO THE**  
**ICF/MR PROGRAM**

**November 2004**

**Estelle B. Richman**  
Secretary  
Department of Public Welfare

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# **SECTION I**

## **AUDIT PLANNING AND OTHER CONSIDERATIONS**

## SECTION I

### Audit Planning and Other Considerations

#### **Purpose of the Audit Guide**

The *Audit Guide to the ICF/MR Program* is designed to assist auditors in performing audits of the Non-State operated Intermediate Care Facility for the Mentally Retarded (ICF/MR) providers. These audits must be performed in accordance with the Generally Accepted Government Auditing Standards (GAGAS) as provided by the *Government Auditing Standards* (Yellow Book), issued by the United States Comptroller General. The objective of an ICF/MR audit is to assist the program managers in the Department of Public Welfare (DPW) in determining whether a provider has:

1. provided financial data and reports that can be relied upon;
2. implemented internal control policies and procedures that provide reasonable assurance about whether the ICF/MR Program is being managed in compliance with applicable laws and regulations;
3. complied with appropriate billing procedures; and
4. provided sufficient information in MR-46 Cost Reports submitted to the DPW to effect cost settlement(s).

Program managers use the ICF/MR audit reports to meet their responsibilities in overseeing the ICF/MR program and to assure the integrity of the funds. Program managers must act upon the areas of noncompliance and internal control weaknesses noted in these reports.

This guide is to be used in all audits of ICF/MR providers. Local governmental entities may satisfy the ICF/MR audit requirement by obtaining an audit in accordance with the Single Audit Act Amendments of 1996 and the Office of Management and Budget (OMB) Circular A-133, (June 2003, revision published June 27, 2003).

#### **Audit Approach and Materiality**

An audit of a provider's ICF/MR Program may be either a program audit or an organization-wide audit. The criteria to determine the type of audit required are provided in Mental Retardation Bulletin #00-91-26 (revised) (Appendix A).

#### **Auditor Qualifications**

"Independent auditor" means a certified public accountant (CPA) that meets the independence standards specified in GAGAS. Internal auditors of an entity are not

independent of the entity while auditing within the entity. Therefore, these auditors do not meet the definition of an independent auditor and cannot perform an ICF/MR audit.

The standard on auditor qualifications in GAGAS requires that CPAs comply with the applicable provisions of the public accountancy law and the rules of jurisdiction where the audit is being conducted. If the auditee, any substantive branch campuses, or the ICF/MR provider is located in a state outside of the home state of the auditor, the auditor shall submit evidence that he, she, or the audit firm has met the licensing requirement of the applicable state's Board of Accountancy to perform audit-related services in those locations, unless the work has been performed by another auditor.

Effective for audits starting June 2004, auditors should meet the standard on independence as set forth in the GAGAS.

### **Audit Due Dates**

Five copies of the program audit report should be provided to:

Office of the Budget  
Bureau of Audits  
6<sup>th</sup> Floor - Verizon Tower  
Strawberry Square  
303 Walnut Street  
Harrisburg, PA 17101

Program audit reports should be provided to the Bureau of Audits within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the Federal agency that provided the funding or a different period is specified in a program-specific audit guide.

### **Matters Requiring Immediate Action**

The auditor should assess the risk that errors and irregularities may cause the financial statements to contain a material misstatement. The auditor should design the audit to provide reasonable assurance of detecting errors, irregularities, or illegal acts that are material to the financial statements and to each ICF/MR program. If the auditor becomes aware of illegal acts, or indications of such acts, that could result in criminal prosecution, the auditor should use discretion to avoid any actions that would compromise the protection of an individual's rights and the integrity of any official inquiries. For supplemental guidance, see the GAGAS and the American Institute of Certified Public Accountants' (AICPAs) Statements on Auditing Standards (SAS).

The auditor should promptly prepare a separate written report concerning such acts and include all questioned costs resulting from the acts. The auditor shall submit this report in accordance with Chapter Five of the *Government Auditing Standards*.

Materiality and reportable internal control findings should be determined in accordance with the AICPAs' SAS. The auditor's report on compliance with applicable laws and regulations should identify all instances of material noncompliance and questioned

costs that come to the auditor's attention. Instances of noncompliance should be quantified, if applicable.

### **Auditor's Reports**

The Enclosure to the Audit Clauses lists the supplemental financial schedules that are required to accompany the auditor's report and are presented in Section III of the Audit Guide.

### **Planning the Audit**

A letter of engagement from the auditor to the provider shall be prepared. The letter should state that the audit is to be performed in compliance with both the GAGAS and the *Audit Guide to the ICF/MR Program*. In addition, the letter should specify that the scope of the audit and the contents of the financial report are to meet the requirements of the *Audit Guide to the ICF/MR Program*. Finally, the letter should state that the auditor is required to provide the DPW and the Office of Inspector General access to working papers or other documents to review upon request.

All instances of material noncompliance identified by the auditor must be reported as a finding, even in those cases where corrective action was taken by the auditee after the audit period.

The auditor is required to obtain written representations from management as part of an audit made in accordance with the GAGAS. In addition, written representations by management should also be obtained for matters concerning compliance with program laws and regulations that have a material affect upon the financial statements and the ICF/MR program. Additional guidance is provided in the AICPA's SAS.

The auditor should review the prior period's DPW audit/desk review and ensure that adjustments agreed to have been carried forward. The auditor should also determine the status of appeals from prior years and ensure that all agreed-upon areas have been properly accounted for.

### **Consideration of Internal Control Structure and Compliance**

As required by the GAGAS, the auditor must obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of the tests to be performed. In fulfilling these requirements, the auditor should follow, at a minimum, the guidance contained in the AICPA's SAS. In addition, when auditing the ICF/MR Program, the auditor is required to determine and report on whether the ICF/MR has an internal control structure designed to provide reasonable assurance that it is managing each ICF/MR facility in compliance with applicable laws and regulations. Consideration of the internal control structure should encompass all organizational components that have significant administrative responsibility for the ICF/MR Program.

In order to gain an appropriate understanding of the control environment, the accounting systems, and the control procedures, it is essential that the processes that take place at the facilities are observed.

**Requests for Confirmation**

The Public Health and Human Services (PHHS) Comptroller's Office processes a wide variety of requests for confirmation and has a special unit for this purpose. Such requests should always include the number of the grant/contract in question as well as the name of the program as it is used at the state level. Cut-off methodology and dates also vary; therefore, requests should include a list of the amounts to be confirmed along with the total of the payments in question (see example). **Blanket requests for confirmation that do not contain the elements referenced above are discouraged.**

Please use the form on the next page for confirmation.

**Disagreements**

The provider will not be allowed to delay the distribution of the original audit report; however, the provider may submit a letter of disagreement with the report. The letter should include sufficient detail and documentation to fully explain the provider's position. The DPW will evaluate both the letter and the audit report when effecting the audit's settlement.

**SAMPLE REQUEST FOR CONFIRMATION**

Date: \_\_\_\_\_

Auditee: \_\_\_\_\_ Fed ID No:

Contract/Grant ID Number:

Audit Period:

Program Name:

Payments to be Confirmed:

<u>Date</u>	<u>Voucher Transmittal No.</u>	<u>State</u>	<u>Federal</u>	<u>Total</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Total Payments to be Confirmed \_\_\_\_\_

\_\_\_\_\_  
(Person Submitting Request)  
Auditee Authorized Signature and Title

\_\_\_\_\_  
(Return Address)

\_\_\_\_\_  
(Person Confirming for Comptroller)  
Agency Authorized Signature and Title

\_\_\_\_\_  
Date

**Address confirmation requests to:**

Office of the Public Health Human Services Comptroller  
Document Review and Control  
P.O. Box 2675  
Harrisburg, Pennsylvania 17105  
Telephone: (717) 787-5943

**SECTION II**  
**PROGRAM COMPLIANCE REQUIREMENTS**

## SECTION II

### Program Compliance

#### **Program Compliance Requirements**

In addition to the testing necessary to report on the required financial statements, supplementary data, and internal control structure, the auditor also must perform tests to provide reasonable assurance that the provider is complying with the laws and regulations affecting the Intermediate Care Facility for the Mentally Retarded (ICF/MR) Program. Although each major program compliance requirement must be audited, the auditor should apply professional judgment to determine the specific procedures necessary to be applied under the circumstances. Since specific requirements may change periodically, the auditors should be alert to this possibility through knowledge of the auditee's organization. The auditor is required to express an opinion on the auditee's compliance with applicable laws and regulations.

#### **Program Objective**

NonState operated (private) Intermediate Care Facilities for the Mentally Retarded (ICFs/MR) provide residential and habilitation services to people with mental retardation under Title XIX of the Social Security Act (Medicaid). Participating facilities are required to meet Federal standards for licensure and certification related to program services, health, environment and safety of the people served. The primary goal of these facilities is to develop each person's individual ability to function more independently.

#### **Program Operations**

The Department of Public Welfare (DPW), under Title XIX of the federal Social Security Act, administers the Private ICF/MR Program within the Commonwealth.

People receive an individual intensive, planned, and documented regimen of services designed to maintain and improve the ability to function independently. People may reside in large facilities (more than **eight**) located on campus-like settings, or in small facilities (**four to eight** beds) located in communities.

Providers are reimbursed for the costs incurred each month throughout the fiscal year. Each provider is reimbursed on the basis of:

1. the number of person residence days provided; and

2. the interim per diem payment rate approved for the provider by the Office of Mental Retardation (OMR).

At year end, a tentative settlement of costs incurred is prepared by the Office of the Comptroller whereby, the sum of the interim payments is compared with the provider's total operating costs for the year, as listed on the provider's MR-46 Report. If the interim payments are higher than the reported costs, then the provider must return the excess to the DPW. The provider will be paid 80 percent of the difference for additional costs incurred if the reported costs are higher than the interim payments at this time.

The provider will receive its full entitlement at final cost settlement, which occurs after a DPW audit or desk review. If the total allowable costs, as determined by the desk review or audit, are less than the reported costs, the provider must return the excess to the DPW.

### **Applicable Regulations**

The source of regulations applicable to the ICF/MR Program is the "Commonwealth of Pennsylvania, Pennsylvania Code, Title 55, Public Welfare, Department of Public Welfare, Chapter 6211, Allowable Cost Reimbursement for Non-State Intermediate Care Facilities for the Mentally Retarded," amended November 26, 1994.

Note: Unless otherwise stated, regulations referred to in this guide as Section 6211.02 are from these regulations.

### **Supplemental Financial Information**

This Guide provides the required supplemental schedules as part of the revised MR Bulletin 00-91-26 (see Appendix). These schedules must be included in audit reports for the ICF/MR Program. Failure to do so may result in audit-related costs to the auditee being deemed non-reimbursable.

### **Reports Available from the Auditees**

1. MR-46 Cost Report, including supplemental schedules and budget instructions on the use, previously provided to the auditee by the OMR.
2. Client Medical Assistance (MA) Eligibility Notices provided by the County Assistance Offices (CAOs) for each person.

3. Notice to Applicant (PA/FS-162) provided by the CAOs for each person. The notices specify the amount of each person's income that is assessable to help pay for their room and board.

## **Compliance Requirements and Suggested Audit Procedures**

As defined in § 6211.4, the allowable cost is “the cost reimbursed under MA, that is the facility’s actual audited allowable cost after appropriate adjustments are certified by Commonwealth auditors.”

### **A. Return on Equity and Total Cost Limitations**

#### Compliance Requirements

Review Pa. Code, Title 55, §§ 6211.34, 6211.41, 6211.86, 6211.123, and 6211.124.

Additionally, provider reimbursement is limited to the lesser of actual allowable costs incurred, total projected operating costs, or, if a waiver is granted, the approved budget level. Please also note that it is the auditee’s responsibility to monitor and, if appropriate, request a budget modification when cost center and/or major objects of expenditures incurred exceed the approved budget levels by more than 110 percent.

#### Suggested Audit Procedures

Test expenditure records and supporting documentation to determine whether:

1. Costs were incurred in accordance with the above criteria;
2. Costs were recorded on the MR-46 Cost Report on a basis consistent with the latest approved budget; and
3. Budget modifications or waivers were requested, if appropriate.

### **B. Related Party Cost Limitations**

#### Compliance Requirements

Review Pa. Code, Title 55, §§ 6211.4 (related party), 6211.47, 6211.79(m), 6211.81(g), 6211.82(c), 6211.86, 6211.101(15), 6211.111, 6211.112, 6211.113, and 6211.114

Costs incurred when purchasing goods or services from related parties (organization and/or individuals) are generally limited to the lesser of (a) the related party's actual costs or (b) the actual cost charged to the ICF/MR provider. Any excess payments would be deemed unallowable costs.

#### Suggested Audit Procedures

Ensure that unallowable, related party expenses were reported as unallowable or otherwise excluded from the MR-46 Program Expenditures Schedule (PES).

### **C. Compensation and Staffing Costs**

#### Compliance Requirements

Review Pa. Code, Title 55, § 6211.73

Compensation paid to direct care, administrative, and support staff is limited to the prevailing Commonwealth salaries and employee benefits for functionally equivalent positions. Unless prior approval is obtained, allowable staffing cannot exceed an overall ratio of one direct care employee to one certified bed.

#### Suggested Audit Procedures

Compare the entity's actual salaries and benefits for selected employees with the approved salaries and benefits for functionally equivalent Commonwealth positions. Information concerning salaries and benefits of functionally equivalent Commonwealth positions is available from:

Office of Mental Retardation  
Division of **Planning and Accountability**  
Room **411**, Health and Welfare Building  
P.O. Box 2675  
Harrisburg, PA 17105-2675

Test expenditure records to verify the reported salaries and benefits.

Verify that the direct care staff-to-certified-bed ratio did not exceed the 1:1 ratio.

## **D. Allocated Costs and Operation of Multiple Programs**

### Compliance Requirements

Review 6211.45 through 6211.47

### **Suggested Audit Procedure**

Review the costs that were allocated to verify that they are reasonable, necessary, and appropriate to the ICF/MR Program. Ensure that salary costs comply with the requirements noted under compensation and staffing costs above.

Review the auditee's operations to determine what program types, cost centers, and supporting services were allocated and/or apportioned to the ICF/MR Program.

Verify that the basis of the allocation is reasonable, that it is supported by the facility's records, and that a cost allocation plan has been submitted for the OMR's review.

Test the method of allocation to verify that it is based on the actual costs incurred, without provision for a profit, and that the amounts allocated are appropriate.

If the basis of allocation for certain costs was changed or varies from the MR-46 Cost Report, verify that prior approval was obtained from the OMR and that the change is equitable.

## **E. Administrative Costs**

### Compliance Requirement

Review Pa. Code, Title 55, § 6211.72(e)(1)

General administrative costs include costs that are incurred for a common or joint purpose but are not readily assignable to a specific cost center or program unit.

Review Pa. Code, Title 55 § 6211.72(e)(3)

Rental costs for all offices used for administrative purposes shall be included as general administrative costs. In programs of fifteen (15) beds or less, if an office is located within the program unit, these costs may be allocated to the specific program unit.

Review Pa. Code, Title 55 § 6211.72(e)(2)

General administrative costs must include compensation, fringe benefits, and payroll taxes for the facility's administrator, controller, purchasing agent, personnel director, compensation for owners, officers, or persons other than facility employees; personnel services; procurement; accounting; auditing; office services supplies; telephone and travel supporting administrative costs specified in subsection 72 (a); association dues; management fees; and advertising.

These costs in turn are limited per § 6211.72(e)(4):

General administrative costs are limited to 13% of the total MA eligible costs less general administrative costs less depreciation and interest on capital indebtedness.

Other administrative costs may be incurred and may be charged to other cost centers per Section 6211.72(f).

The following requirements apply for other administrative costs:

1. Costs associated with administrative purposes, not associated with those costs identified in subsection 72(c) that have a direct and demonstrable impact upon program services, are allocated to specific other cost centers.
2. Other administrative costs must be specifically documented and supported.
3. The 13% limitation on general administrative costs does not include these other administrative costs that are allocated to specific units.

Suggested Audit Procedures:

Verify that the required administrative costs were properly charged to the general administration cost center for all facilities.

Verify that the general administrative costs did not exceed the 13 percent administrative cost limitation or were deemed unallowable.

Review other administrative costs for necessity and reasonableness.

## **F. Contract Related Issues**

### Compliance Requirements

Review Pa. Code, Title 55, §§ 6211.73 through 6211.78, 6211.83, and 6211.84

ICF/MR providers frequently enter into contracts for various services, day programs, supply purchases, capital equipment, and major renovations. These costs generally are allowable, providing they do not duplicate services performed by staff, are reasonable, and necessary. When contracted costs exceed \$5,000 annually, providers must comply with § 6211.84.

### Suggested Audit Procedures

Review and test the auditee's contracting procedures to verify compliance with the above requirements.

Test the method of payment to verify that adequate records were maintained and that appropriate payments were reported to the DPW.

## **I. Depreciation and Start-Up Costs**

### Compliance Requirements

Review Pa. Code, Title 55, § 6211.4. This Section provides useful definitions.

Review Pa. Code, Title 55, § 6211.79 Depreciation allowance.

Review Pa. Code, Title 55, § 6211.80.

### Suggested Audit Procedures

Verify that additions and deletions were recorded properly. If individual items cost more than \$5,000, verify compliance with the competitive bidding requirements as provided in § 6211.84.

Test the method of calculating depreciation costs.

If the provider incurred building acquisition costs for new, relocated, or additional beds, review § 6211.79(c)(d) and (i) through (r) to determine whether the requirements of those Sections were followed.

If start-up costs were reported, review § 6211.87 for guidance as to applicability to the ICF/MR Program.

Verify that the start-up costs are appropriate.

Verify that the start-up costs are amortized over a minimum period of five years.

Ensure that the start-up costs are included with the depreciation costs on the PES.

## **J. Interest Expense**

### Compliance Requirements

Review Pa. Code, Title 55, § 6211.4. This Section provides useful definitions.

### Suggested Audit Procedures

Verify the necessity of all new loans obtained during the fiscal year.

Test the method of reporting interest expense and the reasonableness of the interest expense incurred.

Ensure that interest and investment income were either offset on the PES or used to reduce capital and current indebtedness.

Ensure that the principal amount of any capital interest loan basis does not exceed the depreciable asset basis of the asset(s) acquired with the loan's proceeds.

## **K. Leases**

### Compliance Requirements

Review Pa. Code, Title 55, §§ 6211.82 and 6211.83.

Rental of space is an allowable cost, subject to certain limitations contained in §6211.82. Reimbursement of costs from related party leases is limited. All providers must obtain an appraisal of property that is leased from a related party. The appraisal is used to determine the maximum allowable rental cost. For nonrelated party leases, an appraisal also may be used as a basis to establish a fair market rental rate. The

appraisal should be updated periodically or a new appraisal obtained **by the provider**, as deemed appropriate.

Vehicle leases are allowable, subject to the documentation requirements provided in § 6211.83.

#### Suggested Audit Procedures

Verify that the required documentation is present, including an appraisal when appropriate.

Review the lease costs and verify that they do not exceed the maximum allowable property rental costs.

Determine whether the provider complied with the provisions of § 6211.83. Verify that the reported costs were incurred.

### **L. Unallowable Expenses**

#### Compliance Requirements

Review Pa. Code, Title 55, § 6211.101

Certain costs that may be incurred by the auditee may be extraneous to the person's care. Therefore, the ICF/MR Program does not reimburse those costs.

#### Suggested Audit Procedures

Ensure that unallowable costs are either offset on the PES or excluded from it.

### **M. Income and Offsets to Allowable Costs**

#### Compliance Requirements

Review Pa. Code, Title 55, § 6211.85

#### Suggested Audit Procedures

Determine the source and amount of all income received by the provider. Verify that the provider has offset allowable income against allowable costs.

## **N. Minimum Occupancy Rate**

### Compliance Requirements

Review Pa. Code, Title 55, §§ 6211.61 through 6211.64 inclusive.

An occupancy level adjustment to reimbursements for fixed costs will be made for providers whose people occupancy level is less than 98 percent, in the absence of an approved occupancy waiver from the OMR.

### **Suggested Audit Procedures**

Compute an occupancy level adjustment to fixed costs if it applies to the auditee.

**SECTION III**  
**REPORTING REQUIREMENTS**

**SECTION III**  
**Reporting Requirements**

**General Requirements**

The audit report should be issued to the auditee's governing body and/or president, as appropriate. The report should identify the programs and period(s) that were audited. The auditee shall transmit five copies of the audit report to:

Office of the Budget / Bureau of Audits  
Division of Subrecipient Audit Review  
6<sup>th</sup> Floor - Verizon Tower, Strawberry Square  
303 Walnut Street  
Harrisburg, Pennsylvania 17105

Audit reports will be in one of three formats:

1. A program audit report based on the Commonwealth's fiscal year.
2. An organization-wide audit report, based on the Commonwealth's fiscal year, that includes an Independent Accountant's Report on the Attestation to be in the format described by the American Institute of Certified Public Accountants (AICPA) and supplemental schedules also based on the Commonwealth's fiscal year.
3. An organization-wide audit report, based on the provider's fiscal year, that includes an Independent Accountant's Report on the Attestation to be in the format described by the American Institute of Certified Public Accountants (AICPA) and supplemental schedules based on the Commonwealth's fiscal year.

**A. Program Audit**

The program audit must comprise the fiscal year ended June 30. The audit must be performed annually in accordance with the audit standards provided in the *Government Auditing Standards* (Yellow Book) issued by the United States Comptroller General.

The audit report must include:

1. A Schedule of Revenue and Expenses, a Schedule of Census Days, and the auditor's report on these schedules. This information is required for each Intermediate Care Facility for the Mentally Retarded (ICF/MR) site and should be reported in the formats included in the Appendix.
2. A report on the auditor's tests of compliance with applicable laws and regulations.
3. A report on the auditor's review of the entity's internal control structure (both accounting and administrative).

4. A disclosure and explanation of all questioned/disallowed costs and any income not previously reported on the MR-46 Cost Reports. All variances between the amounts listed on the above schedules and the MR-46 Program Expenditures Schedule (PES) submitted by the provider must be identified and explained.

#### **B. Organization-wide Audit – Commonwealth’s Fiscal Year**

The audit requirement of the ICF/MR Program can be met through organization-wide audits by the inclusion of supplemental schedules and the auditor’s report on AUP. The supplemental information must be as outlined in Section B.

#### **C. Organization-wide Audit – Provider’s Fiscal Year**

The audit requirement of the ICF/MR Program can be met through the organization-wide audit of a provider that has a fiscal year that differs from the Commonwealth’s fiscal year. If the provider’s fiscal year differs from the Commonwealth’s, supplemental schedules and the auditor’s report on AUP can be submitted with the organization-wide audit for the year that began during the Commonwealth’s fiscal year. For example, if the program period being audited is the fiscal year ended June 30, 2002, and the provider prepares its annual financial statements on a calendar year, the provider should submit both the audited financial statements for the year ended December 31, 2002, and the supplemental schedules for the 12 months ended June 30, 2002.

#### **D. Provider’s Corrective Action Plan (CAP)**

The CAP should contain the following elements:

1. Description - The auditee should describe the audit findings.
2. Actions - The auditee should describe what steps will be taken to correct the conditions noted or specify why corrective action is not necessary.
3. Timetable - The auditee should specify when the corrective action will be implemented.
4. Monitoring - The auditee should describe the administrative and accounting procedures to be performed to ensure that corrective action is implemented.
5. Approval - The auditee’s management should indicate approval of the CAP.

## **E. Point of Contact**

Questions regarding Commonwealth policy in the implementation of the Office of Management and Budget Circular A-133 should be directed to:

Commonwealth of Pennsylvania  
Department of Public Welfare  
Bureau of Financial Operations  
Audit Resolution Section  
P.O. Box 2675  
Harrisburg, Pennsylvania 17105  
Telephone: (717) 787-8890

Questions regarding ICF/MR related audit issues should be directed to:

Commonwealth of Pennsylvania  
Department of Public Welfare  
Bureau of Financial Operations  
Special Audits Section  
P.O. Box 2675  
Harrisburg, Pennsylvania 17105  
Telephone: (717) 787-6064

# **APPENDIX**

## **Schedules, Audit Clause A and Audit Clause B**

## 7090 SUBRECIPEINT / VENDOR AUDITS

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### 7090.7 AUDIT CLAUSE B – SUBRECIPIENT For-Profit Organizations

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The Commonwealth of Pennsylvania, Department of Public Welfare (DPW), 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 DPW are subject to DPW 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 DPW provides the following audit requirements in accordance with the Commonwealth of Pennsylvania, Governor's Office, Management Directive 325.9, as amended December 3, 2003.

**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 directly from a federal awarding agency. For purposes of this audit clause, a subrecipient **is not** a vendor 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**

A for-profit organization **is required** to have an audit if it expends a total of \$500,000 or more in federal funds under one or more Department of Health and Human Services (DHHS) federal awards. Title 45, CFR 74.26, incorporates the thresholds and deadlines of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, as amended but provides for-profit organizations with two options regarding and any amendment to such other applicable law or regulation the type of audit that will satisfy the audit requirements:

1. An audit made in accordance with generally accepted *Government Auditing Standards* (The Yellow Book), revised; or
2. An audit that meets the requirements contained in OMB Circular A-133.

A for-profit organization **is required** to have an audit, in accordance with the above audit requirements, if it expends a total of \$300,500,000 or more of federal awards directly or indirectly during its fiscal year.

If a for-profit organization expends **total federal awards of less than \$500,000** 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, DPW audit requirements may be applicable.**

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**7090.7 AUDIT CLAUSE B – SUBRECIPIENT  
For-Profit Organizations**

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**B. Department of Public Welfare Audit Requirements**

**A for-profit provider must meet the DPW 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 DPW 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 Attestation Report and applicable schedule requirement(s). The incremental cost for preparation of the Attestation Report and the schedule cannot be charged to the federal funding stream.

**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 \$300,000 or more in combined state and 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 (SSAE), Section 601, *Compliance Attestation*, and shall be of a scope acceptable to the DPW. The initial Section 601 compliance examination shall be completed for the program year specified in the contract and conducted annually thereafter. The independent auditor shall issue a report on its compliance examination as defined in SSAE, Section 601. The incremental cost for preparation of the SSAE cannot be charged to federal funding streams.

The subrecipient shall submit the SSAE, Section 601, audit reports (if applicable) to the DPW within 90 days after the program year has been completed. When the SSAE, Section 601, audit reports are other than unqualified, the subrecipient shall submit to the DPW, in addition to the audit reports, a plan describing what actions the subrecipient will implement to correct the situation that caused the auditor to issue a qualified 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.

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## 7090.7 AUDIT CLAUSE B – SUBRECIPIENT For-Profit Organizations

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A for-profit entity that **expends less than \$300,000 combined state and federal funds** during the program year is exempt from DPW audit requirements, but is required to maintain auditable records for each contract year. Records must be available for review by appropriate officials of the DPW or a pass-through entity.

### GENERAL AUDIT PROVISIONS

A for-profit organization is responsible for obtaining the necessary audit and securing the services of a certified public accountant or other independent governmental auditor. Federal regulations preclude public accountants licensed in the Commonwealth of Pennsylvania from performing audits of federal awards.

The 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 will 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.

The Commonwealth reserves the right for state and federal agencies, or their authorized representatives, to perform financial and/or performance audits if deemed necessary. 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 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. 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.

Audit working papers and audit reports must be retained by the subrecipient's auditor for a minimum of three 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 working papers will be made available, upon request, to authorized representatives of the Commonwealth, the cognizant or oversight agency, the federal funding agency, or the General Accounting Office.

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**7090.7 AUDIT CLAUSE B – SUBRECIPIENT  
For-Profit Organizations**

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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 DPW's 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 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.

### **SUBMISSION OF AUDIT REPORT TO THE COMMONWEALTH**

#### **A. Federally Required Audit Reports**

Submit federally required audit reports in accordance to OMB Circular A-133, Subsection \_\_.320, *Report Submission*. Please include the following with the submission to the Commonwealth:

1. Data Collection Form;
2. Financial statements and a Schedule of Expenditures of Federal Awards (SEFA);
3. Auditor's reports on the financial statements, the SEFA, internal control, and compliance, as well as a schedule of findings and questioned costs (**not applicable** to a Yellow Book audit);
4. Summary schedule of prior audit findings;
5. Corrective Action Plan; and
6. Management letter comments.

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**7090.7 AUDIT CLAUSE B – SUBRECIPIENT  
For-Profit Organizations**

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The number of copies to be submitted to the Commonwealth of Pennsylvania shall equal one for the Bureau of Audits (archival copy), plus one for each Commonwealth agency that provided federal pass-through awards to the entity, as reflected in the entity's SEFA. The audit report package should be submitted to the:

Office of the Budget / Bureau of Audits  
Division of Subrecipient Audit Review  
6<sup>th</sup> Floor, Verizon Tower, Strawberry Square  
303 Walnut Street  
Harrisburg, Pennsylvania 17101  
Phone: (717) 783-9120 FAX: (717) 783-0361

After processing of the report by the Bureau of Audits, a copy will be sent to the DPW.

**B. DPW Required Audit Reports and Additional Submission by Subrecipients**

Submit **three copies** of the DPW 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.
2. In addition, if OMB Circular A-133, §\_\_\_.320 (e), *Submission by Subrecipients*, applies, please submit the audit requirements directly to:

U.S. Postal Service: Department of Public Welfare  
Bureau of Financial Operations  
Division of Financial Policy and Operations  
Audit Resolution Section  
3<sup>rd</sup> Floor, Bertolino Building  
P. O. Box 2675  
Harrisburg, Pennsylvania 17102-2675

Special Deliveries 3<sup>rd</sup> Floor, Bertolino Building  
1401 North Seventh Street  
Harrisburg, Pennsylvania 17102  
Phone: (717) 787-8890 Fax: (717) 772-2522

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**7090.7 AUDIT CLAUSE A – SUBRECIPIENT**  
**Local Governments and Nonprofit Organizations**

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The Commonwealth of Pennsylvania, Department of Public Welfare (DPW), 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 DPW are subject to DPW 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 DPW provides the following audit requirements in accordance with the Commonwealth of Pennsylvania, Governor's Office, Management Directive 325.9, as amended December 3, 2003.

**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 directly from a federal awarding agency. For purposes of this audit clause, a subrecipient **is not** a vendor 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, as amended; the revised Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*; 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.

A local government or nonprofit organization that expends federal awards of \$500,000 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 of OMB Circular A-133, as revised.

If a local government or nonprofit organization expends **total federal awards of less than \$500,000** 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, DPW audit requirements may be applicable.**

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**7090.7 AUDIT CLAUSE A – SUBRECIPIENT**  
**Local Governments and Nonprofit Organizations**

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**B. Department of Public Welfare Audit Requirements**

**A local government or nonprofit provider must meet the DPW 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 DPW 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 Attestation Report and applicable schedule requirement(s). The incremental cost for preparation of the Attestation Report and the schedule cannot be charged to the federal funding stream.

**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 local government or nonprofit organization **expends \$500,000 or more in combined state and federal funds** during the program year, it is 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 DPW audit requirements may not be charged to federal funding streams.

If in connection with the agreement, a local government or nonprofit organization **expends \$300,000 or more in combined state and 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, as well as applicable program regulations. These examinations shall be conducted in accordance with the American Institute of Certified Public Accountants' Statements on Standards for Attestation Engagements (SSAE), Section 601, *Compliance Attestation*, and shall be of a scope acceptable to the DPW. The initial Section 601 compliance examination shall be completed for the program year specified in the contract and conducted annually thereafter. The independent auditor shall issue a report on its compliance examination as defined in SSAE, Section 601. The incremental cost for preparation of the SSAE cannot be charged to federal funding streams.

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**7090.7 AUDIT CLAUSE A – SUBRECIPIENT**  
**Local Governments and Nonprofit Organizations**

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The subrecipient shall submit the SSAE, Section 601, audit report (if applicable) to the DPW within 90 days after the program year has been completed. When SSAE, Section 601, audit reports are other than unqualified, the subrecipient shall submit to the DPW, in addition to the audit reports, a plan describing what actions the subrecipient will implement to correct the situation that caused the auditor to issue a qualified report, a timetable for implementing the planned corrective actions, 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 the 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 local government or nonprofit entity that **expends less than \$300,000 combined state and federal funds** during the program year is exempt from DPW audit requirements, but is required to maintain auditable records for each contract year. Records must be available for review by appropriate officials of the DPW 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 a certified public accountant or other independent governmental auditor. Federal regulations preclude public accountants licensed in the Commonwealth of Pennsylvania from performing audits of federal awards.

The 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 will 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.

The Commonwealth reserves the right for state and federal agencies, or their authorized representatives, to perform financial and/or performance audits if deemed necessary. 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.

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**7090.7 AUDIT CLAUSE A – SUBRECIPIENT**  
**Local Governments and Nonprofit Organizations**

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Audit working papers and audit reports must be retained by the subrecipient's auditor for a minimum of three 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 working papers will be made available, upon request, to authorized representatives of the Commonwealth, the cognizant or oversight agency, the federal funding agency, or the General Accounting Office.

The subrecipient shall preserve all books, records, and documents related to this contract for a period of time that is the greater of four 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 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 DPW's 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 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.

## **SUBMISSION OF AUDIT REPORTS TO THE COMMONWEALTH**

### **A. Federally Required Audit Reports**

Submit federally required audit reports in accordance to OMB Circular A-133, Subsection \_\_.320, *Report Submission*. Please include the following with the submission to the Commonwealth:

1. Data Collection Form;
2. Financial statements and a Schedule of Expenditures of Federal Awards (SEFA);
3. Auditor's reports on the financial statements, the SEFA , internal control, and compliance, as well as a schedule of findings and questioned costs;
4. Summary schedule of prior audit findings;

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**7090.7 AUDIT CLAUSE A – SUBRECIPIENT  
Local Governments and Nonprofit Organizations**

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5. Corrective Action Plan; and
6. Management letter comments.

The number of copies to be submitted to the Commonwealth of Pennsylvania shall equal one for the Bureau of Audits (archival copy), plus one for each Commonwealth agency that provided federal pass-through awards to the entity, as reflected in the entity's SEFA. The audit report package should be submitted to the:

Office of the Budget / Bureau of Audits  
Division of Subrecipient Audit Review  
6<sup>th</sup> Floor, Verizon Tower, Strawberry Square  
303 Walnut Street  
Harrisburg, Pennsylvania 17101  
Phone: (717) 783-9120 FAX: (717) 783-0361

After processing of the report by the Bureau of Audits, a copy will be sent to the DPW.

**B. DPW Required Audit Reports and Additional Submission by Subrecipients**

Submit **three copies** of the DPW 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. In addition, if OMB Circular A-133, §\_\_.320 (e), *Submission by Subrecipients*, applies, please submit the audit requirements directly to:

U.S. Postal Service: Department of Public Welfare  
Bureau of Financial Operations  
Division of Financial Policy and Operations  
Audit Resolution Section  
3<sup>rd</sup> Floor, Bertolino Building  
P. O. Box 2675  
Harrisburg, Pennsylvania 17102-2675

Special Deliveries: 3<sup>rd</sup> Floor, Bertolino Building  
1401 North Seventh Street  
Harrisburg, Pennsylvania 17102  
Phone: (717) 787-8890 Fax: (717) 772-2522

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**7090.7 AUDIT CLAUSE A – SUBRECIPIENT  
Local Governments and Nonprofit Organizations**

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**PERIOD SUBJECT TO AUDIT**

A federally required audit, made in accordance with OMB Circular A-133, 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 supplement schedule(s) and Independent Auditor's Report on the Attestation 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 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; and (5) a description of monitoring to be performed to ensure that the steps are taken (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 DPW's 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.

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**7090.7 AUDIT CLAUSE A – SUBRECIPIENT**  
**Local Governments and Nonprofit Organizations**

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**TECHNICAL ASSISTANCE**

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

Department of Public Welfare  
Bureau of Financial Operations  
Division of Financial Policy and Operations  
Audit Resolution Section  
3<sup>rd</sup> Floor, Bertolino Building  
P.O. Box 2675  
Harrisburg, Pennsylvania 17105-2675  
Phone: (717) 787-8890 FAX: (717) 772-2522

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

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The Department of Public Welfare (DPW) 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 guidelines.

**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 entity]*'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]

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**SUBRECIPIENT AUDIT CLAUSE B**  
**For-Profit Organization**

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**PERIOD SUBJECT TO AUDIT**

A federally required audit, made in accordance with OMB Circular A-133, 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 supplement schedule and an Independent Auditor's Report on the Attestation 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 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; and (5) a description of monitoring to be performed to ensure that the steps are taken.

**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 DPW's 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 DPW's audit requirements, and the integration of those requirements with the federal Single Audit requirements, will be provided by:

Department of Public Welfare  
Bureau of Financial Operations  
Division of Financial Policy and Operations  
Audit Resolution Section  
3<sup>rd</sup> Floor, Bertolino Building  
P.O. Box 2675  
Harrisburg, Pennsylvania 17105-2675  
Phone: (717) 787-8890 FAX: (717) 772-2522

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**AUDIT CLAUSE B**  
**For-Profit Organization**  
**ENCLOSURE I**

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The Department of Public Welfare (DPW) 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 guidelines.

**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 entity]*'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]



**MENTAL RETARDATION BULLETIN**  
**COMMONWEALTH OF PENNSYLVANIA · DEPARTMENT OF PUBLIC WELFARE**

**DATE OF ISSUE:**

**EFFECTIVE DATE:**

**NUMBER:**

**SUBJECT:**

Applicability of OMB Circular A-133 for  
NonState Operated Intermediate Care  
Facilities for the Mentally Retarded (ICFs/MR)

**BY:**

Kevin T. Casey  
Deputy Secretary for Mental Retardation

**SCOPE**

NonState Operated Intermediate Care Facility for the Mentally Retarded (ICF/MR) Administrators

**PURPOSE**

To provide clarification on the applicability of Office of Management and Budget (OMB) Circular A-133 for the non-state operated ICFs/MR.

**BACKGROUND**

On July 5, 1996, the President signed the Single Audit Act Amendments of 1996 (31 USC, Chapter 75). The Single Audit Act Amendments of 1996 extended the statutory audit requirement to nonprofit organizations and substantially revised various provisions of the 1984 Act. On July 30, 1997, the OMB issued final revisions to Circular A-133 (62 FR 35278). The final revisions implemented the Single Audit Act Amendments of 1996; extended OMB Circular A-133's coverage to states, local governments, and Indian tribal governments; and rescinded OMB Circular A-128.

OMB Circular A-133 places audit requirements on nonprofit organizations based on federal awards received. The requirements are as follows.

1. Nonprofit institutions that receive \$300,000 or more a year in federal awards shall have an audit (organization-wide) made in accordance with the provisions of this Circular. However, nonprofit institutions receiving \$300,000 or more, but receiving awards under only one program, have the option of having an audit of their institution prepared in accordance with the provisions of the Circular or having an audit made of the one program.
2. Nonprofit institutions that receive at least \$100,000, but less than \$300,000, a year in federal awards shall have an audit made in accordance with this Circular or have an audit made of each federal award, in accordance with federal laws and regulations governing the programs in which they participate.

**REFER COMMENTS AND QUESTIONS TO:**

Frank L. Pierce, Chief, Division of Planning and Accountability, Bureau of MR Program Support,  
Office of Mental Retardation, Room 405, Health & Welfare Bldg., Harrisburg, PA 17120.  
Telephone: 717-783-5663.

3. Nonprofit institutions receiving less than \$100,000 a year in federal awards are exempt from federal audit requirements, but records must be available for review by appropriate officials of the federal grantor agency or Subgranting entity.

## DISCUSSION

The Department, in concert with the Governor's Office of the Budget, Bureau of Audits, has evaluated the applicability of A-133 and, in so doing, has classified the ICFs/MR into three categories.

1. A nonprofit corporation that only operates an ICF/MR program  
– OR –  
A nonprofit corporation that operates an ICF/MR program and also operates other non-ICF/MR programs that receive, during its fiscal year, federal funds either directly from the federal government or indirectly through state or local governments **AND** total federal funding received from non-ICF/MR sources is less than \$100,000.  
– OR –  
A for-profit corporation that operates an ICF/MR program.
  2. A nonprofit corporation that operates an ICF/MR program and also operates other non-ICF/MR programs that receive, during its fiscal year, federal funds either directly from the federal government or indirectly through state or local governments **AND** total federal funding received from the non-ICF/MR sources is at least \$100,000, but less than \$300,000.
  3. A nonprofit corporation that operates an ICF/MR program and also operates other non-ICF/MR programs that receive, during its fiscal year, federal funds either directly from the federal government or indirectly through state or local governments **AND** total federal funding received from the non-ICF/MR sources is equal to or greater than \$300,000.
1. This entity is not subject to OMB Circular A-133. However, a program audit of the ICF/MR program, as described below, is required.
  2. This entity has the option of having either an organization-wide audit or individual audits of each program as described below.
  3. The entity must have an organization-wide audit as described below  
– OR –  
if all non-ICF/MR federal funding is received under one program, the entity may, at its option, have program audits of the ICF/MR program and the non-ICF/MR funded program.

## PROGRAM AUDIT REQUIREMENTS

The ICF/MR program audit must be performed annually and must cover the fiscal year ended June 30. The audit must be performed in accordance with the audit standards prescribed by the *Government Auditing Standards* (Yellow Book), as issued by the United States Comptroller General dated June 1994.

An audit report must be prepared at the completion of the audit and must include:

1. A Schedule of Revenue and Expenses, a Schedule of Census Days, and an auditor's report on the fair presentation of the Schedule of Revenue and Expenses, as well as an auditor's report on the results of agreed-upon procedures applied to the Schedule of Census Days. This information is required for each ICF/MR site and should be reported in the attached formats. The above-noted agreed-upon procedures are also attached.
2. A written report on the auditor's tests of compliance with applicable laws and regulations.
3. A written report on the auditor's understanding of the entity's internal control structure (both accounting and administrative) and the assessment of control risk made as part of the Schedule of Revenue and Expenditure audit.
4. Disclosure and explanation of questioned/disallowed costs discovered during the audit.

A copy of the program audit report should be provided to the Bureau of Audits no later than October 31<sup>st</sup> following the program year being audited. In addition to the program audit report, each entity must submit a copy of its audited annual financial statements for the same period covered by the program audit or, where the entity's operating year differs from the program period, for the entity's operating year that ends during the program period being audited. For example, if the program period being audited is the fiscal year ended June 30, 1991, and the entity operates and prepares its annual financial statements for the year ended December 31, 1990.

### A-133 Organization-wide Audit Requirements

OMB Circular A-133 organization-wide audit requirements should be met for all programs; however, supplemental schedules should be included that depict the ICF/MR activities as well as a supplemental auditor's report on the Schedule of Revenue and Expenses and an auditor's report on the results of agreed-upon procedures applied to the Schedule of Census Days. As required for program audits, this information is required for each ICF/MR site and should be reported in the attached format for the cost report's reporting period. The audit report should be provided to the Bureau of Audits in accordance with Commonwealth policy for the submission of A-133 organization-wide audit reports.

### DPW Audit Guidance

The Department will issue a comprehensive audit guide applicable to the ICF/MR Program that will be effective with the audit requirements for the 1991-92 fiscal year.

### Cost Report Submission Requirements

The above-noted audit report submission requirements do not change the deadline for submitting the final MR-46 Cost Report. The final cost reports are still due no later than September 30 immediately following the June 30 year end.



**MENTAL RETARDATION BULLETIN**  
**COMMONWEALTH OF PENNSYLVANIA · DEPARTMENT OF PUBLIC WELFARE**

**DATE OF ISSUE:**

**EFFECTIVE DATE:**

**NUMBER:**

**SUBJECT:**

Applicability of OMB Circular A-133 for  
NonState Operated Intermediate Care  
Facilities for the Mentally Retarded (ICFs/MR)

**BY:**

Kevin T. Casey  
Deputy Secretary for Mental Retardation

**SCOPE**

NonState Operated Intermediate Care Facility for the Mentally Retarded (ICF/MR) Administrators

**PURPOSE**

To provide clarification on the applicability of Office of Management and Budget (OMB) Circular A-133 for the non-state operated ICFs/MR.

**BACKGROUND**

On July 5, 1996, the President signed the Single Audit Act Amendments of 1996 (31 USC, Chapter 75). The Single Audit Act Amendments of 1996 extended the statutory audit requirement to nonprofit organizations and substantially revised various provisions of the 1984 Act. On July 30, 1997, the OMB issued final revisions to Circular A-133 (62 FR 35278). The final revisions implemented the Single Audit Act Amendments of 1996; extended OMB Circular A-133's coverage to states, local governments, and Indian tribal governments; and rescinded OMB Circular A-128.

OMB Circular A-133 places audit requirements on nonprofit organizations based on federal awards received. The requirements are as follows.

1. Nonprofit institutions that receive \$300,000 or more a year in federal awards shall have an audit (organization-wide) made in accordance with the provisions of this Circular. However, nonprofit institutions receiving \$300,000 or more, but receiving awards under only one program, have the option of having an audit of their institution prepared in accordance with the provisions of the Circular or having an audit made of the one program.
2. Nonprofit institutions that receive at least \$100,000, but less than \$300,000, a year in federal awards shall have an audit made in accordance with this Circular or have an audit made of each federal award, in accordance with federal laws and regulations governing the programs in which they participate.

**REFER COMMENTS AND QUESTIONS TO:**

Frank L. Pierce, Chief, Division of Planning and Accountability, Bureau of MR Program Support,  
Office of Mental Retardation, Room 405, Health & Welfare Bldg., Harrisburg, PA 17120.  
Telephone: 717-783-5663.

Audit Guide for the ICF/MR Program  
Reissued November 30, 2004

Section III  
Reporting Requirements

3. Nonprofit institutions receiving less than \$100,000 a year in federal awards are exempt from federal audit requirements, but records must be available for review by appropriate officials of the federal grantor agency or Subgranting entity.

## DISCUSSION

The Department, in concert with the Governor's Office of the Budget, Bureau of Audits, has evaluated the applicability of A-133 and, in so doing, has classified the ICFs/MR into three categories.

1. A nonprofit corporation that only operates an ICF/MR program

– OR –

A nonprofit corporation that operates an ICF/MR program and also operates other non-ICF/MR programs that receive, during its fiscal year, federal funds either directly from the federal government or indirectly through state or local governments **AND** total federal funding received from non-ICF/MR sources is less than \$100,000.

– OR –

A for-profit corporation that operates an ICF/MR program.

2. A nonprofit corporation that operates an ICF/MR program and also operates other non-ICF/MR programs that receive, during its fiscal year, federal funds either directly from the federal government or indirectly through state or local governments **AND** total federal funding received from the non-ICF/MR sources is at least \$100,000, but less than \$300,000.

3. A nonprofit corporation that operates an ICF/MR program and also operates other non-ICF/MR programs that receive, during its fiscal year, federal funds either directly from the federal government or indirectly through state or local governments **AND** total federal funding received from the non-ICF/MR sources is equal to or greater than \$300,000.

1. This entity is not subject to OMB Circular A-133. However, a program audit of the ICF/MR program, as described below, is required.

2. This entity has the option of having either an organization-wide audit or individual audits of each program as described below.

3. The entity must have an organization-wide audit as described below

– OR –

if all non-ICF/MR federal funding is received under one program, the entity may, at its option, have program audits of the ICF/MR program and the non-ICF/MR funded program.

## PROGRAM AUDIT REQUIREMENTS

The ICF/MR program audit must be performed annually and must cover the fiscal year ended June 30. The audit must be performed in accordance with the audit standards prescribed by the *Government Auditing Standards* (Yellow Book), as issued by the United States Comptroller General dated June 1994.

An audit report must be prepared at the completion of the audit and must include:

1. A Schedule of Revenue and Expenses, a Schedule of Census Days, and an auditor's report on the fair presentation of the Schedule of Revenue and Expenses, as well as an auditor's report on the results of agreed-upon procedures applied to the Schedule of Census Days. This information is required for each ICF/MR site and should be reported in the attached formats. The above-noted agreed-upon procedures are also attached.
2. A written report on the auditor's tests of compliance with applicable laws and regulations.
3. A written report on the auditor's understanding of the entity's internal control structure (both accounting and administrative) and the assessment of control risk made as part of the Schedule of Revenue and Expenditure audit.
4. Disclosure and explanation of questioned/disallowed costs discovered during the audit.

A copy of the program audit report should be provided to the Bureau of Audits no later than October 31<sup>st</sup> following the program year being audited. In addition to the program audit report, each entity must submit a copy of its audited annual financial statements for the same period covered by the program audit or, where the entity's operating year differs from the program period, for the entity's operating year that ends during the program period being audited. For example, if the program period being audited is the fiscal year ended June 30, 1991, and the entity operates and prepares its annual financial statements for the year ended December 31, 1990.

### A-133 Organization-wide Audit Requirements

OMB Circular A-133 organization-wide audit requirements should be met for all programs; however, supplemental schedules should be included that depict the ICF/MR activities as well as a supplemental auditor's report on the Schedule of Revenue and Expenses and an auditor's report on the results of agreed-upon procedures applied to the Schedule of Census Days. As required for program audits, this information is required for each ICF/MR site and should be reported in the attached format for the cost report's reporting period. The audit report should be provided to the Bureau of Audits in accordance with Commonwealth policy for the submission of A-133 organization-wide audit reports.

## DPW Audit Guidance

The Department will issue a comprehensive audit guide applicable to the ICF/MR Program that will be effective with the audit requirements for the 1991-92 fiscal year.

## Cost Report Submission Requirements

The above-noted audit report submission requirements do not change the deadline for submitting the final MR-46 Cost Report. The final cost reports are still due no later than September 30 immediately following the June 30 year end.