



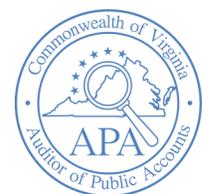
STUDY OF THE USAGE OF SUB-RECIPIENT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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AUDIT SUMMARY

The Commonwealth of Virginia spends approximately \$13.5 billion dollars in federal funds annually. Of this amount, the Commonwealth passes approximately \$2.5 billion, or five percent of all state expenditures, through to non-state entities. These non-state entities are comprised of over one thousand counties, cities, towns, authorities, foundations, non-profit organizations, corporations, or similar organizations which are not units of state government. We reviewed agencies' policies and procedures related to monitoring these non-state entities (sub-recipients) for 15 of the 37 Commonwealth agencies which reported disbursements to sub-recipients during state fiscal year 2012.

We determined that there were varying interpretations and degrees of compliance with the federal government's specific monitoring requirements related to sub-recipients. Some Commonwealth agencies did not obtain sub-recipient audit reports at all. Among those that did, the level of review varied significantly. Each agency defined its own policies and procedures for reviewing sub-recipient Single Audit reports. As a result, there are varying interpretations of the requirements related to monitoring sub-recipients. Without developing uniform guidance for reviewing sub-recipient Single Audit reports, the Commonwealth cannot provide assurance that it is completely fulfilling its responsibilities as a pass-through entity.

We recommend that the Comptroller's Office convene a workgroup of all agencies which disburse federal awards to sub-recipients to develop a statewide policy and procedure and financial reporting capabilities for confirming that sub-recipients met the Single Audit requirements.

The Department of Accounts is currently working to ensure the Commonwealth's compliance with Office of Management and Budget's (OMB) newly issued Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which is replacing the Circular A-133 requirements. The Department of Accounts is also implementing the Cardinal statewide accounting system. Considering both of these concurrent changes, the Department of Accounts is in a good position to ensure the Commonwealth's new Cardinal accounting system is used, to the extent practical, to aid in the management of federal compliance. Considering the lifecycle of the Commonwealth's official accounting system, any improvements that the Department of Accounts can make to capitalize on the capabilities of the new system should return long-term savings to the Commonwealth.

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BACKGROUND

The Commonwealth of Virginia expends approximately \$13.5 billion dollars in federal funds annually. Of this amount, the Commonwealth passes approximately \$2.5 billion, or five percent of all state expenditures, through to non-state entities. These non-state entities are comprised of over one thousand counties, cities, towns, authorities, foundations, non-profit organizations, corporations, or similar organizations which are not units of state government.

The act of passing through federal funds to a non-state entity creates a *sub-recipient* relationship. The Commonwealth is referred to as a *pass-through entity* of the federal award, as it is passing the funds through to another entity. The entity that receives funds from the Commonwealth is the *sub-recipient* of the funds, meaning that they are receiving the federal funds from an entity other than the federal government.

This sub-recipient relationship creates responsibilities for the Commonwealth as a pass-through entity. Our study is not focused on the determination of where the funding is passed through, how much is passed through, or any other decision that is impacted by the policies of the Commonwealth's management. Our focus is on the activities that are required after the funds have been passed through to a sub-recipient.

As a part of our responsibilities as the independent auditor of the Commonwealth, our office performs an annual Single Audit of the Commonwealth's federal expenditures. A Single Audit is a federally mandated audit of federal awards intended to provide a cost-effective audit for non-federal entities. Notwithstanding certain thresholds and exemptions, all entities expending federal funds must obtain a Single Audit annually in accordance with Office of Management and Budget's (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations." The federal government ensures that its own direct recipients receive the required audits; however, the sub-recipients of the pass-through entities are monitored almost exclusively by the pass-through entity. As a part of monitoring the funds passed through, Circular A-133 requires the Commonwealth to review the Single Audits of its sub-recipients.

The responsibilities of federal agencies, pass-through entities, and sub-recipients are outlined within Circular A-133. The purpose of Circular A-133 is to set standards for obtaining consistency and uniformity in the audit of the expenditure of federal awards and oversight. OMB issued the Circular in response to the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. Our review used these documents as a criteria for evaluating the performance of the Commonwealth in fulfilling its monitoring responsibilities as a pass-through entity.

As a result of fieldwork at individual agencies for the Commonwealth's annual Single Audit, our office determined that there were varying interpretations and degrees of compliance with the specific monitoring requirements in Circular A-133 as it related to sub-recipient monitoring. Some Commonwealth agencies did not obtain sub-recipient audit reports at all. Among those that did, the level of review varied significantly. As a single financial reporting entity, the Commonwealth's agencies are jointly and collectively responsible for complying with the provisions of Circular A-133. The intended outcome of this study is to make recommendations to the Commonwealth's management that would promote both efficiency and compliance.

THE STANDARD

Circular A-133 has assigned responsibilities to pass-through entities to confirm that sub-recipients use federal awards for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Responsibilities of pass-through entities include:

- Identifying federal awards by informing each sub-recipient of the Catalog of Federal Domestic Assistance (CFDA) title and number assigned by the federal government, award name and number, award year, if the award is Research and Development, and the name of the federal agency.
- Advising sub-recipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- Monitoring the activities of sub-recipients as necessary to ensure that sub-recipients use Federal awards for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Ensuring that sub-recipients expending \$500,000 or more in federal awards during the sub-recipient's fiscal year have met the audit requirements of Circular A-133 for that fiscal year.
- Issuing a management decision(s) on audit findings within six months after receipt of the sub-recipients audit report and ensuring that the sub-recipient takes appropriate and timely corrective action.
- Considering whether sub-recipient audits necessitate adjustment of the pass-through entity's own records.
- Requiring each sub-recipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with Circular A-133.

The pass-through entity responsibilities, as outlined above, originate from the responsibilities initially imposed on federal awarding agencies by Circular A-133. In effect, the responsibility of the federal government to monitor the use of its funds transfers to the Commonwealth.

SINGLE AUDITS

All non-Federal entities that expend \$500,000 or more of federal awards in their fiscal year are required to obtain an annual audit. A Single Audit provides a cost-effective audit for non-Federal entities in that one audit is conducted in lieu of multiple audits of individual programs.

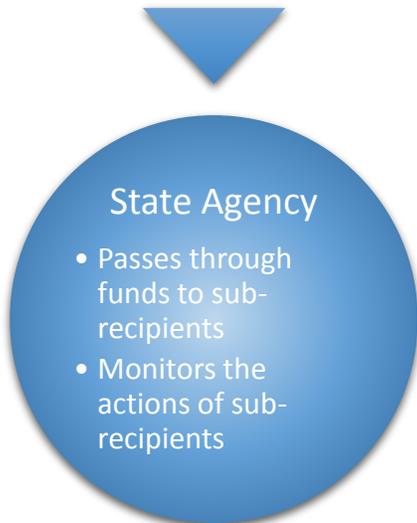
The Single Audit is based on the expenditures reported in the auditee's Schedule of Expenditures of Federal Awards (SEFA). The SEFA is a required financial report prepared annually by entities that receive and expend federally awarded funds. This schedule lists the expenditure amounts for each federal program for the fiscal year.

At the end of the audit, the auditor and auditee assemble a reporting package. The reporting package is comprised of the entity's audited financial statements, audited SEFA, audit findings, and other required documents. The auditee is responsible for submitting a *data collection form* to the Federal Audit Clearinghouse which indicates that the audit was completed in accordance with Circular A-133. The Federal Audit Clearinghouse is a federal office at the U.S. Census Bureau that manages an online database of all federal Single Audits required by Circular A-133.

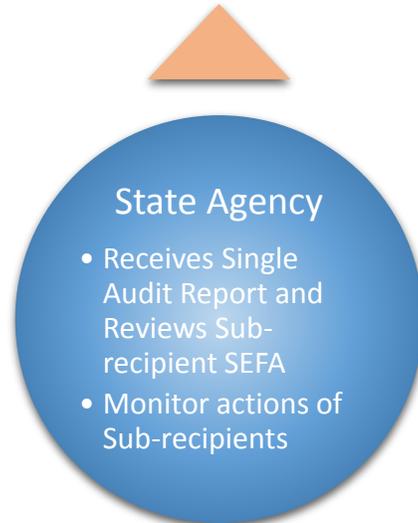
This audit process and the resulting reporting package are designed to provide the federal awarding agencies, and pass-through entities insight into the management of the federal awards that they have granted. The Federal government reviews the Commonwealth's Single Audit package, evaluates any findings, and ensures that the audit met all Circular A-133 requirements and was submitted on-time. The Commonwealth is responsible for performing the same monitoring process over its sub-recipients.

The chart on the next page illustrates the flow of federal funds to state agencies through to sub-recipients and the tools used, including audits, to monitor the use of these funds.

Awarding



Monitoring



TESTING AND RESULTS

We selected fifteen of the 37 Commonwealth agencies which reported disbursements to sub-recipients during state fiscal year 2012. See Appendix B for Federal Pass-Through Funds by Agency and Secretariat. First, we reviewed each selected agency's policies and procedures related to monitoring sub-recipients and conducted interviews of agency management. Second, we used publicly available audit submission data in the Federal Audit Clearinghouse to perform a statewide analysis of pass-through expenditures.

Part 1: Review of Procedures - Our Study Methodology

In reviewing procedures, we obtained an understanding of each selected agency's process for evaluating sub-recipient Single Audit reports. We accomplished this by reviewing agency procedures, interviewing management, and observing processes. Each agency's process was evaluated against the respective provisions stated within Circular A-133. Our objective was to determine if Commonwealth agencies were confirming that their pass-through funds to sub-recipients were subject to audit coverage. If an agency was performing a review of sub-recipient Single Audits, we inquired further to determine the extent of the follow up procedures performed by the agency.

According to Circular A-133, pass-through entities are required to confirm that sub-recipients meet the six audit requirements below. We have classified those six requirements into two major groups:

Requirements that are observable and reviewable by management at the sub-recipient and pass-through entity

- ▶ Non-federal entities which expend \$500,000 or more a year in federal awards have a single or program-specific audit conducted for that year in accordance with Circular A-133 (Section 200(a) of Circular A-133).
- ▶ The audit shall be completed and the data collection form and report package shall be submitted within the earlier of 30 days after the receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit (Section 320(a) of Circular A-133).
- ▶ All auditees shall submit to the Federal Audit Clearinghouse a single copy of the data collection form and reporting package (Section 320(d) of Circular A-133).

The first set of requirements above are fully controlled by management at the sub-recipient, and easily monitored by the pass-through entity. These requirements are met when management

at the sub-recipient identifies the need for a Single Audit, engages the services of a public accounting firm to execute the audit, and ensures that the audit is completed timely and that the results are uploaded to the Federal Audit Clearinghouse.

Requirements that necessitate technical auditing knowledge, skills, and abilities and are accomplished by the sub-recipient's auditors

- ▶ Thresholds for Type A and Type B programs were calculated in accordance with Sections 520(b) and 520(d) of Circular A-133.
- ▶ Programs which qualified as Type A or Type B were subject to the risk assessment requirements outlined within Sections 520(c) and 520(d) of Circular A-133.
- ▶ The auditee met the percent of coverage rule as defined by Section 520(f) of Circular A-133.

This second set of requirements are more technical in nature, and are executed by the sub-recipients' auditors during the Single Audit engagement. These requirements relate to identifying major programs for audit, and obtaining sufficient audit coverage. The engaged auditing firm is responsible for ensuring these requirements are properly met. A certified public accountant who is licensed by their state's board of accountancy has demonstrated their competence by meeting strict educational standards, completing a specific amount of accounting experience, and passing the Uniform CPA Exam. If management at the sub-recipient engaged an auditor that is registered and licensed with their respective state's board of accountancy, and noted nothing concerning in the audit organization's latest peer review report, then management at the sub-recipient and pass-through entity would be justified in assuming that these requirements were satisfied.

Our review focused on the first set of requirements, as they can be readily observable by management of the pass-through entity, and do not require knowledge, skills, and abilities that are typically possessed by a licensed accounting firm.

While not explicitly stated in Circular A-133, to meet the requirements cited from Circular A-133 above, the pass-through entity must also ensure that their specific federal pass-through funds were included within the scope of the Single Audit at the sub-recipient. The pass through entity can ensure this by comparing the amounts in the sub-recipient's audited SEFA to the pass-through entity's related disbursements. The audited SEFA submitted by the sub-recipient indicates the dollar amount of federal expenditures in each federal award that has been audited as a part of the Single Audit.

As an example, if an agency of the Commonwealth passes through to a local government \$500,000 in federal funds, then the Commonwealth should expect to see \$500,000 listed as expenditures for that award. If the amounts do not agree, there are a few possibilities as to why:

1. **Timing differences:** The sub-recipient received funds near the end of a fiscal year, but did not expend the funds until the next year. These are typically small variances that the Commonwealth agency can explain using their internal accounting records or through communication with the sub-recipient.
2. **Misclassification of award:** The sub-recipient has identified the federal expenditures as a different federal award, or failed to identify it as a federal award at all. This may be an indication of poor recordkeeping or that the sub-recipient is not aware of the nature of the award and its requirements.
3. **Mismanagement of funds:** The sub-recipient received the award, and due to poor controls, did not spend the award on allowable activities. As such, the sub-recipient did not report the expenditure of the award on their SEFA, and the funds were not included within the scope of their Single Audit.

Among the three possible scenarios above, timing differences are the only acceptable reason for a variance between the Commonwealth's accounting records and the sub-recipient SEFA. Any other variances are likely due to mismanagement of funds, misclassification of expenditures, or both. For this reason, it is vital that the Commonwealth's agencies review sub-recipient SEFAs and agree, within a defined tolerance, expenditure amounts to the Commonwealth's accounting records.

Without comparing the amounts in the sub-recipient's audited SEFA to the pass-through entity's related disbursements, management of the Commonwealth cannot determine if a sub-recipient received a proper Single Audit as required by the federal government.

In summary, we reviewed sub-recipient monitoring procedures at pass-through entities to determine if they are designed to ensure:

1. *Non-federal entities which expend \$500,000 or more a year in federal awards have a single or program-specific audit conducted for that year in accordance with Circular A-133 (Section 200(a) of Circular A-133).*
2. *The audit was completed and the data collection form and report package were submitted within the earlier of 30 days after the receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit (Section 320(a) of Circular A-133).*
3. *All auditees submitted to the Federal Audit Clearinghouse designated by OMB a single copy of the data collection form and reporting package (Section 320(d) of Circular A-133).*
4. *The federal expenditure amount reported on the sub-recipient's audited SEFA agrees to the pass-through entity's accounting records.*

Part 2: Review of Procedures - What we found

During our review, we found three Commonwealth agencies which did not acknowledge their responsibilities as a pass-through entity. The three agencies are the Comprehensive Services for At-Risk Youth and Families, the Department of Veterans Services, and the Virginia Information Technologies Agency.

Commonwealth Agency	Polices Acknowledging their Pass-Through Responsibilities?	Practice Comparing Agency Amount of Disbursed Federal Funds to their Sub-recipients' Audited SEFA?
Comprehensive Services for At-Risk Youth and Families	No	No
Old Dominion University	✓	No
Virginia Commonwealth University	✓	No
Virginia Department for Aging and Rehabilitative Services	✓	✓
Virginia Department of Agriculture and Consumer Services	✓	No
Virginia Department of Criminal Justice Services	✓	No
Virginia Department of Education	✓	No
Virginia Department of Emergency Management	✓	No
Virginia Department of Environmental Quality	✓	✓
Virginia Department of Housing and Community Development	✓	No
Virginia Department of Social Services	✓	✓
Virginia Department of Transportation	✓	No
Virginia Department of Veterans Services	No	No
Virginia Information Technologies Agency	No	No
Virginia Polytechnic Institute and State University	✓	No

When inquiring of agency processes for the Comprehensive Services for At-Risk Youth and Families and the Department of Veterans Services, we determined that they receive their federal funding from other Commonwealth agencies, which they then disburse as grants to non-state sub-recipients. However, neither the Comprehensive Services for At-Risk Youth and Families nor the Department of Veterans Services monitored their sub-recipients of federal funds because they did not classify these funds as federal grants. As a result, the federal funds that passed through these agencies were not included in their sub-recipients' SEFA, because it was not communicated to them that they were receiving federal grant funds. Consequently, these federal funds were not subject to Single Audit procedures at the sub-recipient level during the 2012 audit period.

After discussion with the Virginia Information Technologies Agency, it was determined that this agency does not have any sub-recipients, though the agency previously reported pass-through expenditures. It was determined that the expenditures reported in the 2012 Statewide Single Audit Report as disbursed to sub-recipients were misclassified. The amounts reported within the schedule

included awards disbursed to Commonwealth agencies, and other expenditures that were not pass-through in nature.

As seen in the following table, these three agencies did not properly record the nature of approximately \$12.5 million in federal funding. For the Comprehensive Services for At-Risk Youth and Families and the Department of Veterans Services, they did not record their federal expenditures in sufficient detail to provide proper notification to sub-recipients that they were receiving federal funds through the Commonwealth, which limits the Commonwealth’s ability to monitor sub-recipients, as required. See the section titled “Agency Responses” for Managements’ description of their corrective actions.

Commonwealth Agency	Reported Pass-Through Expenditures
Comprehensive Services for At-Risk Youth and Families	\$ 9,419,998
Virginia Information Technologies Agency	2,694,041
Virginia Department of Veterans Services	365,870
Total	\$12,479,909

We determined that the remaining agencies acknowledged their responsibilities as a pass-through entity. However, in several instances, these Commonwealth agencies were not fully confirming that their sub-recipients met the audit requirements required by Circular A-133.

Only three agencies were comparing their amount of disbursed federal funds to their sub-recipients’ audited SEFA to confirm that the funds were subject to audit. The agencies which implemented this practice are as follows: Department of Social Services, Department of Environmental Quality, and the Department for Aging and Rehabilitative Services

Part 3: Analysis of Statewide Sub-recipients

After reviewing each selected Commonwealth agency’s procedures and processes, it was determined that they were not fully defining their pass-through requirements imposed by Circular A-133 within their procedures. Nor were most agencies confirming that federal funds passed-through the Commonwealth were subject to Single Audit requirements at their sub-recipient. As a result, we performed an analysis to compare the Commonwealth’s disbursements to the sub-recipients’ audited SEFA. The objective of this analysis was to determine if the differences between the Commonwealth’s and sub-recipient’s records caused the Commonwealth to receive insufficient audit coverage over the federal funds it passed through to non-federal entities.

Audit Required:

First, we pooled the disbursements to non-state sub-recipients together to determine which entities received \$500,000 in federal funds collectively from the Commonwealth. We then searched the Federal Audit Clearinghouse to determine if these non-state sub-recipients had an audit completed for the 2012 audit period. Second, we used the Commonwealth’s total disbursements to non-state sub-recipients and reviewed Commonwealth agencies’ procedures to determine if they were reviewing audit reports for all sub-recipients who received more than \$500,000 collectively from the Commonwealth. Finally, we confirmed that the reporting package was submitted within

nine months by comparing the non-state sub-recipients' fiscal year end date to the "accepted date" within the Federal Audit Clearinghouse.

In total, the Commonwealth of Virginia disbursed \$500,000 or more in federal awards to 245 non-state sub-recipients. When compared to the 225 sub-recipients for which we able to locate their Single Audits, it appeared that 20 non-state sub-recipients which received at least \$500,000 in federal awards from the Commonwealth of Virginia did not have a Single Audit performed on its federal expenditures.

We determined the 20 non-state sub-recipients which did not have a Single Audit either qualified as for-profit organizations or did not upload a Single Audit reporting package to the Federal Audit Clearinghouse.

For profit organizations: The provisions of Circular A-133 are applicable to Commonwealth governments, local governments, and not-for-profit organizations. For profit organizations are exempt from Single Audit requirements; however, the Commonwealth is still required to monitor for profit organizations that are sub-recipients.

Failure to upload audit to Federal Audit Clearinghouse: Commonwealth agencies were unaware that the sub-recipients did not submit a Single Audit reporting package to the Federal Audit Clearinghouse because this requirement was not part of their sub-recipient Single Audit review process.

Single Audit Review:

Pass-through entities are responsible for confirming that each sub-recipient expending \$500,000 or more in federal awards annually obtained a Single Audit. Twelve of the fifteen agencies we selected acknowledged, in their policies, their responsibility for confirming their sub-recipients obtained a Single Audit. However, their practice was to limit their review to only sub-recipients which they disbursed \$500,000 or more in federal funds to during the fiscal year. Their assessment of disbursements did not consider federal funds passing-through other Commonwealth agencies. As a result, collectively the Commonwealth is not fully confirming that its sub-recipients expending more than \$500,000 in federal awards annually are meeting the audit requirements.

To determine the impact on the Commonwealth, we performed an analysis to determine how many sub-recipients received more than \$500,000 in federal awards collectively from Commonwealth agencies included within this study. We then separated the federal awards by granting agency to determine how many sub-recipient Single Audit reports would qualify for a review based on the Commonwealth agency's current practices.

A total of 225 sub-recipients received more than \$500,000 in federal awards collectively from agencies within the Commonwealth of Virginia and had a Single Audit conducted during the 2012 audit period. Out of this total, 46 of the Single Audit reports were reviewed by all Commonwealth agencies disbursing federal awards to the sub-recipient. The remaining 179 Single Audit reports were either reviewed by some or none of the Commonwealth agencies that disbursed federal awards to the sub-recipient.

The concern with the policy of each individual agency only reviewing the audit reports for entities that have received over \$500,000 from that specific agency, is that it ignores funds provided by other Commonwealth agencies, other states, and awards directly from the federal government. For example, if two agencies each provide \$300,000 to the same sub-recipient, neither agency would review the sub-recipient Single Audit report, or ensure that an audit was performed. However, in the current statewide accounting system, it is not possible for one agency to view the pass-through funds that originate at another Commonwealth agency; this information is only available to the Department of Accounts. Therefore, the information currently available to individual agencies inhibits their ability to consider disbursements from other agencies of the Commonwealth.

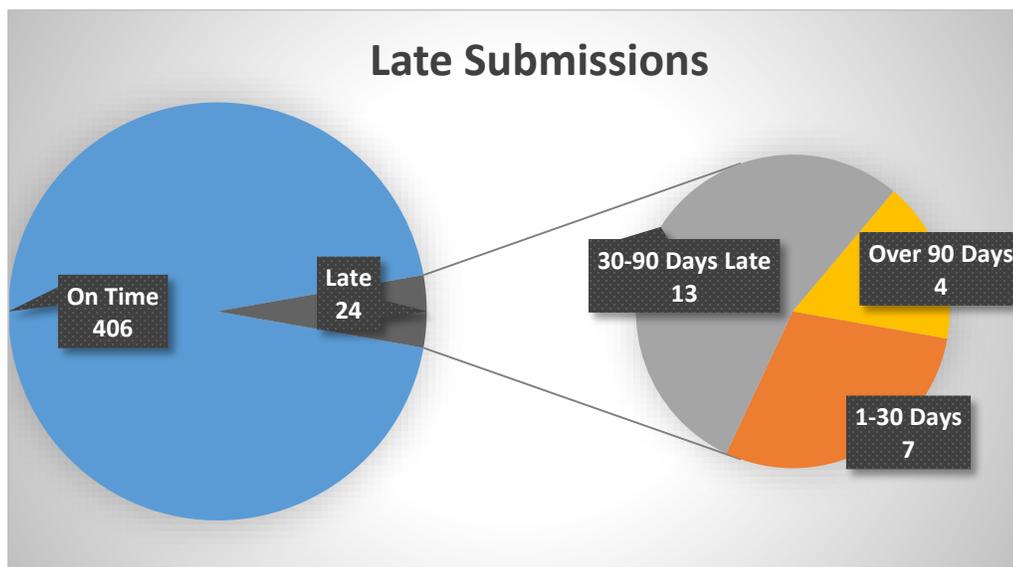
If the Commonwealth does not have accurate information regarding the total amount of federal funds passed through to each non-federal entity, the Commonwealth cannot assure itself that all sub-recipients met the audit requirements set forth within Circular A-133.

Report Submission:

As defined in Circular A-133, the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor’s report or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. None of the Commonwealth’s agencies evaluated are reviewing the Federal Audit Clearinghouse to confirm submission of the data collection form within the required timeframes.

To determine the impact this could have on the Commonwealth, we performed an analysis to determine how many data collection forms were submitted later than nine months after the sub-recipients audit period ended. We performed this analysis by comparing the sub-recipients’ fiscal year end date to the “accepted date” within the Federal Audit Clearinghouse.

Of the Commonwealth’s sub-recipients, 430 data collection forms were submitted to the Federal Audit Clearinghouse. Of these submissions, 24 were not submitted within nine months after the sub-recipients fiscal period ended. These submissions ranged from being one to 253 days late.



CONCLUSIONS AND RECOMMENDATIONS

The Commonwealth of Virginia is not fulfilling all of its responsibilities as a pass-through entity. There were several sub-recipients who unknowing to the Commonwealth did not appear to meet the audit requirements outlined by Circular A-133. Commonwealth agencies did not identify these deficiencies because the sub-recipient monitoring requirements were not defined within their respective policies and procedures or evaluated during their review.

Develop Policies and Procedures:

During our review, we determined that each Commonwealth agency was defining its own policies and procedures pertaining to reviewing sub-recipient Single Audit reports. Several of the sub-recipient monitoring requirements for reviewing Single Audits were omitted from Commonwealth agency's policies and procedures due to varying interpretations of Circular A-133. The intent of the Single Audit Act is to establish uniform requirements for audits of federal awards administered by non-federal entities and oversight. There should also be uniformity in the way in which pass-through entities of the Commonwealth review sub-recipient Single Audit reports.

Recommendation

To promote uniformity, we recommend that Commonwealth agencies, which disburse federal awards to non-state sub-recipients, in coordination with the Department of Accounts, work together to update the Department of Accounts' Federal Grants Management requirements and develop statewide expectations for confirming that sub-recipients met the audit requirements outlined within Circular A-133. During this process, Commonwealth agencies should collectively define each sub-recipient monitoring requirement identified within Circular A-133 to confirm that it has been included within the statewide policies and procedures. By implementing these statewide requirements, the Commonwealth will have uniform expectations for compliance with federal rules and regulations for monitoring sub-recipient audit reports.

Establish \$500,000 Threshold for Evaluation:

During our review, we also found that several Commonwealth agencies were only reviewing Single Audit reports for sub-recipients in which the individual agency disbursed \$500,000 or more in federal awards during the fiscal period. However, this assessment did not take into consideration federal awards received from other organizations. As a result, there were several instances where Commonwealth agencies did not review all sub-recipient Single Audit reports as required by Circular A-133.

Recommendation

To support Commonwealth agencies in reviewing all sub-recipient Single Audit reports as required, we recommend the Department of Accounts develop statewide reports to identify which non-state sub-recipients received more than \$500,000 in federal awards from the Commonwealth during the sub-recipient's fiscal year. We recommend that the Department of Accounts develop this mechanism because it is the custodian of the statewide accounting records. Additionally, we recommend that Commonwealth agencies reach out to non-state sub-recipients who received less than \$500,000 from the Commonwealth. This will allow the Commonwealth to confirm that these entities did not spend more than \$500,000 in federal awards from other sources and receive a Single Audit. We recognize the Department of Accounts will have to evaluate the feasibility of incorporating a program modification in the new accounting system, Cardinal. We further recognize the Department of Accounts may not be able to conduct the feasibility study until all agencies have converted to Cardinal and the current general ledger, Commonwealth Accounting and Reporting System (CARS), is decommissioned.

Review for Timely Submissions:

We found that none of the Commonwealth agencies selected for this study were using sub-recipient Single Audit reports to confirm that the data collection form was completed properly and submitted to the Federal Audit Clearinghouse on time. We found several instances where the sub-recipients did not submit their audit reports timely, which was not known by Commonwealth agencies or considered by them in evaluating their sub-recipients. Consistently late submissions of audit reporting packages may be an indication of other larger problems at the sub-recipient.

Recommendation

We recommend that Commonwealth agencies incorporate Federal Audit Clearinghouse requirements into the statewide policies and procedures for reviewing and evaluating sub-recipients.

Utilize Cardinal to Facilitate Uniform Grant Guidance:

The Department of Accounts is currently working to ensure the Commonwealth's compliance with reporting requirements in OMB's newly issued Uniform Guidance for federal grants, which is replacing the Circular A-133 requirements. The Department of Accounts is also implementing the Cardinal statewide accounting system. Considering both of these concurrent changes, the Department of Accounts should ensure that the Commonwealth's new Cardinal accounting system is used to efficiently and effectively manage federal compliance. Considering the lifecycle of the Commonwealth's official accounting system, any improvements that capitalize on the capabilities of the new system should return long-term savings to the Commonwealth.

While performing this study, we found that the current statewide accounting system does not contain the CFDA number, nor does the new Cardinal system. The CFDA number is from the Catalog of Federal Domestic Assistance. The federal government requires non-federal entities to use CFDA numbers for reporting federal expenditures. This attribute is critical to identifying the expenditure of federal funds by award. If Commonwealth agencies are required to use CFDA number in Cardinal, it will also allow the Department of Accounts and others to perform a statewide analysis of federal expenditures by award. The current process of producing the Commonwealth's SEFA involves emailing spreadsheets among all of the Commonwealth's agencies, importing them into an Access database, and manipulating total expenditure amounts outside of the state's accounting system. With a modern accounting system and clear statewide standards, the time and resources dedicated to this annual process could be minimized. Additionally, the time required to audit this manual process is significantly higher than it would be to audit an optimized process that is controlled by the new Cardinal system.

Recommendation

We recommend that the Department of Accounts should consider performing a cost-benefit analysis to adding CFDA numbers to the Cardinal system so that one can be associated with each disbursement transaction and establishing supporting statewide reporting requirements. We recognize that the Department of Accounts may not be able to complete the cost-benefit analysis until all agencies have converted to Cardinal and the current general ledger, CARS, is decommissioned.



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June 2, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

We have reviewed the Commonwealth of Virginia's Process for Evaluating Sub-recipient Single Audit reports as required in its oversight of federal funds and are pleased to submit our report entitled **Study of the Usage of Sub-recipient Schedule of Expenditures of Federal Awards**. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Management's Comments and Responses and Report Distribution

The agencies listed below were selected to participate within the scope of this study. We shared a draft of this report with these agencies and incorporated, if any, relevant comments into this report.

Comprehensive Services for At-Risk Youth and Families
Old Dominion University
Virginia Commonwealth University
Virginia Department for Aging and Rehabilitative Services
Virginia Department of Accounts
Virginia Department of Agriculture and Consumer Services
Virginia Department of Criminal Justice Services
Virginia Department of Education
Virginia Department of Emergency Management
Virginia Department of Environmental Quality
Virginia Department of Housing and Community Development
Virginia Department of Social Services
Virginia Department of Transportation
Virginia Department of Veterans Services
Virginia Information Technologies Agency
Virginia Polytechnic Institute and State University

Managements' response, for those agencies that elected to provide responses, to our audit are included in the section titled "Agency Responses." We did not audit managements' responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

GDS/clj

APPENDIX A: TIMING OF REPORT AND RELATED REQUIREMENTS

Why we are releasing this report in 2015 using 2012 information?

This special performance study was originally approved for the Auditor of Public Accounts 2014 Work Plan by the Joint Legislative Audit and Review Commission. When we began working on the study in late 2013, the most recent data available for evaluating sub-recipient was based on the 2012 fiscal year.

Under OMB Circular A-133, sub-recipients have nine months to complete their Single Audit after the end of their fiscal year. Pass-through entities then have an additional six months to issue any management decisions on any related audit findings contained in sub-recipient Single Audits. Therefore, all Commonwealth agencies should have completed their review of sub-recipient single audits within eighteen months after a sub-recipient's fiscal year-end, at the latest.

Timeline:

- Fiscal Year 2012 – (July 2011-June 2012) The Commonwealth of Virginia disburses federal funds to sub-recipients.
- June 2012-March 2013: Sub-recipients obtain Single Audits, prepare their SEFA, and upload them to the Federal Audit Clearinghouse.
- April 2013-September 2013: The Commonwealth of Virginia reviews sub-recipient single audit reports.

Due to the timing of these events, we used the available 2012 Federal Audit Clearinghouse data for our study to ensure Commonwealth agencies had time to complete their review of the sub-recipient's 2012 Single Audits.

Why are we using the soon to be eliminated A-133 Circular?

Our office has been monitoring the release of OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) for the past several years. This update to federal grants management represents the largest overhaul in federal compliance in over 30 years. As the study was nearing completion, we chose to withhold release of this report until the final Uniform Guidance was published. By doing this, we would ensure that we offered recommendations that were relevant to the Commonwealth's management of future awards.

Now that the Uniform Guidance was published on December 19, 2014, the majority of the guidance referenced in this report remains materially unchanged from the previous Circular A-133. Therefore, the references throughout this document to A-133 requirements remain relevant to the current Uniform Guidance in 2 CFR §200.

APPENDIX B: FEDERAL PASS-THROUGH FUNDS BY AGENCY AND SECRETARIAT

When planning this study, we deliberately selected agencies with different amounts of pass-through activity across all of the secretariats of the Commonwealth. This allowed us to draw a conclusion that is applicable to all agencies, not just the agencies of a specific secretariat, or of a particular level of pass-through activity. However, due to the insignificant amount of funds passed through from Executive Offices, no agencies from this secretariat were included in the study. The tables below identify the pass-through activity by agency and secretariat.

Agency Name	Total Pass Through for Fiscal Year 2012
Department of Ed-Direct Aid to Localities	\$1,318,882,859
Department of Social Services	431,331,518
Department of Transportation	105,463,103
Department of Health	104,600,888
Dept. of Housing and Community Development	90,270,114
Dept. of Behavioral Health and Developmental Services	59,919,408
Department of Environmental Quality	40,288,591
Virginia Community College System-System Office	39,804,566
Department for Aging and Rehabilitative Services	35,527,325
Dept. of Rail and Public Transportation	33,771,055
Department of Emergency Management	32,839,033
VPI and State University	32,126,790
Department of Agriculture and Consumer Services	28,715,673
University of Virginia - Academic Division	26,079,312
Department of Criminal Justice Services	14,370,852
Virginia Commonwealth University	10,211,612
Comprehensive Service-At-Risk Youth/Families	9,419,998
Department of Motor Vehicles	8,605,594
George Mason University	7,264,575
State Council of Higher Education For Virginia	4,539,648
James Madison University	3,982,363
Old Dominion University	3,681,423
Virginia Information Technologies Agency	2,694,041
The College of William and Mary	1,751,564
Department of Game and Inland Fisheries	1,213,931
Virginia Institute of Marine Science	1,067,074
Virginia Tourism Authority	1,040,578
Department of Forestry	920,472
Department of Historic Resources	687,083
Innovation and Entrepreneurship Investment	371,759
Department of Veterans Services	365,870
Radford University	265,247
Department of Alcoholic Beverage Control	131,978
Department of State Police	54,939
Attorney General and Department of Law	32,730
Virginia Foundation for Healthy Youth	27,010
Virginia State University	610
Total	\$2,452,321,186

*Agencies in Bold were selected for this review

Secretariat	Total Pass-Through for Fiscal Year 2012
Education	\$1,449,657,643
Health and Human Resources	640,826,147
Transportation	147,839,752
Commerce and Trade	91,310,692
Public Safety	47,396,802
Natural Resources	42,189,605
Agriculture and Forestry	29,636,145
Technology	3,065,800
Veterans Affairs and Homeland Security	365,870
Executive Offices	32,730
Total	\$2,452,321,186

Source: The "Disbursed to Non-State" schedule the agency provided to the Department of Accounts

APPENDIX C: APA COMMENTS TO AGENCY RESPONSES

Below are our comments to certain aspects of the agency's responses that require additional clarification. Specifically, the response from Virginia Polytechnic Institute and State University, which it refers to as "the university" and "Virginia Tech" within its response.

Develop Policies and Procedures

- *The university disagrees that there should "be uniformity in the way in which pass-through entities of the Commonwealth review sub-recipient Single Audit reports". To establish a one-size-fits-all approach is to ignore differences in the relative size of awards made, number of sub-recipients, and the nature of the sub-recipients with which each state agency contracts....In order for any internal control to be cost-effective, it must be designed with a risk-based approach in mind. Any statewide standard should be fairly general in nature and should recognize that a fairly wide range of approaches would prove acceptable using a risk-based approach to control design.*

APA Comment: During our review, we found a wide range of practices for reviewing information related to sub-recipients' Single Audits. Some agencies reviewed the information in the Federal Audit Clearinghouse or their sub-recipients' Single Audit report, which have been certified or audited by the sub-recipient's auditor, respectively while other agencies only require their sub-recipients to self-report if their audit presented any material weaknesses, material instances of noncompliance or findings related to any sub-awards issued by the agency. The objective of this recommendation is not to establish a "one-size-fits-all approach" that covers everything an agency must to do related to monitoring sub-recipients, but to set minimum requirements for reviewing sub-recipient Single Audit reports and determine if allowing self-reported audit results creates an unacceptable risk for the Commonwealth.

Establish \$500,000 Threshold for Evaluation

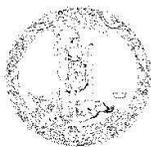
- *On an annual basis, the university sends all sub-recipients receiving federal funding during the previous fiscal year certification letters requesting A-133 audit information. Sub-recipients must indicate if they are subject to the requirements of OMB Circular A-133. Sub-recipients subject to A-133 requirements must indicate if the A-133 audit is complete for the current fiscal year and if the audit presented any material weaknesses, material instances of noncompliance or findings related to any sub-awards issued by Virginia Tech.*

APA Comment: Allowing sub-recipients to self-report the result of their audit without the pass-through entity receiving or reviewing the audit report may limit the pass-through's ability to meet the A-133 requirement to "issue a management decision on audit findings within six months after receipt of the sub-recipient's audit report." This limitation is caused from the risk that self-reported results of the audit may not be accurate.

Utilize Cardinal to Facilitate Uniform Grant Guidance

- *The university has several concerns about this recommendation. As stated above, not all agencies report to CARS at the same level of detail. Furthermore, decentralized institutions of higher education already track CFDA numbers or federal agency contract numbers in their accounting systems as an important attribute associated with each grant or contract. We would request that any cost benefit analysis also include the costs and benefits to decentralized agencies and any impact to their existing processes using CFDA numbers. Past experience has shown that what is cost beneficial for central state agencies may result in extensive inefficiencies and significant costs for decentralized agencies such as the institutions of higher education.*

It is not the intent of our recommendation to set additional requirements for decentralized institutions of higher education beyond what they agreed to in their management agreements with the Commonwealth or federal grant agreements. However, by accepting federal funds under the new Uniform Grant Guidance institutions of higher education are agreeing to include in the Commonwealth's Schedule of Expenditures of Federal Awards the total amount provided to sub-recipients from each Federal program (§200.510(b)(4)), which will cause the Commonwealth to change its reporting process. Additionally, the Uniform Grant Guidance explicitly states that pass-through entities must include the CFDA number at time of disbursement to sub-recipients (§200.331 (a)(1)(xi)), which will require changes to ensure all Commonwealth agencies meet this requirement. As a result of these known changes and others, we are encouraging both centralized and decentralized agencies to work together to find cost beneficial solutions for the Commonwealth.



COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA
COMPTROLLER

Office of the Comptroller

P. O. BOX 1971
RICHMOND, VIRGINIA 23218-1971

May 22, 2015

Ms. Martha S. Mavredes
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

Dear Ms. Mavredes:

The Department of Accounts (Accounts) appreciates the opportunity to respond to the *Conclusion and Recommendations* contained in your SEFA Special Study Report. We give your comments the highest level of importance and consideration as we continue to review and improve the Commonwealth's practices.

Develop Policies and Procedures

Accounts agrees that there should be uniformity among the Commonwealth agencies when monitoring sub-recipients to ensure compliance with federal regulations. In order to develop comprehensive and cohesive statewide procedures, all Commonwealth agencies receiving federal funds should work collaboratively. To facilitate completion of these statewide policies and procedures, Accounts will convene a work group of agency representatives.

Establish \$500,000 Threshold for Evaluation

Accounts agrees that statewide reports to identify which non-state sub-recipients received more than \$500,000 in federal awards from the Commonwealth of Virginia during the sub-recipients' fiscal year would be beneficial. While the new general ledger, Cardinal, may have the capability to capture this data at some point in the future, this capability does not currently exist since the Catalog of Federal Domestic Assistance (CFDA) number, the essential common identifier necessary for inter-agency grant reporting, is not currently captured. Accounts will need to determine the feasibility of modifying Cardinal to capture this data. As acknowledged in your report, resources will not be available to evaluate this system modification until the Wave 2 agencies convert to Cardinal and the current general ledger, CARS, is decommissioned.

(804) 225-2109

FAX (804) 786-3356

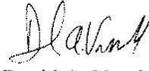
TDD (804) 371-8588

Ms. Martha S. Mavredes
May 22, 2015
Page 2

Utilize Cardinal to Facilitate Uniform Grant Guidance

Accounts agrees that inclusion of the Catalog of Federal Domestic Assistance (CFDA) number would facilitate identifying the expenditure of federal funds by award and compliance with federal reporting requirements. Accounts will perform a cost benefit analysis to determine the feasibility of adding CFDA numbers to the Cardinal system in the transaction record recording disbursements. As acknowledged in your report, resources will not be available to perform this analysis until the Wave 2 agencies convert to Cardinal and the current general ledger, CARS, is decommissioned.

Sincerely,



David A. Von Moll

Copy: Lewis R. McCabe, Jr.
Deputy State Comptroller



COMMONWEALTH of VIRGINIA

Department of Agriculture and Consumer Services

PO Box 1163, Richmond, Virginia 23218

Phone: 804/786-3501 • fax: 804/371-2945 • Hearing Impaired: 800/828-1120

www.vdacs.virginia.gov

May 25, 2015

Sandra J. Adams
Commissioner

Ms. Martha Mavredes
Auditor of Public Accounts
James Monroe Building
101 North 14th Street
Richmond, VA 23219

Dear Ms. Mavredes:

We have reviewed the draft report, "Study of the Usage of Sub-recipient Schedule of Expenditure of Federal Awards (SEFA)" covering how agencies are using the SEFA to monitor their sub-recipients. The Virginia Department of Agriculture and Consumer Services ("VDACS") is included on page eight of the draft audit summary with agencies designated as not comparing disbursed federal funds to their sub-recipients' audited SEFA. We would like to note that VDACS pass through funding as listed on page 18 is for non-cash food commodities. As a non-cash pass through, OMB Circular A-133 (§ 310b.6) allows for the value of the awards to be either included in the SEFA schedule or as a note to the schedule for the sub-recipient entities.

The recommendations included in the study will be taken under advisement and implemented as applicable to VDACS' federal grant programs.

Thank you for the opportunity to provide an agency response to the draft study.

Sincerely,

A handwritten signature in blue ink that reads "Sandra J. Adams" followed by a horizontal line.

Sandra J. Adams
Commissioner

cc: The Honorable Todd P. Haymore, Secretary of Agriculture
Charles Green, Deputy Commissioner

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Terence R. McAuliffe
Governor

Maurice A. Jones
Secretary of
Commerce and Trade

COMMONWEALTH of VIRGINIA

William C. Shelton
Director

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

May 21, 2015

Martha S. Mavredes, CPA
Auditor of Public Accounts
101 North 14th Street
Richmond Virginia 23218

Dear Ms. Mavredes:

The Department of Housing and Community Development (DHCD) appreciates the opportunity to respond to the draft of the SEFA Study report issued by the Auditor of Public Accounts. The report contains recommendations that involve state agencies and the Department of Accounts to develop a statewide policy procedure and financial reporting capabilities for confirming that sub-recipients meet the Single Audit requirements. I support this action but please bear in mind that DHCD, as well as other state agencies, have specific regulations and guidelines enforced by the Federal agencies awarding the grants.

The SEFA Study referenced that state agencies vary in their interpretations and degrees of compliance with the federal government's specific monitoring requirements related to sub-recipients. DHCD has continually strived to meet these federal requirements. Over the last few years we have developed an Audit Policy that is included in all grant agreements/contracts with our grantees. It outlines the dollar threshold levels whereby our grantees have to prepare and submit financial statements or Single Audits depending upon the dollar amount of grants they receive. It also requires that they meet the Single Audit threshold then to submit a copy to the Federal Audit Clearinghouse (FAC). The majority of these statements and Single Audit reports are submitted electronically thru our Centralized Application Management System (CAMS) where they are reviewed by our grants fiscal staff. During this review they reconcile the SEFA to the official financial records reported in CARS. If the reconciliation does not match we contact the grantee to identify the differences. On occasion we have searched the FAC for a report.

DHCD historically has been committed to conducting financial monitoring of grantees during the life of a project. We feel that being proactive is the best method to identify any problems well before the project is completed and an audit report is issued. We are extremely cautious in the preparation of monitoring reports to ensure that regulatory matters and questioned costs are appropriately identified and addressed in accordance with the guidance from the federal funding source.

DHCD will continue to enhance the monitoring and audit review processes. We have staff dedicated to ensuring that these federal requirements are met to the fullest extent. Currently a work group consisting of grants management and fiscal staff are reviewing the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* for the implications it contains affecting our grants management. Again thank you for the opportunity to submit this response.

Partners for Better Communities



www.dhcd.virginia.gov

Main Street Centre • 600 East Main Street, Suite 300 • Richmond, Virginia 23219 • Phone (804) 371-7000 • Fax (804) 371-7090 • Virginia Relay 7-1-1

Page 2 of 2
The Honorable Maurice A. Jones
May 21, 2015

Sincerely,

A handwritten signature in black ink that reads "Bill Shelton". The signature is written in a cursive style with a long horizontal flourish at the end of the name.

Bill Shelton

wes\ljm



COMMONWEALTH of VIRGINIA

DEPARTMENT OF TRANSPORTATION
1401 EAST BROAD STREET
RICHMOND, VIRGINIA 23219-2000

Charles A. Kilpatrick, P.E.
Commissioner

May 28, 2015

Mr. George D. Strudgeon
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23219

Dear Mr. Strudgeon:

The Department of Transportation (Department) appreciates the opportunity to review and respond to the APA's Study of the Usage of Sub-recipient Schedule of Expenditure of Federal Awards (SEFA). This is an area in which the Department has placed much focus in the last several years. The Department has reviewed the report and would like to offer the following comments:

Develop Policies and Procedures

The Department has maintained written procedures for monitoring sub-recipient compliance with audit requirements and agrees that more uniform expectations should be developed across all state agencies with the coordination of the Department of Accounts. Our accounting staff is more than willing to actively participate in a statewide effort to develop these policies and procedures.

Establish \$500,000 Threshold for Evaluation

The Department concurs with the observation that some agencies, including VDOT, did not take into consideration other federal awards received from other organizations when reviewing the \$500,000 threshold for a single audit. The Department has concerns with the recommendation for all state agencies providing less than \$500,000 to sub-recipients to reach out to those entities for review. VDOT will plan to request information from our sub-recipients to confirm whether they have received \$500,000 or more in total pass through funds, however there will be duplicative effort if multiple state agencies, providing federal pass through funds to sub-recipients perform the same reviews of a sub-recipient's SEFA, CAFR and timely submission to the Federal Audit Clearinghouse. For Fiscal Year 2014, the Department identified 149 sub-recipients, only 37 of them

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receiving \$500,000 or more in federal pass through funding. A requirement to review all sub-recipients would require a much greater review effort than is currently expended. We agree that a statewide approach to identifying the sub-recipients meeting the threshold take place, such that only those qualifying sub-recipients undergo audit review.

Review for Timely Submissions

The Department concurs that the reviews of the Fiscal Year 2012 sub-recipients' audit reports did not include identification of sub-recipients that were untimely in submitting their reports to the Federal Audit Clearinghouse. A review for the timeliness of Single Audit report submission is being included in the Fiscal Year 2013 and 2014 sub-recipient reviews.

Utilize Cardinal to Facilitate Uniform Grant Guidance

The Department concurs that the CFDA number is an essential data element for reporting sub-recipient expenditures. We have begun to add the CFDA number to our Cardinal project information data elements and are working with the Cardinal team to develop queries for sub-recipient monitoring that contain the CFDA number.

Thank you and your staff for your assistance and guidance during this review.

Sincerely,



Janice S. Long
Controller



COMMONWEALTH of VIRGINIA

Department of Veterans Services

John L. Newby II
Commissioner

Telephone: (804) 786-0286
Fax: (804) 786-0302

Ms. Martha S. Mavredes
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

May 29, 2015

Dear Ms. Mavredes:

The Department of Veterans Services (DVS) would like to respond to the findings of the Schedule of Federal Awards (SEFA) statewide study that was conducted by the Auditor of Public Accounts.

Upon receipt of the SEFA study findings on May 13, 2015, my staff and I reviewed the findings pertaining to the Department of Veterans Services. Upon additional review of the OMB's Uniform Guidance for sub recipient monitoring requirements for pass-through grants, as well as the definitions of contractor and sub recipient found in the excerpt from the Code of Federal Regulations provided by Mr. Strudgeon, I have determined DVS erroneously identified the funds we distributed as "pass through" funds to non-state entities. The recipients of the funds would more correctly fit the "contractor" model.

I have ensured that those working with federal funds at DVS are aware of this and should we receive federal funds in the future we will classify them properly with regard to SEFA.

Sincerely,

A handwritten signature in blue ink that reads "T. Davidson".

Tammy L. Davidson
Director of Finance

cc: John Newby
Steven Combs

AN EQUAL OPPORTUNITY EMPLOYER
900 East Main Street, Richmond, Virginia 23219
www.dvs.virginia.gov



COMMONWEALTH of VIRGINIA

Eric R. Link
Interim Chief Information Officer
Email: cio@vita.virginia.gov

Virginia Information Technologies Agency
11751 Meadowville Lane
Chester, Virginia 23836-6315
(804) 416-6100

TDD VOICE -TEL. NO.
711

May 28, 2015

Ms. Martha S. Mavredes, CPA
Auditor of Public Accounts
James Monroe Building
Post Office Box 1295
Richmond, Virginia 23219

Dear Ms. Mavredes:

Thank you for the opportunity to respond to the Auditor of Public Accounts' Schedule of Expenditures of Federal Awards (SEFA) study. Overall we agree with the report's findings regarding our agency. Virginia Information Technologies Agency (VITA) has since taken several steps to correct deficiencies related to federal grants financial management, including the hiring of a controller with over 20 years of grant-related experience.

As always, we appreciate the professionalism of your staff. Thank you for working with us and seeking our input.

Sincerely,

A handwritten signature in blue ink, appearing to be 'ERL'.

Eric R. Link

c: The Honorable Karen R. Jackson, Secretary of Technology
Mark Gribbin, Joint Legislative Audit and Review Commission

AN EQUAL OPPORTUNITY EMPLOYER

June 1, 2015

Ms. Martha Mavredes
Auditor of Public Accounts
P. O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

Thank you for the opportunity to review and comment on the draft report regarding the "Study of the Usage of Sub-recipient Schedule of Expenditure of Federal Awards" (SEFA) conducted by the Commonwealth of Virginia Auditor of Public Accounts (APA).

According to the National Science Foundation's annual census released in February 2015, Virginia Tech has the highest number of research expenditures in Virginia, with nearly 80 percent of the externally funded research portfolio funded by the federal government. With a current federal pass-through sub-recipient multi-year portfolio of \$90 million and 292 sub-award agreements, the university requires a robust sub-recipient monitoring strategy to provide reasonable assurance for the financial stewardship of its sub-recipients. Virginia Tech's documented procedures for sub-recipient monitoring meet the standard requirements prescribed by the Office of Management and Budget's (OMB) Circular A-133. Below you will find Virginia Tech's comments for each recommendation.

Develop Policies and Procedures

The university disagrees that there should "be uniformity in the way in which pass-through entities of the Commonwealth review sub-recipient Single Audit reports". To establish a one-size-fits-all approach is to ignore differences in the relative size of awards made, number of sub-recipients, and the nature of the sub-recipients with which each state agency contracts. Of the approximately \$2.5 billion of the Commonwealth's pass through funding to non-state entities, 59% was disbursed by the Education Secretariat. The second largest disbursement was from the Health and Human Resources Secretariat, representing 26%. The remaining 15% is a cumulative representation of the remaining eight secretariats.

Of the nearly \$1.5 billion of pass-through funding disbursed by the Education Secretariat, \$1.3 billion (91%) was distributed by the Department of Education – Direct Aid to Localities. These multi-million dollar sub-awards to small localities do not carry the same inherent risks as the other sub-awards executed by the remaining twelve agencies under the education secretariat umbrella.

In order for any internal control to be cost-effective, it must be designed with a risk-based approach in mind. Any statewide standard should be fairly general in nature and should recognize that a fairly wide range of approaches would prove acceptable using a risk-based approach to control design. The relatively small number of exceptions noted in the report (less than 20) does not constitute a pervasive control issue that demands a major overhaul and significant additional outlay of effort from every state agency managing federal sub-awards.

Invent the Future

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY
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Establish \$500,000 Threshold for Evaluation

The university cannot opine on the feasibility or effectiveness of a statewide report to identify recipients receiving more than \$500,000 from all Commonwealth sources. However, there are several reasons why the benefits of such a report may be limited because it could not conclusively determine if a given sub-recipient received in excess of \$500,000. First, not all state agencies report to CARS at the same level of detail. Additionally, DOA has no means of determining any other sources of federal funding a given sub-recipient may have received.

On an annual basis, the university sends all sub-recipients receiving federal funding during the previous fiscal year certification letters requesting A-133 audit information. Sub-recipients must indicate if they are subject to the requirements of OMB Circular A-133. Sub-recipients subject to A-133 requirements must indicate if the A-133 audit is complete for the current fiscal year and if the audit presented any material weaknesses, material instances of noncompliance or findings related to any sub-awards issued by Virginia Tech.

Virginia Tech's federal pass-through expenditures per award averaged \$79,821 during FY12, which validates the universities practice for distributing certification letters to **all** sub-recipients, since it is unknown whether the sub-recipient received additional federal funding from other state agencies, other universities, or directly from federal agencies. This sub-recipient monitoring methodology satisfies APA's concern that Virginia Tech reach out to all non-state sub-recipients who receive less than \$500,000. The sub-recipient must certify if they have received federal funding at or above the OMB threshold during their most recent fiscal year.

Review for Timely Submissions

The University believes that an annual process of reviewing Federal Clearinghouse datasets to identify sub-recipients with consistently late submissions of audit reporting packages may be an effective method of reviewing indicators of potential problems at the sub-recipient level.

Utilize Cardinal to Facilitate Uniform Grant Guidance

The university has several concerns about this recommendation. As stated above, not all agencies report to CARS at the same level of detail. Furthermore, decentralized institutions of higher education already track CFDA numbers or federal agency contract numbers in their accounting systems as an important attribute associated with each grant or contract. We would request that any cost benefit analysis also include the costs and benefits to decentralized agencies and any impact to their existing processes using CFDA numbers. Past experience has shown that what is cost beneficial for central state agencies may result in extensive inefficiencies and significant costs for decentralized agencies such as the institutions of higher education.

Sincerely,



Kenneth Miller, Assistant Vice President for Finance
University Controller



John C. Rudd, Assistant Vice
President – Sponsored Programs

**AGENCY OFFICIALS
RESPONSIBLE FOR GRANTS MANAGEMENT**

Comprehensive Services for At-Risk Youth and Families

Charles Savage, Business Manager

Old Dominion University

Mary C. Deneen, Assistant Vice President for Finance/University Controller

Virginia Commonwealth University

Mark Roberts, Director, Grants and Contracts Accounting and Effort Reporting

Virginia Department of Accounts

David A. Von Moll, State Comptroller

Virginia Department for Aging and Rehabilitative Services

John W. Thaniel, Chief Financial Officer

Virginia Department of Agriculture and Consumer Services

Sandra J. Adams, Commissioner

Virginia Department of Criminal Justice Services

Francine C. Ecker, Director

Janice Waddy, Grants Administrator

Virginia Department of Education

Kent C. Dickey, Deputy Superintendent for Finance and Operations

Virginia Department of Emergency Management

Cheryl Lee, Grants Director

Virginia Department of Environmental Quality

Valerie Thomson, Director of Administration

Virginia Department of Housing and Community Development

Solomon Girmay, Grants Manager

Lyndsi Austin, Associate Director of Housing Policy and Compliance

Tamarah Holmes, Associate Director of Community Development Policy

Virginia Department of Social Services

Michael Gump, Chief Financial Officer

John Leamann, Lead Monitor

Virginia Department of Transportation

Diane Mitchell, Division Administrator, Federal Programs Management Division

Janice Long, Controller

Bradley Gales, Assurance and Compliance Office Director

Russ Dudley, Assistant Division Administrator, Local Assistance Division

Virginia Department of Veterans Services

Tammy L. Davidson, Director of Finance

Virginia Information Technologies Agency

Leigh Estes, Controller, Administration and Finance

Virginia Polytechnic Institute and State University

John C. Rudd, Assistant Vice President for Sponsored Programs Administration