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JUN 04 2004

Control Number ED-OIG/A05-E0011

Dr. Susan Tave Zelman
Superintendent of Public Instruction
Ohio Department of Education
25 S. Front Street
Columbus, OH 43215-4183

Dear Dr. Zelman:

This **Final Audit Report** presents the results of our audit of the Ohio Department of Education's (ODE) monitoring and resolution of single audits for subrecipient fiscal years ending in calendar year 2002. The objectives of our audit were to determine if ODE (1) monitored subrecipients to ensure they submitted annual audit reports in compliance with Office of Management and Budget Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133) and the U.S. Department of Education's (ED) regulations, (2) issued management decisions on audit findings within six months of receipt of single audit reports, and (3) ensured that the subrecipients took appropriate and timely corrective action.

We provided a draft of this report to ODE. In its response, dated March 30, 2004, ODE did not concur with our finding that it did not monitor subrecipients to which it disbursed less than \$300,000 in federal awards to (1) determine whether subrecipients should have submitted single or program specific audit reports, and if required to, (2) issue management decisions on audit findings, and (3) ensure subrecipients took timely and appropriate corrective action. ODE disagreed with our recommendation that it develop policies and procedures to ensure that all subrecipients expending \$300,000¹ or more in federal awards during the subrecipient's fiscal year have a single or program-specific audit conducted for that year. ODE's response did not cause us to change our finding and recommendation. We have summarized its comments after the finding and have included them in their entirety as an attachment.

¹ OMB Circular A-133, revised June 24, 1997, requires non-federal entities expending \$300,000 or more in federal awards to have a single or program-specific audit conducted for that year. OMB Circular A-133, revised June 27, 2003, and effective for fiscal years ending after December 31, 2003, increased the \$300,000 threshold to \$500,000.

AUDIT RESULTS

Finding Number 1 – ODE Did Not Monitor Subrecipients For Submission of Required Audit Reports

ODE did not monitor subrecipients to which it disbursed approximately \$42 million in federal awards to determine whether they had single or program specific audits conducted, if required by OMB Circular A-133 and ED regulations. Even though ODE disbursed less than \$300,000 in federal awards to each of these subrecipients, those awards plus additional federal awards received directly or indirectly from other agencies may have resulted in total federal expenditures of \$300,000 or more.

OMB Circular A-133, Attachment §§ 400(d)(4) and 200(a) (1997) require that a pass-through entity ensure that its subrecipients expending \$300,000 or more in federal awards during the subrecipient's fiscal year have a single or program-specific audit conducted for that year. In response to comments on the proposed revision of OMB Circular A-133, the Office of Management and Budget (OMB) stated in the Federal Register, dated April 30, 1996, that as one technique to satisfy its responsibility for subrecipient audits, a pass-through entity could clearly explain the audit requirements to the subrecipients and ask the subrecipient the amount of its total federal expenditures. Also, 34 C.F.R. § 80.26 (2000) requires that a *state* government providing federal awards to a subgrantee, which expends \$300,000 or more in federal awards in a fiscal year, determine whether the subgrantee has met the audit requirements of the Single Audit Act Amendments of 1996 and revised OMB Circular A-133.

ODE's interpretation of OMB Circular A-133, Attachment § 400(d)(4) is that, if it provided less than \$300,000 in federal awards to a subrecipient that received more than \$300,000 in total federal awards from all state and federal government agencies, it has no responsibility to ensure a single audit is performed. Therefore, ODE did not have procedures to monitor the total federal expenditures of these subrecipients or determine whether they have met the audit requirements. Before disbursing federal awards, ODE requires each subrecipient to provide a general certification that it will have the required financial and compliance audits conducted in accordance with OMB Circular A-133. However, this certification does not explain the \$300,000 threshold or the subrecipient requirement to submit the audit to the pass-through entity.

ODE disbursed approximately \$42 million in federal awards, totaling less than \$300,000 each, to 1,359 subrecipients that did not submit a single audit to ODE. Because ODE did not have policies and procedures to determine whether these subrecipients were required to have single or program-specific audits performed or follow-up with those that did not submit audits, approximately \$42 million is potentially at risk. For example, we determined that at least 8 of the 32 subrecipients receiving between \$200,000 and \$300,000 in federal awards (approximately \$1.7 million total) through ODE received over \$300,000 in total federal awards and submitted a single audit to the Federal Audit Clearinghouse (FAC). Because ODE did not receive these single audit reports, it did not monitor audit findings that may have been relevant to federal awards that flowed through

ODE. ODE did not issue management decisions on relevant audit findings or ensure these subrecipients took appropriate and timely corrective action, as required by OMB Circular A-133, Attachment § 400(d)(5) (1997). Therefore, there is an increased risk that deficiencies identified in subrecipient audits have not been corrected and that questioned costs have not been returned.

Recommendation

We recommend that the Chief Financial Officer, Office of the Chief Financial Officer, direct ODE to

- 1.1 develop policies and procedures to ensure that all subrecipients expending \$300,000² or more in federal awards during the subrecipient's fiscal year have a single or program-specific audit conducted for that year. These policies and procedures should include provisions for providing correspondence to each subrecipient that (1) outlines their specific audit responsibilities per OMB Circular A-133, and (2) requires them to provide, to ODE, after-the-fact certifications of their total federal expenditures if they are not submitting a single or program-specific audit.

Auditee Comments

ODE did not concur with our finding and recommendation. ODE believes that because OMB Circular A-133 states that the pass-through entity is responsible for 'the awards it makes,' ODE is not responsible for ensuring a single audit is completed if awards from other agencies increase the total amount of federal awards to a subrecipient to over the \$300,000 threshold. ODE stated that subrecipients must bear some of that burden because it is their responsibility to ensure audits are properly performed and submitted when due. Also, in a situation in which ODE provides a small percentage of total federal awards to a subrecipient, it is not logical for ODE to be responsible for ensuring that a single audit was completed. In addition, a program with an amount under \$300,000 would generally be classified as a relatively small 'type B' program and would not be selected for audit using a risk-based approach.

To make a true determination of whether each subrecipient should have submitted a single audit, ODE stated it would need to do an enormous amount of work to determine whether funding received is actually a federal award, as opposed to payments for serving as a vendor providing services. ODE disagreed that each subrecipient should certify that it received less than \$300,000 in total federal awards.

OIG Response

Based on its interpretation of OMB Circular A-133, ODE believes that it is responsible only for federal awards it makes at the department/agency level. However, 34 C.F.R. § 80.26 makes it clear that the requirement falls at the *state* level. The state is responsible

² Effective for fiscal years ending after December 31, 2003, the \$300,000 threshold increased to \$500,000.

for meeting the requirement because the requirement applies to all federal awards provided rather than just awards disbursed through a specific state department or agency such as ODE.

While OMB Circular A133, Attachment §§ 400 (d) does establish the pass-through entities' responsibilities for 'federal awards it makes,' it does not relieve ODE of its responsibility to determine whether each subrecipient to which it disbursed less than \$300,000 in federal awards should have had a single or program-specific audit conducted. In its comments to the proposed revision of OMB Circular A133, OMB provided some clarification regarding this issue. OMB noted that there was no intent for the OMB Circular A-133 provisions to require the pass-through entity to perform extensive verification procedures to determine the total federal expenditures. However, the pass-through entity could explain the audit requirements to the subrecipients and ask the subrecipients the amount of its total federal awards. We believe that this type of correspondence, which ODE and subrecipients could transmit electronically, would not unduly burden ODE or subrecipients. OMB also stated that it expects that in many cases a pass-through entity will have sufficient knowledge to estimate a recipient's total federal expenditures.

BACKGROUND

ODE's State Board of Education, Office of Federal and State Grants Management, assists local constituencies with establishing effective fiscal management for grants, including acting as a centralized liaison between ODE program functions and key educational stakeholders and providing technical assistance and monitoring to ensure fiscal grant provisions are met. The Office of Federal and State Grants Management also reviews audit reports from entities receiving federal awards through ODE and ensures that proper stewardship for programs and funds is maintained. This Office is also responsible for ensuring the subrecipients take appropriate and timely corrective action to resolve audit findings.

ODE disbursed approximately \$978 million in federal awards to 2,420 subrecipients for their fiscal years ending in calendar year 2002.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine if ODE (1) monitored subrecipients to ensure they submitted annual audit reports in compliance with OMB Circular A-133 and ED regulations, (2) issued management decisions on audit findings within six months of receipt of single audit reports, and (3) ensured that the subrecipients took appropriate and timely corrective action. Our audit covered subrecipient single audit reports for fiscal years ending in calendar year 2002.

To accomplish our objectives, we

1. reviewed the State of Ohio Single Audit Report For the Year Ended June 30, 2002, prepared by the Auditor of State of Ohio, and the related Fiscal Year 2002 Single Audit Corrective Action Plan Form prepared by ODE;
2. reviewed ODE State Board of Education's organizational chart and descriptions of select ODE divisions;
3. reviewed and evaluated ODE's written policies and procedures for monitoring subrecipient submission of annual audit reports and resolution of audit findings;
4. reviewed ODE's 2002 Single Audit Report Spreadsheet;
5. reviewed various documents, including single audit reports and State Fiscal Year 2002 Audit Report Checklists, for 15 subrecipients judgmentally selected;
6. reviewed single audit report data on the FAC database for 32 subrecipients judgmentally selected;
7. reviewed the U.S. Department of Agriculture (USDA), Office of Inspector General, Midwest Region, Audit Report, on State Agencies' Oversight of the Child and Adult Care Food Program, Report No. 27002-14-Ch, dated January 2002,³ and
8. interviewed personnel from ODE, the Auditor of State of Ohio, and ED.

We judgmentally selected a sample of 15 subrecipients to test ODE's compliance with OMB Circular A-133 and ED regulations. The 15 subrecipients included (1) 2 subrecipient single audit reports from the universe of fiscal year 2002 single audits in the FAC database for Ohio based on specific criteria and (2) 13 subrecipients from a universe of 696 entities listed in ODE's records as receiving at least \$300,000 in federal awards through ODE. The specific criteria used to identify the 2 subrecipients single audit reports included entities that (1) received ED awards, (2) received non-direct funding, and (3) had current year findings. Of 6 subrecipient single audits that met this criteria, we eliminated 4 because the awards did not flow through ODE.

Using single audit report data on the FAC database, we identified examples of subrecipients that received less than \$300,000 through ODE that should have submitted single audit reports to ODE. From a universe of 2,420 subrecipients receiving federal awards through ODE, we selected all 32 subrecipients that received between \$200,000 and \$300,000 in federal awards through ODE and did not submit a single audit report to ODE.

As part of our audit, we did not assess the adequacy of ODE's computer processed data applicable to the monitoring of subrecipient submission of single audit reports and resolution of audit findings. Rather than rely on the computer-processed data, we relied on substantive testing of ODE's records.

³ The USDA report included a finding similar to the finding in this report.

We conducted our field work at ODE's administrative offices in Columbus, Ohio, during the week of December 8, 2003. We discussed the results of our audit with ODE officials on January 6, 2004. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the audit described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to ODE's administration of subrecipients' annual audit report submissions and resolution of audit findings. We performed this assessment to determine the level of control risk.

For the purpose of this report, we assessed and classified the significant controls into the following categories:

- Identifying subrecipients that expended \$300,000 or more in total federal awards;
- Tracking receipt of required reports;
- Ensuring timely management decisions were made; and
- Ensuring subrecipients took appropriate and timely corrective action.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed a significant management control weakness in ODE's process for monitoring subrecipient submission of single audit reports and resolution of audit findings for subrecipients to which it disbursed under \$300,000 in federal awards. This weakness and its effects are discussed in the **Audit Results** section of this report.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate U.S. Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on the audit:

Jack Martin, Chief Financial Officer
Office of the Chief Financial Officer
U.S. Department of Education
Room 4E313
Federal Building No. 6
400 Maryland Avenue, S.W.
Washington, D.C. 20202-4300

It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the finding and recommendation contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard J. Dowd", with a large, stylized flourish at the end.

Richard J. Dowd
Regional Inspector General
for Audit

Attachment



Center for
School Finance and Accountability

Susan Tave Zelman

Jeffrey M. Jordan
Associate Director

Superintendent of Public Instruction

Office of Federal and State Grants Management

March 30, 2004

Mr. Richard Dowd, Regional Inspector General for Audit
Office of the Inspector General
111 N. Canal St. Suite 940
Chicago, IL 60606-7204

Dear Mr. Dowd:

On March 29, 2004, I received a copy of the draft report issued by your office on February 25, 2004. The Ohio Department of Education (ODE) did not receive a copy of the draft report and only found out about its existence due to a telephone message from one of your auditors, William Bennett, which we appreciated receiving. However, Ohio is pleased to have the opportunity to respond to the US Department of Education (USDOE) issue presented concerning OMB Circular A-133 audit reports. The ODE takes its stewardship of public funds very seriously and strives to complete all work within the required standards. As such, ODE's response to your finding is noted below.

Finding Number 1: ODE Did Not Monitor Subrecipients For Submission of Required Audit Reports

In the audit finding provided, it is stated that "ODE did not monitor subrecipients to which it disbursed approximately \$42 million in federal awards to determine whether they had single or program specific audits conducted, if required by OMB Circular A-133 and ED regulations. Even though ODE disbursed less than \$300,000 in Federal awards to each subrecipient, those awards plus additional Federal awards from other Federal agencies may have resulted in expenditures of \$300,000 or more." Notwithstanding that the comment relates to 5% of ODE's subrecipients of USDOE funds¹, the concern noted by the USDOE is, by only reviewing information presented in ODE's accounting system, there is a risk that entities may not be completing Single Audits when required by the provisions of OMB Circular A-133. According to the USDOE, the applicable regulatory section for this situation is contained in OMB Circular A-133 §__400, which states, in part:²

A pass-through entity shall perform the following for the awards it makes:

- (4) Ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for the fiscal year.

¹ \$42 million dollars referenced out of the \$811 million dollars administered by ODE from USDOE sources per the ODE Schedule of Federal Awards for 2003.

² Per the audit report provided, there is a reference to 34 CFR 80.26. However, the citation is simply a reiteration of the standard noted in OMB Circular A-133 and has no effect on the substance of the discussion contained herein.



Department of
Education

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Upon examination of this statement, a couple of important considerations must be made. First, this requirement is a pass-through entity's responsibility. According to USDOE Office of the Inspector General representatives in a meeting on December 9, 2003, and in award documentation presented by USDOE to ODE, the Ohio Department of Education is defined as the pass-through entity for USDOE programs. Second, as the pass-through entity, ODE is required to perform certain functions under OMB Circular A-133; however, contained within this requirement is a very important clause: "for the awards it makes." According to the correspondence received from the USDOE, the concern is that there are federal awards from other Federal, state or local agencies that may force the subrecipient to have a Single Audit completed. Since these awards come from other state and Federal government agencies, there is no responsibility by ODE to ensure a Single Audit is performed, as is clearly indicated in the cited statement.

To further discuss this situation, let's assume, *arguendo*, that only three government agencies funded a local education agency, XYZ City School District, in the following amounts:

Grantor Agency	Program	CFDA #	Amount of Funding
US Department of Education	Impact Aid	84.041	\$200,000
Ohio Department of Mental Retardation and Developmental Disabilities	Medicaid	93.778	\$100,000
Ohio Department of Education	Title I, Part A	84.010	\$2,000

Also, let's assume that all funds provided within the given fiscal year were expended (i.e., all revenues received by XYZ were expended with zero carryover funding). According to OMB Circular A-133, this entity should receive a Single Audit with results reported to the grantor and pass-through entities in accordance with OMB Circular A-133 §__320. According to the position taken by USDOE, ODE would be responsible for ensuring a Single Audit was completed, despite having the smallest amount of funding to the entity. Logic would tell an informed person that this simply could not be the case.

Additionally, one should note that by using the risk based audit approach described in §__.520, the Title I program (CFDA 84.010) shown in the example would generally not be selected because it is a "relatively small" Type B program, as defined in OMB Circular A-133 §__.520 (d)(2). Thus, no assurance could be gained for that program, except for the indirect effect of a good control environment. Even the indirect effect of a good control environment would be lost if some transactions are processed by the entity in a system that is unrelated to the controls tested and opined on by the independent auditors. In this instance, no value would be added to pass-through entity monitoring a Single Audit report which had no programs reviewed related to the pass-through entity.

To further illustrate this point, I randomly selected five subrecipients who received US Department of Agriculture funds and reviewed the amount of funding for the Child and Adult Care Food Program (CACFP) compared to all other funding sources as reported in the same entity's audit reports. While it is recognized that the CACFP program is not funded by USDOE, these entities are similarly situated to the problem noted during your fieldwork. In addition, based on the information contained in the background section of the draft report on page 3, it appears that the USDOE has included these programs within the scope of their review. Therefore, the inclusion of these entities as examples is particularly pertinent to this discussion.

The results are summarized in the table on page 3.

Entity ³	CACFP Funds	Total Funds Received	Percentage of Total
Neighborhood House Association (Lorain County)	\$17,547	\$666,229	2.6%
GMN Tri County CAC (Noble County)	\$93,582	\$4,092,459	2.3%
Westside Eastside Child Care (Franklin County) ⁴	\$79,824	\$464,205	17.2%
Clinton County CAC (Clinton County)	\$50,834	\$1,721,770	3.0%
Tri County Community Action Agency (Athens County)	\$181,230	\$6,869,321	2.6%

Using this scenario, it is unlikely that the CACFP would be reviewed as part of a Single Audit as each falls below the thresholds necessary for inclusion as a Type B program. The same theory and process holds true regardless of funding agency. The above chart is supported by the USDOE Office of the Inspector General's report page 3, which indicates that 8 of 32 entities received between \$200,000 and \$300,000 in Federal awards from ODE and received more than \$300,000 in Federal awards from all sources. Notwithstanding that OMB Circular A-133 §__.200 (b) states that application of the regulation shall be based on expenditures rather than receipts, the total ODE dollars expended by the 8 referenced entities constituted only 3.45% of the total Federal expenditures for those entities. While page 3 lists the \$1.7 million dollars in ODE funds expended, it does not include the perspective that nearly \$51 million dollars were spent by these entities from other funding sources⁵. Given the clear intent of OMB Circular A-133 is to evaluate audited programs based on risk⁶, it is certainly not the intent of OMB Circular A-133 to require pass-through entities to review audit reports for similarly situated entities.

The information presented thus far in this response does not take into account the existence of any vendor relationships between a grantor agency and the potential subrecipient. OMB Circular A-133 §__.210 states, in part:

- (a) **General.** An auditee may be a recipient, a subrecipient, and a vendor. Federal awards expended as a recipient or a subrecipient would be subject to audit under this part. The payments received for goods or services provided as a vendor would not be considered Federal awards. The guidance in paragraphs (b) and (c) of this section should be considered in determining whether payments constitute a Federal award or a payment for goods and services.
- (b) **Federal award.** Characteristics indicative of a Federal award received by a subrecipient are when the organization:
 - (1) Determines who is eligible to receive what Federal financial assistance;
 - (2) Has its performance measured against whether the objectives of the Federal program are met;
 - (3) Has responsibility for programmatic decision making;
 - (4) Has responsibility for adherence to applicable Federal program compliance requirements; and

³ All entities listed had Single Audits completed for the year reported.

⁴ Entity only has 2 programs: CACFP and Social Services Block Grant (CFDA #93.667). Audit coverages would be met by reviewing only the Social Services Block Grant program. See OMB Circular A-133 §__.520 (f).

⁵ Note that Government Auditing Standards (2003) Sections 5.13 and 5.18 require all GAGAS engagements to properly identify perspective in any findings presented in accordance with GAGAS. See also page 5 of the draft report where a reference to the engagement being conducted under GAGAS is contained.

⁶ See OMB Circular A-133 §__.520, §__.525 and §__.530 for additional discussions of risk based major program determination.

(5) Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

(c) **Payment for goods and services.** Characteristics indicative of a payment for goods and services received by a vendor are when the organization:

- (1) Provides the goods and services within normal business operations;
- (2) Provides similar goods or services to many different purchasers;
- (3) Operates in a competitive environment;
- (4) Provides goods or services that are ancillary to the operation of the Federal program; and
- (5) Is not subject to compliance requirements of the Federal program.

Additionally, OMB Circular A-133 §___.310 (b) states, in part:

Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements.

Finally, OMB Circular A-133 §___.105 states, in part:

Federal award means Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors. Any audits of such vendors shall be covered by the terms and conditions of the contract. Contracts to operate Federal Government owned, contractor operated facilities (GOCOs) are excluded from the requirements of this part.

To complete this line of thought and using the previous example, if the substance of the relationship between the Ohio Department of Job and Family Services and XYZ were as vendors and not as a subrecipient, the Federal funds flowed from Job and Family Services would no longer be termed as Federal awards subject to the provisions of OMB Circular A-133 and a Single Audit would not be required. The USDOE has suggested that ODE receive information only on the size of the Federal awards. However, in order to determine if a Single Audit should be performed, ODE must also delve into the substance of every relationship that the entity has with every other funding source, including those outside the ODE's scope of influence and control. Only then could the Department determine whether the funding is or is not a Federal award and therefore should be counted towards the Single Audit threshold.

To monitor subrecipients in a manner prescribed by the USDOE, every state and Federal agency which does business with educational entities in Ohio would have to provide statements of all payments made to ODE. Only then could ODE be completely assured that payments are properly known and potential Single Audit violators could be caught and forced to comply with OMB Circular A-133. This review of all payments from all Federal and state sources would only be effective insofar as all payments to Ohio's entities were truly Federal awards, as designated under OMB Circular A-133 §___.105 and as discussed previously. Certainly, the USDOE recognizes that this daunting task would add to the administrative burden of Ohio and would require additional funding to ensure that these tasks were completed. Since the requirements cited are clearly Federal requirements, it would only be appropriate to use Federal funds for this work as would be specially appropriated by the US Congress. It would not be appropriate for existing Federal programs designed to assist students to shoulder an additional administrative burden within the designated program earmarks and potentially violate OMB Circular A-87, requiring Federal programs to bear only the requisite costs of the program operation.

The USDOE, however, has suggested, in a meeting on December 10, 2003, that Ohio would not have to complete this huge burden, but would be able to send certifications to entities ensuring that they understand the principles of OMB Circular A-133. While sending certifications to over 2,400 subrecipients and ensuring their timely return to

ODE would be a huge undertaking, ODE currently requires each subrecipient to certify on their grant application that the entity understands and will comply with the provisions of OMB Circular A-133. ODE is unclear how an additional certification would add any additional assurance to the process without unduly burdening local educational entities.

Obviously, the crafters of the Single Audit Act never intended for pass-through entities to complete such burdensome tasks. This is clearly illustrated by the language presented in OMB Circular A-133 §___.300, where auditee responsibilities are presented. To illustrate, OMB Circular A-133 §___.300 (e) states in part that auditees must "ensure that the audits required by this part are properly performed and submitted when due." Additionally, OMB Circular A-133 §___.320 (e) (1) states, in part:

In addition to the requirements discussed in paragraph (d) of this section, auditees that are also subrecipients shall submit to each pass-through entity one copy of the reporting package described in paragraph (c) of this section for each pass-through entity *when the schedule of findings and questioned costs disclosed audit findings relating to Federal awards that the pass-through entity provided or the summary schedule of prior audit findings reported the status of any audit findings relating to Federal awards that the pass-through entity provided.* (Emphasis added)

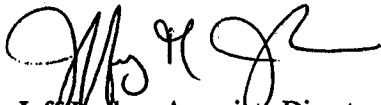
Based on the statement above, it is clear that auditees must ensure that audit reports must be submitted to pass-through entities when there are audit findings relating to Federal awards that the pass-through entity provided. While pass-through entities must ensure that the subrecipients have met the requirements of OMB Circular A-133 for awards it makes, the auditee must also ensure that any findings are quickly reported to the pass-through entity to begin the management decision process.

While the entire burden for compliance is admittedly not on the auditee, this provision also recognizes that the entire burden is also not on the pass-through entities either. The provision as written sets up a system of dual controls to ensure, as efficiently as possible, that those who are required to comply have been noted and ordered to undertake necessary actions.

Based on the foregoing information, the Ohio Department of Education must respectfully register its dissent in completing the task suggested by the USDOE based on the clear, logical and unambiguous requirements of OMB Circular A-133. Further, Ohio would request that the finding be removed from the final report issued by the USDOE.

Thank you for the opportunity to respond to the issue presented. If you have any questions or wish to discuss further, please do not hesitate to contact me.

Sincerely,



Jeff Jordan, Associate Director
Office of Federal and State Grants Management
Ohio Department of Education

Cc: Stephen Barr, Executive Director, ODE Center for School Finance and Accountability