

SECTION 500

AUDITING AND REPORTING STANDARDS AND REQUIREMENTS - PROGRAM AUDIT ON AN AWARD (NON SINGLE AUDIT)

SECTION 501 - BACKGROUND

.01 Under the provisions of this Audit Guide, the organization may have to engage their auditor to have an audit on an individual City of Philadelphia program award rather than a "single audit", as described in Section 300 of this Guide.

.02 A program audit would be required where the provisions of Office of Management and Budget (OMB) Circular A-133 when the subrecipient organization receives Federal financial assistance of \$300,000 or more during the organization's fiscal year directly or indirectly from the City of Philadelphia and expends those funds under only one Federal program.

.03 The program audit must be conducted in accordance with certain provisions of this Audit Guide as specified in Section 503, and in accordance with Government Auditing Standards. The type of audit being performed on the City of Philadelphia program in accordance with Government Auditing Standards (GAS) is a financial related audit, defined on page 13 of GAS, as follows:

Financial related audits include determining whether (1) financial information is presented in accordance with established or stated criteria, (2) the entity has adhered to specific financial compliance requirements, or (3) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

Financial related audits may include, as detailed in item 2.5a. on page 13 of GAS, an audit of:

Segments of financial statements; financial information (for example, statement of revenue and expenses, statements of cash receipts and disbursements, ...); budget requests, and variances between estimated and actual financial performance.

SECTION 502 - AUDIT PERIOD

.01 All program audits are performed on an annual basis based upon the organization's fiscal year.

SECTION 503 - AUDITING REQUIREMENTS

.01 When performing a program audit, the auditor is required to adhere to certain sections of this Audit Guide. The following is a listing of those sections the auditor is required to utilize in performance of the program audit:

SECTION 502 (CONT.)

<u>Section No.</u>	<u>Section and Subsection Heading</u>	<u>Section No. Reference Applicable to Program Audit</u>
100	Administration and Overview	Entire Section
200	Summary of Applicable Literature	Entire Section
300	General Auditing Standards and Requirements	
	• Introduction	301.01 to 301.04
	• Working Papers	302.01 to 302.04
	• Planning	303.01 to 303.06
	• Testing of Compliance with Laws and Regulations	304.01 to 304.07
	• Auditing Requirements	306.01 to 306.25
	• Audit Sampling	307.01 to 307.05
	• Questioning of Costs	308.01 to 308.05
	• Subrecipient Requirements	309.01 to 309.05
	• Disclosure of Possible Fraud, Irregularities and Other Illegal Acts	310.01 to 310.05
	• Follow-up of Prior Audit Report Findings	311.01 to 311.04
	• Written Representations from Management	312.01 to 312.05
	• Exit Conference	313.01 to 313.02
1000	Commerce Department	Entire Section
2000	Human Services Department	Entire Section
3000	Mayor's Office of Community Services	Entire Section
4000	Office of Housing and Community Development	Entire Section

5000	Offices of Services to the Homeless and Adults	Entire Section
6000	Public Health Department	Entire Section

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.02 As the above chart indicates most of the required procedures specified in this Audit Guide are applicable to a program audit. The only procedures not applicable generally relate to a single audit.

SECTION 504 - REPORTING REQUIREMENTS

(To be provided at a later date).

.01 When performing a program audit under the requirements of this Audit Guide, the audit report should include the following:

a. Financial Statements:

- Basic financial statements, consisting of a balance sheet, statement of revenues and expenditures, and statement of program activity by funding source.
- Supplementary financial schedule(s) required by City of Philadelphia Department making the award to the organization. (The specific type of financial schedule is specified by the City Department in Sections 1000 to 6000.)
- Notes to the financial statements and schedules.

b. Independent Auditor's Reports:

- Independent auditor's opinion on the financial statements and supplementary schedules.
- Independent auditor's report on internal control structure made as part of the financial statements audit.
- Independent auditor's report on compliance based on an audit of the financial statements and schedules.

c. Other Schedules and Reports:

- Special purpose auditor's reports required by a City of Philadelphia Department as specified in Sections 1000 to 6000.
- Schedule of findings and questioned costs.

SECTION 504 (CONT.)

- Separate communication of nonmaterial compliance findings and a management letter.
- Report on illegal acts, if any.

.02 The above report requirements, in most instances, are to be submitted separately for each program award received by the organization from the City of Philadelphia. Where there are multiple awards being reported upon for the same City of Philadelphia Department, the contract awards may be combined in one audit report. This combined report must, however, still disclose separate financial information in the basic financial statements and any supplementary schedules by each contract award. If the combined reporting process includes contract awards with different contract dates and the combined report will not meet the report due date of 120 days (see Section 104.01) for a particular award, then the organization must contact the appropriate City Department for guidance.

Financial Statements

.03 The program audit report shall include the following financial statements on each City of Philadelphia award audited:

- a. A balance sheet as of the award ending date.
- b. A statement of revenues and expenditures (detailed by type of expenditure) for the period of the contract award.
- c. A statement of program activity by funding source. This statement (as illustrated in Section 505) requires summary information by program award for the expenditures of federal, state or city funding. The statement is to reflect the appropriate portion of a multi-funded City of Philadelphia program (one that has federal, state and city funds) under each of the three funding categories. A multi-funded city award is not to be presented on the schedule as one line item. A breakdown is required for federal purposes and the city is requiring separate information on the state and city funded portions of the award. The organization and/or the City of Philadelphia is responsible for identifying what portion of each award is either federal, state or city funded. Where this determination cannot be made, then the total award is to be reported on the statement, with a footnote that the delineation by federal, state or city funding is not determinable.

The expenditures reported on this statement are to be in agreement with the amounts reflected in any supplemental financial schedule as required by Sections 1000 to 6000 of this Audit Guide. These expenditures should agree since the financial information on this statement and the Supplementary Schedule are both based upon the organization's books and records, as audited by the independent auditor.

- d. Supplementary financial schedules. On almost all City of Philadelphia awards the organization will be required to submit periodic reports of financial and/or program activity. Under the requirements of this Audit Guide a supplementary

SECTION 504 (CONT.)

schedule of this activity must be presented in the audit report. The type of supplementary schedule to be presented in the audit report depends upon the City of Philadelphia Department providing the award to the organization. For the specific type of supplementary schedule to be presented, the organization and its independent auditor should refer to the appropriate subsection in Sections 1000 to 6000 of this Audit Guide.

Where a supplementary schedule is similar to a statement of revenues and expenditures, then the audit report may not include a supplementary schedule as specified in Sections 1000 to 6000 of this Audit Guide. In order to eliminate any potential problems in deciding which supplementary schedules in Sections 1000 to 6000 would not be required under these conditions, each section has appropriate directions of those schedules not required on a program audit.

Independent Auditor's Report on Basic Financial Statements and Supplementary Financial Schedules

.04 This Audit Guide requires the auditor to express an opinion about whether the basic financial statements (balance sheet, statement of revenues and expenditures and statement of program activity by funding source) relating to the program award being audited are presented fairly in conformity with generally accepted accounting policies [GAAP].

.05 For an organization to comply with this Audit Guide, it is not necessary that the basic financial statements be presented in conformity with GAAP; it is sufficient if the auditor merely reports on such conformity in accordance with GAAS, Government Auditing Standards and the City of Philadelphia Subrecipient Audit Guide. For various reasons, such as to comply with reporting of program expenditures in accordance with contract award conditions, the organization may prepare their financial statements on a basis of accounting other than GAAP. When this is the case, the auditor's report should be prepared in accordance with SAS No. 62, Special Reports (AICPA, Professional Standards, Vol. 1, AU Sec. 623), which requires that it include a paragraph that (a) states the basis of presentation and refers to the note to the financial statements describing the basis and (b) states that the basis of presentation is a comprehensive basis of accounting other than GAAP.

.06 In addition to the opinion on the basic financial statements of the program being audited, the auditor's report should also include an opinion on any supplementary financial schedules included in the report as required by Sections 1000 to 6000 of this Audit Guide.

.07 An illustrative report on the basic financial statements and supplementary schedules, in accordance with GAAP, is presented in Section 506.

Independent Auditor's Report on Internal Control Structure

.08 The auditor will be required to issue a report on the organization's internal control structure as it relates to the City of Philadelphia award being audited in accordance with AICPA, auditing standards and Government Auditing Standards and the requirements of this Audit Guide.

SECTION 504 (CONT.)

.09 In order for auditors to issue this internal control structure report, the level of audit work outlined in SAS No. 55 needs to be completed. The report does not express an opinion on the organization's internal control structure, but rather describes the extent of work performed to comply with SAS No. 55. The report presents the requirements of SAS No. 60, Communication of Internal Control Structure Related Matters Noted in an Audit, as well as the additional requirements of Government Auditing Standards.

.10 The report's compliance with Government Auditing Standards, as specified on page 52, requires that:

The report on financial statements should either: (1) describe the scope of the auditors' testing of compliance with laws and regulations and internal controls and present the results of those tests or (2) refer to separate reports containing that information. In presenting the results of those tests, auditors should report irregularities, illegal acts, other material noncompliance, and reportable conditions in internal controls. In some circumstances, auditors should report irregularities and illegal acts directly to parties external to the audited entity.

Auditors may report on compliance with laws and regulations and internal controls in the report on the financial statements or in separate reports. When auditors report on compliance and controls in the report on the financial statements, they should include an introduction summarizing key findings in the audit of the financial statements and the related compliance and internal controls work. Auditors should not issue this introduction as a stand-alone report. When auditors report separately on compliance and controls, the report on the financial statements should state that they are issuing those additional reports.

.11 Illustrative reports on Internal Control Structure are presented in Sections 507 and 508.

Independent Auditor's Report on Compliance

.12 Government Auditing Standards requires auditors to report on compliance with laws and regulations. For auditors to issue this report, identification and testing of laws and regulations, as outlined in SAS Nos. 53 and 54, are necessary.

.13 The report's compliance with Government Auditing Standards, as specified on page 52, requires that:

The report on financial statements should either: (1) describe the scope of the auditors' testing of compliance with laws and regulations and internal controls and present the results of those tests or (2) refer to separate reports containing that information. In presenting the results of those tests, auditors should report irregularities, illegal acts, other material noncompliance, and reportable conditions in internal controls. In some circumstances, auditors should report irregularities and illegal acts directly to parties external to the audited entity.

SECTION 504 (CONT.)

Auditors may report on compliance with laws and regulations and internal controls in the report on the financial statements or in separate reports. When auditors report on compliance and controls in the report on the financial statements, they should include an introduction summarizing key findings in the audit of the financial statements and the related compliance and internal controls work. Auditors should not issue this introduction as a stand-alone report. When auditors report separately on compliance and controls, the report on the financial statements should state that they are issuing those additional reports.

.14 The report shall also include, in addition to the above, a statement regarding work performed on General Compliance, as required to be performed by Section 503.03 of this Guide, except that the audit requirements under the Davis-Bacon Act are not applicable for a program audit that includes only State and City funding.

.15 Illustrative reports on compliance with laws and regulations are presented in Sections 509 and 510.

Other Schedules and Reports

.16 The other types of schedules and reports listed in Section 504.01C, have been previously discussed in Sections 413 and 414 of this Audit Guide. Listed below are the appropriate provisions of Sections 413 and 414 that are applicable to a program audit.

<u>Schedule and/or Report</u>	<u>Applicable to Program Audit</u>	Section No. Reference
Special Purpose Auditor's Report	413.15 to 413.16	
Presentation of Findings and Questioned Costs		413.17 to 413.19 and 413.21 to 413.25
Separate Written Communications on Findings/Management Letter	413.26 to 413.27	
Reporting on Illegal Acts		413.28 to 413.29
Follow-up of Prior Audit Report Findings		414.01 to 414.03

Other Information

.17 All audit reports are to include a Table of Contents including page number references.

SECTION 504 (CONT.)

.18 In accordance with the principles of the Freedom of Information Act (Public Law 90-23), reports, once they are accepted, finalized and issued to the City of Philadelphia are available, if they are requested, to members of the press and the general public, to the extent that information contained in them is not subject to exemptions of the Act. Accordingly, the auditor should not include names, social security numbers or other personal identification in either the body of the report or any attached schedules.

SECTION 505 - STATEMENT OF PROGRAM ACTIVITY BY FUNDING SOURCE

(Name of Organization)
Statement of Program Activity by Funding Source
For the year ended June 30, 19XX

<u>Contract Number/Funding Source</u>	<u>Federal CFDA (1) Number</u>	<u>Contract Period</u>	<u>(2) Cash Received</u>	<u>(3) Expenditures</u>	<u>(4) Questioned Costs</u>
<u>Contract No. 93-5000:</u>					
• <u>Federal Funding:</u>					
U.S. Department of Health and Human Services	93.242	7/1/XX-6/30/XX\$ (A)	\$ XX,XXX		\$ X
• <u>State Funding:</u>					
Pennsylvania Department of Public Welfare	N/A	7/1/XX-6/30/XX(A)	XX,XXX		X
• <u>City Funding:</u>					
Philadelphia Department of Public Health	N/A	7/1/XX-6/30/XX <u>XX,XXX</u>	<u>X,XXX</u>		<u>X</u>
Total			<u>\$ XX,XXX</u>	<u>\$ XX,XXX</u>	<u>\$ X</u>

(A) All cash funds were received directly from City of Philadelphia and are reflected in total on the funding line for the City Philadelphia.

See accompanying notes to these financial statements.

- (1) Catalog of Federal Domestic Assistance.
- (2) The actual cash received by the organization during the period of the award from the City of Philadelphia. (This amount need not be detailed by funding source, rather the total cash received (as illustrated above) is attributed to the City of Philadelphia.
- (3) Accrued expenditures in accordance with the requirements of Section 504.3C of this Audit Guide.
- (4) Represents the questioned costs, in total, by program by funding source. Details must be provided for each questioned cost in accordance with Section 504.17 of this Audit Guide.

**SECTION 506 - INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS
(INCLUDING A SUPPLEMENTARY OPINION ON THE SUPPLEMENTARY FINANCIAL
SCHEDULES REQUIRED BY SECTIONS 1000 TO 6000)**

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheet as of June 30, 19XX, and the related statements of revenues and expenditures and program activity by funding source for the year then ended of the (*Name of Organization*) in connection with its contract for funding with the City of Philadelphia, Department of (*specify City Department awarding the contract*), under Contract Number XXXX. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *City of Philadelphia Subrecipient Audit Guide*. Those standards and the *City of Philadelphia Subrecipient Audit Guide*, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of (*Name of Organization*), as it relates to City of Philadelphia, Department of (*specify City Department awarding the contract*), Contract Number XXXX, as of June 30, 19XX, and the results of contract operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 19XX on our consideration of (*Name of Organization*)'s internal control structure and a report dated September 15, 19XX on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of (*specify appropriate financial schedule(s) as required by Sections 1000 to 6000*) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

(*Signature*)

(*Date*)

SECTION 506 (CONT.)

Explanatory Notes:

1. If the financial statements do not present the entire operations of the not-for-profit organization of which the City of Philadelphia program is a part, the following paragraph should be added after the scope paragraph:

The financial statements present only the operations of the City of Philadelphia, Department of *(specify City of Philadelphia Department awarding the contract)* under Contract Number XXXX, and are not intended to present fairly the financial position and results of operations of the *(Name of Organization)* in conformity with generally accepted accounting principles.

2. An explanatory paragraph should be added to the opinion for the presence of questioned costs that, in the opinion of the auditor, have a material impact on the financial operations of the City of Philadelphia program.

If the report is to be modified because of an uncertainty, it should be modified with the addition of a paragraph following the opinion paragraph similar to the following:

The statement of program activity by funding source contains costs in the amounts of \$XX,XXX that are questioned as to their allowability under the contract agreement. The final determination as to whether such costs are allowable will be made by the City of Philadelphia, Department of *(specify City of Philadelphia Department awarding the contract)*. The ultimate outcome of this determination cannot presently be determined. Accordingly, no provision for any disallowance has been made in the accompanying financial statements.

SECTION 507 - REPORT ON THE INTERNAL CONTROL STRUCTURE
(NO REPORTABLE CONDITIONS)

We have audited the financial statements of (*Name of Organization*), in connection with its contract for funding with the City of Philadelphia, Department of (*specify City of Philadelphia Department awarding the contract*), under Contract Number XXXX, as of and for the year ended June 30, 19XX, and have issued our report thereon dated September 15, 19XX.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *City of Philadelphia Subrecipient Audit Guide*. Those standards and the *City of Philadelphia Subrecipient Audit Guide*, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of (*Name of Organization*) is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of (*Name of Organization*) for the year ended June 30, 19XX, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

SECTION 507 (CONT.)

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of (*Name of Organization*) in a separate letter dated September 15, 19XX. (1)

This report is intended for the information of the audit committee, management and the City of Philadelphia, Department of (*specify City of Philadelphia Department awarding the contract*). However, this report is a matter of public record and its distribution is not limited.

(*Signature*)

(*Date*)

(1) If a separate letter has not been issued, this paragraph is to be omitted.

SECTION 508 - REPORT ON THE INTERNAL CONTROL STRUCTURE
(REPORTABLE CONDITIONS)

We have audited the financial statements of *(Name of Organization)*, in connection with its contract for funding with the City of Philadelphia, Department of *(specify City of Philadelphia Department awarding the contract)*, under Contract Number XXXX as of and for the year ended June 30, 19XX, and have issued our report thereon dated September 15, 19XX.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *City of Philadelphia Subrecipient Audit Guide*. Those standards and the *City of Philadelphia Subrecipient Audit Guide*, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of *(Name of Organization)* is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of *(Name of Organization)* for the year ended June 30, 19XX, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

(Include paragraphs to describe the reportable conditions noted.) (1)

SECTION 508 (CONT.)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness. (2)

We also noted certain matters involving the internal control structure and its operation that we have reported to the management of (*Name of Organization*) in a separate letter dated September 15, 19XX. (3)

This report is intended for the information of the audit committee, management and the City of Philadelphia, Department of (*specify City of Philadelphia Department awarding the contract*). However, this report is a matter of public record and its distribution is not limited.

(*Signature*)

(*Date*)

- (1) The reportable conditions must meet the requirements for reporting of findings as detailed in Section 504.17 of this Audit Guide.
- (2) Where reportable conditions are deemed to be material weaknesses, then the last sentence of this paragraph should be modified as follows:

However, we noted the following matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of (*Name of Organization*) for the year ended June 30, 19XX.

(*A description of the material weaknesses that have come to the auditor's attention would follow.*)

- (3) If a separate letter has not been issued, this paragraph is to be omitted.

SECTION 509 - COMPLIANCE REPORT (NO REPORTABLE INSTANCES OF NONCOMPLIANCE)

We have audited the financial statements of *(Name of Organization)*, in connection with its contract for funding with the City of Philadelphia, Department of *(specify City of Philadelphia Department awarding the contract)*, under Contract Number XXXX, as of and for the year ended June 30, 19XX, and have issued our report thereon dated September 15, 19XX.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *City of Philadelphia Subrecipient Audit Guide*. Those standards and the *City of Philadelphia Subrecipient Audit Guide*, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, the provisions of the *City of Philadelphia Subrecipient Audit Guide* and the contract agreement applicable to *(Name of Organization)* is the responsibility of *(Name of Organization)*'s management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of *(Name of Organization)*'s compliance with certain provisions of laws, regulations, the provisions of the *City of Philadelphia Subrecipient Audit Guide* and the contract agreement. In addition, we also performed tests of the *(Name of Organization)*'s compliance with the Office of Management and Budget's *Compliance Supplement for Audits of Institutions of Higher Learning and Other Non-Profit Institutions (1)* for *(list the general requirements tested.) (2)* However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under the provisions referred to in the preceding paragraph. **(3)**

This report is intended for the information of the audit committee, management and the City of Philadelphia, Department of *(specify City of Philadelphia Department awarding the contract)*. However, this report is a matter of public record and its distribution is not limited.

(Signature)

(Date)

SECTION 509 (CONT.)

- (1) Where the Single Audit is being performed in accordance with OMB Circular A-128, the reference should be as follows:

Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments

- (2) The Office of Management and Budget general requirements for the auditor to consider are as follows:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property management (OMB A-128 Audits only)
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace
- Administration requirements

The auditor should include only those requirements applicable to the engagement.

- (3) If the auditor has issued a separate letter describing immaterial instances of noncompliance, the report should be modified to include the following statement as a separate paragraph after the conclusion of this paragraph of the report.

We noted certain immaterial instances of noncompliance that we have reported to the management of *(Name of Organization)* in a separate letter dated September 15, 19XX.

SECTION 510 - COMPLIANCE REPORT (MATERIAL INSTANCES OF NONCOMPLIANCE)

We have audited the financial statements of *(Name of Organization)* in connection with its contract for funding with the City of Philadelphia, Department of *(specify City of Philadelphia Department awarding the contract)*, under Contract Number XXXX, as of and for the year ended June 30, 19XX, and have issued our report thereon dated September 15, 19XX.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States and the *City of Philadelphia Subrecipient Audit Guide*. Those standards and the *City of Philadelphia Subrecipient Audit Guide*, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, the provisions of the *City of Philadelphia Subrecipient Audit Guide* and the contract agreement applicable to *(Name of Organization)* is the responsibility of *(Name of Organization)*'s management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of *(Name of Organization)*'s compliance with certain provisions of laws, regulations, the provisions of the *City of Philadelphia Subrecipient Audit Guide* and the contract agreement. In addition, we also performed tests of the *(Name of Organization)*'s compliance with the Office of Management and Budget's *Compliance Supplement for Audits of Institutions of Higher Learning and Other Non-Profit Institutions* (1) for *(list the general requirements tested)*. (2) However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, violations of prohibitions contained in statutes, regulations, the provisions of the *City of Philadelphia Subrecipient Audit Guide* and the contract agreement that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been corrected in *(Name of Organization)*'s 19XX financial statements.

(Include paragraphs describing the material instances of noncompliance noted.) (3)

We considered these material instances of noncompliance in forming our opinion on whether *(Name of Organization)*'s 19XX financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated *(Date of Report)* on those financial statements.

Except as described above, the results of our tests disclosed no instances of noncompliance that are required to be reported under the provisions referred to in the third paragraph of this report.

SECTION 510 (CONT.)

This report is intended for the information of the audit committee, management and the City of Philadelphia, Department of *(specify City of Philadelphia Department awarding the contract)*. However, this report is a matter of public record and its distribution is not limited.

(Signature)

(Date)

- (1) Where the Single Audit is being performed in accordance with OMB Circular A-128, then the reference should be as follows:

Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments

- (2) The Office of Management and Budget general requirements for the auditor to consider are as follows:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property management (OMB A-128 Audits only)
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace
- Administration requirements

The auditor should include only those requirements applicable to the engagement.

- (3) The reportable conditions must meet the requirements for reporting findings as detailed in Section 504.17 of this Audit Guide.

