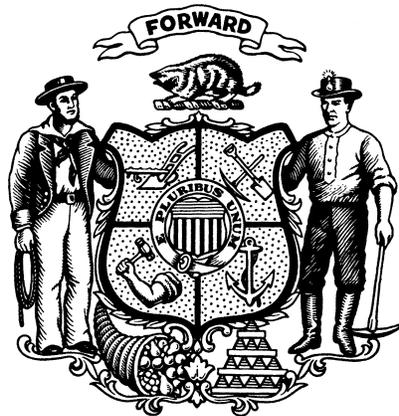


Department of Health Services Audit Guide

**A Guide to Performing Audits and
Special Investigations for Funding from the
Department of Health Services**



2011 Revision

Department of Health Services Audit Guide

A Guide to Performing Audits and Special Investigations for Funding from the Department of Health Services

2011 Revision

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3 GUIDANCE FOR AUDITING SPECIFIC PROGRAMS

(Each of the sections in this part are separate documents available on www.ssag.state.wi.us.)

Section	Program
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- | | |
|------------|--|
| 3.1 | COMMUNITY OPTIONS PROGRAM (COP) – COUNTIES AND 51 BOARDS - Designated major program |
| 3.2 | COMMUNITY INTEGRATION PROGRAM I AND BRAIN INJURY WAIVER – A PROGRAM CLUSTER – COUNTIES AND 51 BOARDS - Designated major program |
| 3.3 | AGING AND DISABILITY RESOURCE CENTERS – COUNTY OPERATED OR INDEPENDENT - Designated major program |

- 3.4 **CASE MANAGEMENT AGENCY PROVIDERS – COUNTIES, 51 BOARDS, AND TRIBES - *Designated Type A program***
 - 3.5 **COMMUNITY INTEGRATION PROGRAM II/COMMUNITY OPTIONS PROGRAM WAIVER (CIP II/COP-W) – COUNTIES AND 51 BOARDS - *Designated Type A program***
 - 3.6 **WISCONSIN MEDICAID COST REPORTING – COUNTIES AND 51 BOARDS - *Designated Major program (Previously a designated Type A program)***
 - 3.7 **MEDICAID PERSONAL CARE PROGRAM – COUNTIES AND 51 BOARDS - *Designated Type A program***
 - 3.8 **BASIC COUNTY ALLOCATION – COUNTIES AND 51 BOARDS**
 - 3.9 **COMMUNITY RECOVERY SERVICES**
 - 3.10 **TRIBAL RELIEF BLOCK GRANT PROGRAM - TRIBES**
 - 3.11 **INCOME MAINTENANCE ADMINISTRATION REQUIREMENTS – COUNTIES AND TRIBES - *Designated Type A program***
 - 3.12 **GUIDANCE FOR AUDITING A MAJOR PROGRAM WHICH DOES NOT HAVE A COMPLIANCE SUPPLEMENT – A-133 AUDITS**
 - 3.13 **PUBLIC HEALTH PROGRAM CLUSTER – COUNTIES, CITIES, HOSPITALS, AND OTHERS**
 - 3.14 **AGING PROGRAMS AUDIT GUIDE – COUNTIES AND AAA'S**
 - 3.15 **SCHOOL BASED SERVICES BENEFIT – SCHOOL DISTRICTS AND COUNTY CDEB'S - *Designated Type A program***
 - 3.16 **COMPREHENSIVE COMMUNITY SERVICES – COUNTIES - *Designated Type A program***
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Department of Health Services Audit Guide

A Guide to Performing Audits and Special Investigations for Funding from the Department of Health Services

2011 Revision

1 Introduction

The 2011 *Department of Health Services Audit Guide* (the *DHS Audit Guide*) is applicable to all audits involving funding from the Department of Health Services (DHS), whether direct from the DHS or passed through another entity such as a county. The audits may be required by state law, federal law, and/or contract.

The *DHS Audit Guide* has replaced the *Provider Agency Audit Guide* for DHS funding. (The Department of Children and Families continues to use the *Provider Agency Audit Guide* for audits involving their funding.) When federal law or contract requires an audit in accordance with OMB Circular A-133 “Audits of State and Local Governments,” i.e. a single audit, the *DHS Audit Guide* also serves as DHS’s appendix to the *State Single Audit Guidelines* (www.ssag.state.wi.us). In addition, the *DHS Audit Guide* incorporates previously released guidance on performing special investigations of suspected illegal acts and other significant problems involving DHS funding.

1.1 Main Document of the *State Single Audit Guidelines*

Many of the sections in the *DHS Audit Guide* refer to the *Main Section of the State Single Audit Guideline* for examples and guidance that commonly apply in the DHS funding environment, not just to single audit situations. See Illustration 1.1 on the following pages for a crosswalk of the applicability of the various sections of the Main Document.

**Illustration 1.1 - Applicability of the Main Document of State Single Audit Guidelines
for Audits in Accordance with the DHS Audit Guide**

Section in <i>Main Document of the State Single Audit Guidelines</i>	Grants and purchases of care and services (<i>DHS Audit Guide</i> , Section 1.2.1)	Additional requirements for single audits (<i>DHS Audit Guide</i> , Section 1.2.2)
1 Introduction		
1.1 Definitions	Yes, however we generally use the term “funding agency” instead of “granting agency,” because the state law requiring audits applies to purchases as well as grants	Yes, however we generally use the term “funding agency” instead of “granting agency,” because the state law requiring audits applies to purchases as well as grants
1.2 Overview of Guidelines	Yes, the <i>DHS Audit Guide</i> is an appendix to SSAG	Yes, the <i>DHS Audit Guide</i> is an appendix to SSAG
1.3 When are Guidelines applicable and what kind of audit is needed?	Yes, the <i>DHS Audit Guide</i> points to the <i>Main Document</i> for many of the basic audit concepts that are also applicable to audits that are not single audits	Yes, although the threshold for single audits is now \$500,000 in expenditures of federal awards
1.4 Single audit cost	Yes, with the exception that discussion of the cost for single audits does not apply to audits that are not single audits	Yes
1.5 Additional review	Yes	Yes
1.6 Audit due date	No, see <i>DHS Audit Guide</i> , Section 1.10	No, see <i>DHS Audit Guide</i> , Section 1.10
1.7 Sanctions	Yes	Yes
1.8 Effective date	No, see <i>DHS Audit Guide</i> , Section 1.9	No, see <i>DHS Audit Guide</i> , Section 1.9
1.9 For additional information	Yes, also see <i>DHS Audit Guide</i> , Section 1.12 for contact information	Yes, also see <i>DHS Audit Guide</i> , Section 1.12 for contact information
2 Roles and responsibilities		
2.1 The auditee 2.1.1 Identify state and federal pass-through awards in accounts 2.1.2 Maintain internal controls over state and federal pass-through awards 2.1.3 Comply with laws and regulations	Yes, see <i>DHS Audit Guide</i> , Section 1.4	Yes, see <i>DHS Audit Guide</i> , Section 1.4

Illustration 1.1 is referenced in Sections 1.1 and 1.2.1

**Illustration 1.1 - Applicability of the *Main Document of State Single Audit Guidelines*
for Audits in Accordance with the *DHS Audit Guide* - continued**

Section in <i>Main Document of the State Single Audit Guidelines</i>	Grants and purchases of care and services (<i>DHS Audit Guide</i>, Section 1.2.1)	Additional requirements for single audits (<i>DHS Audit Guide</i>, Section 1.2.2)
2.1.4 Prevent and detect fraud 2.1.5 Procure audit services 2.1.6 Prepare financial statements and other report elements 2.1.7 Take corrective action for audit findings 2.1.8 Send audit reporting package to granting agency(ies) 2.1.9 Follow audit report retention requirements		
2.2 The auditor 2.2.1 Be qualified to perform an audit according to the applicable standards 2.2.2 Perform the audit in accordance with applicable standards 2.2.3 Prepare elements of the audit reporting package 2.2.4 Retention of working papers 2.2.5 Access to workpapers	Yes, see <i>DHS Audit Guide</i> , Sections 1.4 and 1.8	Yes, see <i>DHS Audit Guide</i> , Sections 1.4 and 1.8
2.4 The state cognizant agency 2.4.1 Review audit report to determine whether audit met applicable standards 2.4.2 Notify other state granting agencies of results of desk review 2.4.3 Coordinate resolution of general, crosscutting issues 2.4.4 Grant extension of audit due date 2.4.5 Coordinate additional review by state agencies	No, state cognizant responsibilities only apply to local governments that have A-133 audits	Yes for A-133 audits of local governments
2.5 The Department of Administration 2.5.1 Maintain the <i>State Single Audit Guidelines</i> 2.5.2 Provide technical assistance 2.5.3 Track auditor quality issues	The Department of Administration maintains the <i>State Single Audit Guidelines</i> , of which the <i>DHS Audit Guide</i> is a part. However, DOA generally becomes involved only with single audits.	Yes
2.6 The Legislative Audit Bureau	No	Yes

Illustration 1.1 is referenced in Sections 1.1 and 1.2.1

**Illustration 1.1 - Applicability of the *Main Document of State Single Audit Guidelines*
for Audits Involving Funding in Accordance with the *DHS Audit Guide* - continued**

Section in <i>Main Document of the State Single Audit Guidelines</i>	Grants and purchases of care and services (<i>DHS Audit Guide</i> , Section 1.2.1)	Additional requirements for single audits (<i>DHS Audit Guide</i> , Section 1.2.2)
3 Performing an audit		
3.1 Applicable audit standards	Yes, except for the Single Audit Act and OMB Circular A-133	Yes
3.2 Financial statements	Yes	Yes
3.3 Internal control	Yes, as needed for <i>Government Auditing Standards</i> (the yellowbook)	Yes
3.4 Compliance	Yes, as needed for <i>Government Auditing Standards</i> (the yellowbook), NA for risk-based approach since this is a single audit requirement	Yes, with modification to the thresholds for Types A and B for state funded programs – See <i>DHS Audit Guide</i> , Section 1.2.2
3.5 Audit follow-up	Yes	Yes
3.6 Consideration of fraud in a financial assistance environment 3.6.1 Auditor's responsibility 3.6.2 Reporting fraud to management 3.6.3 Reporting fraud to the granting agency	Yes	Yes
4 Preparing an audit reporting package		
4.1 Financial Statements of the Overall Agency 4.2 Schedule of Expenditures of Federal and State Awards 4.3 Additional Supplemental Schedule Required by a Granting Agency 4.4 Schedule of Prior Audit Findings 4.5 Corrective Action Plan 4.6 Opinion on General-Purpose Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards 4.7 Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	Yes, see <i>DHS Audit Guide</i> , Section 1.4	Yes, see <i>DHS Audit Guide</i> , Section 1.4

Illustration 1.1 is referenced in Sections 1.1 and 1.2.1

**Illustration 1.1 - Applicability of the *Main Document of State Single Audit Guidelines*
for Audits in Accordance with the *DHS Audit Guide* - continued**

Section in <i>Main Document of the State Single Audit Guidelines</i>	Grants and purchases of care and services (<i>DHS Audit Guide</i>, Section 1.2.1)	Additional requirements for single audits (<i>DHS Audit Guide</i>, Section 1.2.2)
4.8 Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and the <i>State Single Audit Guidelines</i> 4.9 Opinion on the Financial Statement of a Federal and State Program in Accordance With the Program-Specific Audit Option Under OMB Circular A-133 and the <i>State Single Audit Guidelines</i> 4.10 Report on Compliance With Requirements Applicable to the Federal and State Program and on Internal Control Over Compliance in Accordance With the Program-Specific Audit Option Under OMB Circular A-133 and the <i>State Single Audit Guidelines</i> 4.11 The Schedule of Findings and Questioned Costs 4.12 Management letter	Yes, see <i>DHS Audit Guide</i> , Section 1.4	Yes, see <i>DHS Audit Guide</i> , Section 1.4
5 Sending the audit report to granting agencies		
5.1 Audit reporting package	Yes, also see <i>DHS Audit Guide</i> , Section 1.11	Yes, also see <i>DHS Audit Guide</i> , Section 1.11
5.2 Letter notification	Letter notification in lieu of the audit report is no longer accepted – see <i>DHS Audit Guide</i> , Section 1.11	Letter notification in lieu of the audit report is no longer accepted – see <i>DHS Audit Guide</i> , Section 1.11
5.3 Online notification	We do not have an online data collection system, but we do accept pdf's of audit reports sent by email – see <i>DHS Audit Guide</i> , Section 1.11	We do not have an online data collection system, but we do accept pdf's of audit reports sent by email – see <i>DHS Audit Guide</i> , Section 1.11

Illustration 1.1 is referenced in Sections 1.1 and 1.2.1

1.2 Types of audits involving DHS funds

This section applies to all audits involving funding from the Department of Health Services.

Funding agencies typically include audit requirements in the grant agreements and in contracts for purchase of care and services that involve DHS funding. This funding may be federal, state, or a mixture of federal and state funding. The funding may be direct from DHS, as in the case where DHS contracts directly with the auditee. The funding may also be passed through counties, tribes, or Chapter 51 boards, as when these agencies purchase care and services or make grants use DHS funding.

1.2.1 Grants and purchases of care and services

This section addresses the core audit requirements that apply to all audits of grants and purchases of care and services involving DHS funding. See Section 1.2.2 for additional considerations when the audit needs to be in accordance with the federal Single Audit Act.

Agency-Wide Audit

All audits of grants and purchases of care and services involving DHS funding must be agency-wide audits unless the funding agency has provided written approval for a program audit. Agency-wide audits must be performed by a certified public accountant in accordance with the generally accepted auditing standards established by the American Institute of Certified Public Accountants for such audits, including consideration of fraud. Agency-wide audits must also be in accordance with *Government Auditing Standards* (<http://www.gao.gov/govaud/ybk01.htm>), the *DHS Audit Guide*, and selected sections of the *Main Document of the State Single Audit Guidelines* (www.ssag.state.wi.us, Illustration 1.1 provides a crosswalk showing applicability of the sections of the *Main Document*). An agency-wide audit may also need to be in accordance with OMB Circular A-133 depending on the amount of federal expenditures (<http://www.whitehouse.gov/omb/rewrite/circulars/a133/a133.html>), and *DHS Audit Guide*, Section 1.2.2 covers additional considerations for performing a single audit in a DHS funding environment.

In an agency-wide audit, the auditor:

- Determines whether the financial statements of the auditee are presented fairly in all material respects in conformity with generally accepted accounting principles or other basis of presentation (Section 4.1 of the *Main Document of the State Single Audit Guidelines*, www.ssag.state.wi.us) and including consideration of fraud (Section 3.6 of the *Main Document*).
- Determines whether the supplemental schedules are presented fairly in all material respects in relation to the financial statements taken as a whole. The supplemental schedules include the following:
 - “Schedule of Expenditures of Federal and State Awards” (Section 4.2 of the *Main Document*)
 - “Additional Supplemental Schedule Required by a Granting Agency” (DHS requires this schedule – Section 4.3 of the *Main Document*. DHS is considering a supplemental schedule that will begin phasing in for 2012 – Section 2.3.3 of the *DHS*

Audit Guide.)

- “Reserve Supplemental Schedule” (Section 2.3.4 of the *DHS Audit Guide*)
 - “Profit Supplemental Schedule” (Section 2.3.5 of the *DHS Audit Guide*)
- Tests compliance and internal controls over at least 25% of total expenditures for DHS funding using the guidance in Section 2 of the *DHS Audit Guide*. All programs with expenditures exceeding \$25,000 should have program level testing at least once in any four-year period. Programs with expenditures less than \$25,000 should be included in the population subject to the general compliance testing in Section 2 of the *DHS Audit Guide*.

The testing required in this section is the minimum testing required for any audit. For A-133 audits, this testing may be incorporated into the risk assessment testing for Type A programs, as well as the compliance testing for major programs, and thus count toward the A-133’s percentage of coverage requirements (See Section 1.2.2 of the *DHS Audit Guide*).



Auditors might encounter situations where application of the requirements in this section results in disproportionate testing of some programs compared to other programs. We recommend consulting with the funding agency to see whether there is an alternate approach that meets the funding agency’s needs and obtain a written variance from the funding agency allowing the alternate approach.

- Follows up on prior-year findings, performs procedures to assess the reasonability of the auditee’s “Schedule of Prior-Year Findings” (Section 4.4 of the *Main Document*), and reports as a current-year finding when the auditor concludes that the “Schedule of Prior-Year Findings” materially misrepresents the status of prior-year audit findings.

Program Audit

A program audit is appropriate only if the auditee has written approval from the funding agency for a program audit. All program audits must be performed by a certified public accountant in accordance with the generally accepted auditing standards established by the American Institute of Certified Public Accountants for such audits, including consideration of fraud. Program audits must also be in accordance with *Government Auditing Standards* (<http://www.gao.gov/govaud/ybk01.htm>), the *DHS Audit Guide*, and the *Main Document of the State Single Audit Guidelines* (www.ssag.state.wi.us, Illustration 1.1 provides a crosswalk showing applicability of the sections of the *Main Document*).

In a program audit, the auditor:

- Determines whether the financial statements of the program and other supplemental schedules are presented fairly in all material respects in accordance with generally accepted accounting principles or other basis of presentation, including consideration of fraud (Section 3.6 of the *Main Document of the State Single Audit Guidelines* (www.ssag.state.wi.us)). The financial statements of the program are usually just the “Schedule of Expenditures of Federal and State Awards” (Section 4.2 of the *Main Document*). Other supplemental schedules include:

- “Additional Supplemental Schedule Required by a Granting Agency” (DHS requires this schedule - Section 4.3 of the *Main Document*. DHS is considering a supplemental schedule that will begin phasing in for 2012 – Section 2.3.3 of the *DHS Audit Guide*.)
 - “Reserve Supplemental Schedule” (Section 2.3.4 of the *DHS Audit Guide*)
 - “Profit Supplemental Schedule” (Section 2.3.5 of the *DHS Audit Guide*)
- Tests compliance and internal controls over the program using the guidance in Section 2 of the *DHS Audit Guide*.
- Follows up on prior-year findings, performs procedures to assess the reasonability of the auditee’s “Schedule of Prior-Year Findings” (Section 4.4 of the *Main Document*), and reports as a current-year finding when the auditor concludes that the “Schedule of Prior-Year Findings” materially misrepresents the status of prior-year audit findings.

Materiality is in relation to the program, taking into account additional considerations discussed in Section 4.11 of the *Main Document of the State Single Audit Guidelines* (www.ssag.state.wi.us).

General agency costs cannot be included in the schedules for the program unless the overall cost pool/distribution basis is included in the scope of the audit.

1.2.2 Additional requirements for single audits

This section applies only to audits that need to meet the requirements of the Federal Single Audit Act.

The previous section addresses the core audit requirements that apply to all audits of grants and purchases of care and services involving DHS funding. This section provides additional considerations when the audit also needs to be in accordance with the federal Single Audit Act.

An audit needs to meet the requirements of the federal Single Audit Act Amendments of 1996 (http://www.whitehouse.gov/sites/default/files/omb/assets/about_omb/104-156.pdf), as implemented in OMB Circular A-133 “Audits of States, Local Governments, and Non-Profit Organizations”

(http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf) if:

- The auditee is a local government or a non profit organization that expended \$500,000 or more in federal awards or
- The funding agency requires by contract that the audit be in accordance with OMB Circular A-133. The funding agency may require an A-133 audit that would not otherwise be needed. A federal Department of Health and Human Services interpretation of 45 CFR Part 74 authorizes that an agency subcontracting HHS funding to a for-profit organization may specify that the for-profit organization have an audit in accordance with OMB Circular A-133 or *Government Auditing Standards*.

The *Main Document of the State Single Audit Guidelines*, www.ssag.state.wi.us, provides guidance on performing single audits involving federal funding passed through state agencies. It also extends the federal single audit concept to state-funded programs. This *DHS Audit Guide*

applies the federal audit concepts to the DHS funding environment.

When performing an A-133 audit, use the percentage of coverage guidance in OMB Circular A-133 for federal programs. For state programs, use the guidance in Section 3.4 of the *Main Document of the State Single Audit Guidelines*, which applies the single audit percentage of coverage requirements to state funded programs. When an agency cannot be considered low risk due solely to having had the auditor’s assistance in preparing the financial statements, the department will consider a waiver allowing the lower percentage of coverage for state programs from the department. Make requests for such waivers to DHSAuditors@Wisconsin.gov. In addition, much of this testing can be performed in conjunction with a risk assessment and major program testing.

Designated Type A programs

The Department of Health Services designates several programs to be Type A programs when agencies receive these programs directly from DHS. These programs must have a risk assessment each year and be tested as state major if the assessed risk is not low (Section 3.4 of the *Main Document of the State Single Audit Guidelines*, www.ssag.state.wi.us):

DHS Audit Guide	Program	Agencies
Section 3.4	Case Management Agency Providers	Counties and 51 Boards
Section 3.5	Community Integration Program II/Community Options Program Waiver (CIP II/COP-W)	Counties and 51 Boards
Section 3.6	Wisconsin Medicaid Cost Reporting	Counties and 51 Boards
Section 3.9	Community Recovery Services	Counties and Tribes
Section 3.11	Income Maintenance Administration Requirements	Counties
Section 3.15	School Based Services Benefit	School districts with A-133 audits and County Children with Disabilities Education Board (CCDEB's)
Section 3.16	Comprehensive Community Services	Counties and 51 Boards

Designated state major programs

The Department of Health Services designates several other programs to be state major programs when agencies receive these programs directly from the department, that is they are Type A programs that cannot be treated as low risk programs (Section 3.4 of the *Main Document of the State Single Audit Guidelines*, www.ssag.state.wi.us):

DHS Audit Guide	Program	Agencies
Section 3.1	Community Options Program (COP)	Counties and 51 Boards
Section 3.2	Community Integration Program I (CIP I) and Brain Injury Waiver (a program cluster)	Counties and 51 Boards
Section 3.3	Aging and Disability Resource Centers	Counties and independent
Section 3.7	Medicaid Personal Care Program*	Counties and 51 Boards
Section 3.18	Children's Long Term Support	Counties, 51 Boards, and nonprofits with direct contracts with department

* Personal care is a new major program for 2011, had previously been a Type A program.

Thresholds for Type A and B state funded programs

The Department of Health Services has modified the thresholds for Type A and B state funded programs described in Section 3.4 of the *Main Document of the State Single Audit Guidelines*, www.ssag.state.wi.us, as they apply to state funded programs from DHS:

- The threshold for Type A programs is the greater of:
 - \$100,000 or three percent (.03) of total expenditures for state programs from DHS when the total expenditures for state programs from DHS do not exceed \$100 million.
 - \$3 million or three-tenths of one percent (.003) of total expenditures for state programs from DHS when the expenditures for state programs from DHS exceed \$100 million.
- The threshold for Type B programs is the greater of \$25,000 or three-tenths of one percent (.003) of total expenditures for state programs from DHS.

Federal compliance supplement

Many of the programs from the Department of Health Services are funded from federal grants. When a federal grant is a federal major program, auditors need to apply the procedures in both the OMB A-133 Compliance Supplement (<http://www.whitehouse.gov/omb/circulars/>) and the *DHS Audit Guide*.

Part 2 of the OMB A-133 Compliance Supplement shows whether each of fourteen requirements applies to particular federal programs. Parts 3 and 6 provide generic guidance on auditing these fourteen requirements, and Part 4 provides additional guidance for selected requirements for specific programs. The following chart crosswalks Parts 3, 4, and 6 of the OMB A-133 Compliance Supplement and Sections 2 and 3 of the *DHS Audit Guide*:

Topic in Parts 3, 4, and 6 of the A-133 Compliance Supplement and Addenda	Guidance in Sections 2 and 3 of the DHS Audit Guide
A. Activities Allowed or Unallowed	Section 2.2 "Activities allowed or unallowed" and program specific requirements in Section 3
B. Allowable Costs/Cost Principles	Section 2.3 "Allowable costs" and program specific requirements in Section 3
E. Eligibility	Section 2.4 "Eligibility" and program specific requirements in Section 3
G. Matching, Level of Effort, Earmarking	Section 2.5 "Matching, level of effort, and earmarking" and program specific requirements in Section 3
I. Procurement and Suspension and Debarment	Section 2.8 "Procurement and suspension and

	debarment”
L. Reporting	Section 2.6 “Reporting” and program specific requirements in Section 3
M. Subrecipient Monitoring	Section 2.8 “Procurement and suspension and debarment”
N. Special Tests and Provisions	Program specific requirements in Section 3

1.2.3 Managed Care Organizations for Family Care, Family Care Partnership, and PACE

This section is applicable to managed care organizations contracting with the Department of Health Services to operate Family Care, Family Care Partnership, and PACE.

Audit guidance for contracts for Managed Care Organizations with Family Care, Family Care Partnership, and PACE contracts is now located at <http://www.dhs.wisconsin.gov/lcicare/ProgramOps/Fiscal>. Contact the program manager for applicability of Sections 1 and 2 to audits of these agencies:

Contact person: Tom Lawless
 Telephone: (608) 261-7810
 Email: thomas.lawless@wisconsin.gov

Managed care organizations might receive other funding in the form of grants or purchases of care and services. This funding could trigger the audit requirements in Wis. Stat. 46.036 and OMB Circular A-133 and make the standards in this *DHS Audit Guide* applicable to the audit. Questions about audit requirements for purchase of care and services should be referred to the respective purchasers. Questions about audit requirements for grants from the Department of Health Services should be referred to DHSAuditors@Wisconsin.gov.

1.3 Information about programs – DHS direct funded agencies

This section applies only to audits of agencies that receive funding directly from the Department of Health Services.

1.3.1 Programs paid through DHS’s Community Aids Reporting System

The Department of Health Services uses the Community Aids Reporting System (CARS) to make many of the payments to agencies that need to have audits. Information on payments and the federal and state funding sources for programs paid through CARS is on the department’s website:

- The CARS 603 and 620 reports both have the CARS profile number, profile name, contract amount, reported expenses, and payments. These reports are available at <http://apps.health.wisconsin.gov/cars/GetIndexServlet>. To run queries, obtain the agency number and agency type from the contract and select the first voucher for each month. (Only the first voucher of each month includes information for agencies that are paid through CARS.)

- A crosswalk of the CARS profiles and their federal and state funding sources is at <http://dhs.wisconsin.gov/bfs/CARS>.

1.3.2 Audit confirmations for DHS programs

The Department of Health Services has two methods for providing confirmations of amounts that it paid to an agency and the sources for the funding:

- For funding paid through CARS or purchase orders, the DHS “Audit Confirmation Request” form and procedures at <http://dhs.wisconsin.gov/bfs/CARS> can be used for confirming payments and funding sources. Allow at least 15 working days for processing.
- In addition, for funding paid through CARS only, the resources listed in Section 1.3.1 can be used for confirming payments and funding sources.

1.4 Elements of the audit reporting package

This section applies to all audits.

See Illustration 1.4 on the following pages for the report elements for the types of audits covered by the *DHS Audit Guide*. The examples for report elements that are in the Main Document are based on AICPA models from 2001. You should use current AICPA models, and use the examples in the Main Document as guidance for modifying the current models to reflect inclusion of state programs and audit standards.

Illustration 1.4 - Elements of the Audit Reporting Package

Report elements	Non A-133 audits (DHS Audit Guide, Section 1.2.1)		A-133 audits (DHS Audit Guide, Section 1.2.2)	
	Agency-wide audit	Program audit	Agency-wide single audit	Program audit
Report elements prepared by the auditee				
Financial Statements of the Overall Agency (Section 4.1 of the <i>Main Document of the State Single Audit Guidelines</i> , www.ssag.state.wi.us)	Yes	No	Yes	No
Schedule of Expenditures of Federal and State Awards (Section 4.2 of the <i>Main Document of the State Single Audit Guidelines</i> , www.ssag.state.wi.us)	Yes	Yes	Yes	Yes
Additional Supplemental Schedule Required by Granting Agency (DHS requires this schedule - Section 4.3 of the <i>Main Document of the State Single Audit Guidelines</i> , www.ssag.state.wi.us)	Yes	Yes	Yes	Yes
DRAFT Settlement of DHS Cost Reimbursement Award (offered for testing and comment, expect to be phased in as a required report element starting with 2012 audits – Section 2.3.3 of the <i>DHS Audit Guide</i>)	Yes, starting with 2012 audits	Yes, starting with 2012 audits	Yes, starting with 2012 audits	Yes, starting with 2012 audits
Reserve Supplemental Schedule (DHS requires this schedule if auditee is non profit, paid on a prospectively set rate - Section 2.3.4 of the <i>DHS Audit Guide</i>)	Yes	Yes	Yes	Yes
Allowable Profit Supplemental Schedule (DHS requires this schedule if auditee is for-profit - Section 2.3.5 of the <i>DHS Audit Guide</i>)	Yes	Yes	Yes	Yes
Schedule of Prior Audit Findings (Section 4.4 of the <i>Main Document of the State Single Audit Guidelines</i> , www.ssag.state.wi.us)	Yes	Yes	Yes	Yes
Corrective Action Plan (Section 4.5 of the <i>Main Document of the State Single Audit Guidelines</i> , www.ssag.state.wi.us)	Yes	Yes	Yes	Yes
Report elements prepared by the auditor				
Opinion on General-Purpose Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards (Section 4.6 of the <i>Main Document of the State Single Audit Guidelines</i> , www.ssag.state.wi.us , use current AICPA model)	Yes	No	Yes	No
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (Section 4.7 of the <i>Main Document of the State Single Audit Guidelines</i> , www.ssag.state.wi.us , use current AICPA model)	Yes, add reference to the <i>DHS Audit Guide</i>	No	Yes	No

Illustration 1.4 is referenced in Illustration 1.1 and Section 1.4

Illustration 1.4 - Elements of the Audit Reporting Package, continued

Report elements	Non A-133 audits (DHS Audit Guide, Section 1.2.1)		A-133 audits (DHS Audit Guide, Section 1.2.2)	
	Agency-wide audit	Program audit	Agency-wide single audit	Program audit
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and the <i>State Single Audit Guidelines</i> (Section 4.8 of the <i>Main Document of the State Single Audit Guidelines</i> , www.ssag.state.wi.us , use current AICPA model)	NA	NA	Yes, reference to SSAG encompasses <i>DHS Audit Guide</i>	No
Opinion on the Financial Statement of a Federal and State Program-Specific Audit Option Under OMB Circular A-133 and the <i>State Single Audit Guidelines</i> (Section 4.9 of the <i>Main Document of the State Single Audit Guidelines</i> , www.ssag.state.wi.us , use current AICPA model)	No	Yes, remove reference to OMB Circular A-133 and add reference to the <i>DHS Audit Guide</i>	No	Yes, reference to SSAG encompasses <i>DHS Audit Guide</i>
Report on Compliance with Requirements Applicable to the Federal and State Program and on Internal Control Over Compliance in Accordance with the Program-Specific Audit Option Under OMB Circular A-133 and the <i>State Single Audit Guidelines</i> (Section 4.10 of the <i>Main Document of the State Single Audit Guidelines</i> , www.ssag.state.wi.us , use current AICPA model)	NA	NA	Yes, reference to SSAG encompasses <i>DHS Audit Guide</i>	No
Schedule of Findings and Questioned Costs (Section 4.11 of the <i>Main Document of the State Single Audit Guidelines</i> , www.ssag.state.wi.us)	Yes	Yes	Yes	Yes
Management Letter (Section 4.12 of the <i>Main Document of the State Single Audit Guidelines</i> , www.ssag.state.wi.us)	Yes, if issued	Yes, if issued	Yes, if issued	Yes, if issued

Illustration 1.4 is referenced in Illustration 1.1 and Section 1.4

1.5 Confidential client information encountered during audit

This section applies to all audits.

Auditors are likely to encounter confidential client information in the course of performing audits of programs from the Wisconsin Department of Health Services. This confidential client information is protected by many state and federal confidentiality laws. An example of such information is protected health information (PHI) under the Health Insurance Portability and Accountability Act (HIPAA). Confidential client information includes client name, address, telephone number, date of birth, dates of services of care, and social security number/unique identifier numbers (see the discussion of De-identification and Re-identification at the end of this section and 45 CFR 164.514 for an extensive list).

Any confidential information should have the appropriate safeguards applied to it to ensure that it will not be used inappropriately or improperly disclosed to individuals who do not have a need for access to this confidential information. SAS 103 Audit Documentation (AU Section 339; effective for audits for periods ending on or after December 15, 2006) provides guidance on protecting confidential client information in audit documentation:

.33 The auditor has an ethical and, in some situations, a legal obligation to maintain the confidentiality of client information. Because audit documentation often contains confidential client information, the auditor should adopt reasonable procedures to maintain the confidentiality of that information.

.34 Whether audit documentation is in paper, electronic, or other media, the integrity, accessibility, and retrievability of the underlying data may be compromised if the documentation could be altered, added to, or deleted without the auditor's knowledge, or could be permanently lost or damaged. Accordingly, the auditor should apply appropriate and reasonable controls for audit documentation to:

- a. Clearly determine when and by whom audit documentation was created, changed, or reviewed;
- b. Protect the integrity of the information at all stages of the audit, especially when the information is shared within the audit team or transmitted to other parties via electronic means;
- c. Prevent unauthorized changes to the documentation; and
- d. Allow access to the documentation by the audit team and other authorized parties as necessary to properly discharge their responsibilities.

In addition, the department's Privacy Officer recommends that auditors also:

- Collect only the minimum amount of data necessary for audit purposes.
- Ensure administrative, physical and technical safeguards are in place to protect individually identifiable information and will not send it electronically without encryption (via email).
- If confidential and/or individually identifiable health information (including demographic information) is used or disclosed inappropriately, lost or stolen, the auditor must contact the Privacy Officer of the entity whose data was breached as soon as possible, preferably within one business day.

The most reliable method for ensuring that confidential client information is protected in audit

documentation is to not include it in the audit documentation. We recommend that the auditor ask the auditee to redact or de-identify confidential client information from materials that they provide to the auditor. If protected health information is needed, we ask that only the minimum amount of information is obtained that is needed to conduct the audit.

If the auditor does receive confidential client information, it is the auditor's responsibility to retain the confidentiality of that information. Options include the auditor redacting or de-identifying the confidential information. If the confidential client information is needed for being able to trace back to supporting documentation, we recommend creating a separate document that maps confidential client information to a unique identifier, replacing the confidential client information in the first document with the unique identifier, and storing the mapping document in a locked file. Some other possible safeguards include ensuring files are secured in a locked file and ensuring information stored electronically is encrypted. (e.g., files, laptops, and other portable media devices).



Do not include confidential client information in audit reports. Audit reports are public records. In addition, we have heard that the federal government is planning to make single audit reports available on line.

De-identification and Re-identification

De-identification - If information is considered de-identified (and there is no basis to identify the individual) under the HIPAA Privacy Rule, it is no longer subject to the protections of this regulation. Health information is not considered individually identifiable health information unless the following identifiers of the individual or of relatives, employers, or household members of the individual are removed and there is no reasonable basis to believe that an individual can be identified:

1. Names.
2. All geographic subdivisions smaller than a state, including street address, city, county, precinct zip code and their equivalent geo-codes, except for the initial three digits of a zip code.
3. All elements of date (except year) for dates which are directly related to the individual, including birth date, admission date, discharge date, date of death; and all such ages over 89 and all elements of dates (including year) indicative of such age, except that such ages and elements may be aggregated into a single category of age 90 or older.
4. Telephone numbers.
5. Fax numbers.
6. Electronic email addresses.
7. Social security numbers.
8. Medical record numbers.
9. Health plan beneficiary numbers.
10. Account numbers.
11. Certificate/license numbers.
12. Vehicle identifiers and serial numbers, including license plate numbers.
13. Device identifiers and serial numbers.

14. Web Universal Resource Locators (URLs).
15. Internet Protocol (IP) address numbers.
16. Biometric identifiers, including finger and voice prints.
17. Full face photographic images and any comparable images.
18. Any other unique identifying number, characteristic, or code, except as permitted in "Re-identification."

Re-identification - A code or other means of record identification may be assigned to allow information to be re-identified, providing that:

1. The code or other means of record identification is not derived from or related to information about the individual and is not otherwise capable of being translated so as to identify the individual; and
2. The covered entity does not use or disclose the code or other means of record identification for any other purpose, and does not disclose the mechanism for re-identification.

1.6 SAS 39 on audit sampling

This section applies to all audits.

Sample size is a known problem for audits involving funding from the Department of Health Services. In the context of single audits, federal reviewers reporting on the National Single Audit Sampling Project (<http://www.ignet.gov/pande/audit/NatSamProjRptFINAL2.pdf>) included the following observation about sampling:

As part of the Project, we also considered testing and sampling, which is presented in the "Other Matters" section of this report. We examined transaction testing for 50 audits (25 from each stratum) and found inconsistent numbers of transactions selected for testing of internal controls and compliance testing for the allowable costs/cost principles compliance requirement. Also, many single audits did not document the number of transactions and the associated dollars of the universe from which the transactions were drawn.

Neither the law nor applicable auditing standards require minimum numbers of transactions be tested in single audits. They also do not specify how universes of transactions and selections of items for testing should be documented. However, we believe there should be uniformity in the approach for determining and documenting selections of transactions tested and the universes from which they are drawn.

They recommended that:

[Single audit] guidance be amended to require that compliance testing in single audits be performed using sampling in a manner prescribed by AICPA Statement on Auditing Standards No. 39, Audit Sampling, as amended. This will provide for some consistency in sample sizes.

The Department of Health Services has adopted this recommendation for its programs. All compliance testing for DHS programs shall be performed using sampling in a manner prescribed by AICPA Statement on Auditing Standards No. 39, Audit Sampling, as amended.

1.7 American Recovery and Reinvestment Act

This section applies to audits of all agencies that received grant funding from the Department of Health Services for American Recovery and Reinvestment Act programs.

The American Recovery and Reinvestment Act (ARRA) and the ARRA implementing guidance have requirements on presentation of expenditures of ARRA funds in single audit reports and selection of ARRA funding for major program testing (Appendix VII of the *OMB Circular A-133 Compliance Supplement*, June 2010 revision, at http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2010). In this section, the Department of Health Services requires some additional information related to these requirements.

1.7.1 Expenditures of ARRA Awards

The department's sub-recipients report their expenditures for grants, including ARRA grants, to the department through the Community Aids Reporting System (CARS), and in some cases through invoices. The department in turn makes payments to the agencies based on the reported expenditures. Grant periods often do not coincide with sub-recipient's fiscal periods, and timing factors can cause differences in the amounts of incurred expenses and payments to exist during the grant period.

The department provides the cumulative amount of payments made through CARS or invoices for each sub-recipient for each ARRA grant to the Wisconsin Department of Administration. DOA reports the cumulative payment information to the federal government, and it also makes this information available on its website (www.recovery.wisconsin.gov).

At the time of audit, the sub-recipient reports the expenditures each of its federal awards in the Schedule of Expenditures of Federal Awards (SEFA). The sub-recipient also reports the expenditure information to the Federal Audit Clearinghouse, which makes this information available on its website (<http://harvester.census.gov/sac/>).

To assist report users in comparing an agency's expenditures for ARRA grants as presented in the SEFA and the federal audit clearinghouse to the cumulative payment that available on ORR's website, the department requires additional information as shown in Illustration 1.7.1 on the following page be included in the "Notes to the Schedule of Expenditures of Federal Awards."

1.7.2 Close-out reports for ARRA programs

Several ARRA programs end during 2011. Specific ARRA awards may require agencies to send close-out reports to the funding agency. Like any other reports, close-out reports for ARRA programs must be supported by the agency's records. Agencies should anticipate that the records for their ARRA programs will be reviewed by federal auditors. We recommend that auditors review the close-out requirements and supporting documents to help agencies ensure that the reports are accurate and that supporting documentation is in good order.

Illustration 1.7.1 – ARRA in Schedule of Expenditures of Federal Awards

Example Agency Notes to the Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2010		
<p>____. The Wisconsin Department of Health Services requires the following additional information be presented for each Recovery Act program with funding passed through that department:</p> <p>Federal Grantor: Program or Cluster Title: Federal CFDA Number: CARS profile name or purchase order description: CARS profile number or purchase order number: CARS or invoice expenses and payments by contract year:</p>		
	CARS 603 Column H Actual CTD Expenses (aka CTD Activity) or amount reported by invoice	CARS 603 Column K CTD Pmts (Advances) (aka CTD Reimbursement) or payments made on invoice
1/1/09 – 12/31/09	x,xxx	x,xxx
1/1/10 – 12/31/10	x,xxx	x,xxx
1/1/11 – 12/31/11	x,xxx (1)	x,xxx
(Add'l years if needed)		
Total	x,xxx	x,xxx (2)

This schedule illustrates relationship between expenditures for the period reported in the 2011 Schedule of Federal and State Award (1) and the cumulative payments appearing on <http://www.recovery.wisconsin.gov>. (2)

1.7.3 Selection of ARRA programs for major program testing

In the OMB guidance referenced above, the federal government indicates that the single audit process is a key factor in determining whether ARRA funds are used appropriately and that the inherent risk for ARRA funds make it unlikely that the program would be low risk. However, the guidance also provides for the possibility of a program being assessed as low risk under specific circumstances. Report users can verify several of these factors using current and prior audit information. However, only the auditor has information about whether the auditor followed the guidance in OMB Circular A-133 to determine that the program or cluster was low risk. To assist report users in confirming that ARRA programs were appropriately tested as major programs the department requires the auditor to present additional information as shown in Illustration 1.7.3 for each ARRA program, either in a note to the “Schedule of Findings and Questioned Costs” or in a separate communication sent to DHSAuditors@Wisconsin.gov.

Illustration 1.7.3 – ARRA in Schedule of Findings and Questioned Costs

Notes to the “Schedule of Findings and Questioned Costs”

The Wisconsin Department of Health Services requires the following information from the auditor for each Recovery Act program with funding passed through that department:

Federal Grantor:

Program or Cluster Title:

Federal CFDA Number:

CARS profile name or purchase order description:

CARS profile number or purchase order number:

Was the funding part of a Type A program or cluster? Yes/No

If the funding was part of a Type A program or cluster, was the program or cluster tested as a major program for the current audit period? Yes/No/NA

If the funding was part of a program or cluster was a Type A program and if it was not tested as a major program for the current audit period, did all of the following conditions exist, indicating that the program or cluster was low risk:

- The program or cluster had ARRA expenditures in the prior audit period,
- The program or cluster was audited as a major program in the prior audit period,
- The ARRA expenditures in the current audit period are less than 20% of the total program or cluster, and
- The auditor followed the guidance in OMB Circular A-133 to determine that the program or cluster was otherwise low risk. Yes/No/NA

1.8 Peer review

All auditors performing audits involving DHS funding must be qualified to perform the audit. The auditor’s qualifications are described in Section 2.2.1 of the *Main Document of the State Single Audit Guidelines*, and they include having undergone a peer review in accordance with the requirements under the U.S. Government Accountability Office’s *Government Auditing Standards* and State of Wisconsin licensing standards. This section of the *DHS Audit Guide* adds the following requirements when *GAS* or licensing standards indicate that an auditor needs to have a peer review:

- The auditor must provide the report on the peer review to the auditee and to each funding agency upon request.
- Auditors who do not provide reports on their peer reviews to funding agencies demonstrating that they are current in meeting peer review requirements are barred from performing audits involving DHS funds.
- In event that an auditor receives a peer review rating of fail and decides to continue to perform audits involving DHS funding, the auditor must:
 - Prior to beginning any audit involving DHS funding, provide the auditee and the funding agencies with written notification of the results of the peer review and

the auditor's plan to ensure that the audit meets all applicable professional, federal and state requirements.

- At the completion of the audit, provide each funding agency with a complete copy of the audit documentation supporting the audit along with the audit report.

In addition, the cost of an audit is an allowable cost for reimbursement only if the audit was performed in accordance with the applicable standards. The auditee cannot claim reimbursement for the cost of an audit performed by an auditor who has a peer review rating of fail until the funding agencies have provided written notification that they have accepted the audit documentation as demonstrating that the audit met the applicable standards.

1.9 Effective date for the 2011 update to the *DHS Audit Guide*

This section applies to all audits.

The 2011 update to the *DHS Audit Guide* is effective for audit periods ending on or after December 31, 2011 and before December 31, 2012.

1.10 Due date for audit reports

Audit reports are due to funding agencies by the earlier of:

- The date specified in the contract or grant agreement.
- The federal government's specified timeframe for reporting significant issues if the auditee has ARRA funding.
- The federal government's due date for A-133 audits, if the auditee is a local government that has an A-133 audit when the audit is in accordance with this standard.
- Six months from the end of the fiscal period for all other audits.

The Department of Health Services no longer extends the due date for audit reports involving funding that the auditee received directly from the department.

1.11 Sending audit reports to funding agencies

This section applies to all audits.

The auditee or auditor needs to send a copy of the audit report to all agencies that provided funding to the auditee. Check the contract or contact the funding agencies for information on where to send the audit report and whether the report is to be in paper or electronic format.

The following part of this section applies only to audits of agencies that received funding directly from the Department of Health Services.

DHS no longer accepts letter notification of audit results described in Section 5.2 of the *Main Document of the State Single Audit Guidelines*, www.ssag.state.wi.us. All auditees that received funding directly from the Department of Health Services need to send a copy of the audit report to DHS. Reports sent to DHS may be in either electronic pdf or paper format. Electronic pdf format is preferred for saving printing and mailing costs.

Reports in pdf format may be sent to DHS Auditors at the following email address:

DHSAuditors@Wisconsin.gov

Paper copies of audit reports may be sent to the following address:

Attention: DHS Auditors
Department of Health Services
P.O. Box 7850
Madison, WI 53707-7850

1.12 Contact information

This section applies to all audits.

Contact the funding agency for questions concerning its programs or contract requirements. Contact information is usually available in the contract or on the funding agency's website.

The following part of this section applies only to audits of agencies that received funding directly from the Department of Health Services.

Please send questions by email to DHSAuditors@Wisconsin.gov and include the identifier for the audit procedure (example - "2.1 Segregation of duties") and the name of the auditee in the message.

2 General requirements

The following general requirements frequently apply to all programs with funding from the Department of Health Services and are essential for proper administration of those programs. These requirements must be tested as part of all audits involving DHS funding from the department (See Section 1.2). The OMB Compliance Supplement (<http://www.whitehouse.gov/omb/circulars/>) is a good resource for suggested audit procedures. Several sections in this part point to the Compliance Supplement for the audit procedures, making the referenced sections of the Compliance Supplement applicable whether or not a single audit is being performed.

2.1 Segregation of duties

This section applies to all audits.

Segregation of duties is a factor in the internal control structure of any agency. The Statement of Auditing Standards 99 (SAS 99), Consideration of Fraud in a Financial Statement, identifies improper segregation of duties to be a contributor to the possibility of fraud.

Opportunity is a condition that is frequently present in fraud cases. While proper segregation of duties does not guarantee that fraud will be prevented, it greatly diminishes the opportunity to commit fraud.

The following discussion is intended to provide guidance in developing findings and responses to findings concerning segregation of duties.

Definition of segregation of duties

According to the Committee of Sponsoring Organizations of the Treadway Commission, “Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.”

Segregation of duties is the strongest control over the prevention of fraud and innocent errors. With well designed segregation of duties, committing fraud would require collusion of two or more persons making it more difficult.

Poor segregation of duties is easily identified when obtaining an understanding of the internal control system of an organization. The best indicator is a person that is performing incompatible duties or responsibilities, for example, issuing checks and reconciling cash.

All duties can be classified into four broad categories: authorization, custody, recordkeeping, and reconciliation. No one person should have control of two or more of these four categories

for any one cycle (i.e. disbursement cycle, revenue cycle, payroll cycle, etc.). The four categories are:

Authorization is the process of reviewing and approving transactions or operations.

Examples include: approving payroll records, approving vouchers, etc.

Custody is having access to or control over any physical asset such as cash, checks, equipment, supplies, or materials. Examples include: processing payments, collecting cash, etc.

Recordkeeping is the process of creating and maintaining records of revenues, expenditures, inventories, and personnel transactions. These may be manual records or records maintained in automated computer systems. Examples include: posting entries to the accounting system, updating and creating vendor or employee master files, etc.

Reconciliation is verifying the processing or recording of transactions to ensure that all transactions are valid, properly authorized and properly recorded on a timely basis. This includes following up on any differences or discrepancies identified. Examples include: bank reconciliations, reconciliation of control accounts to subsidiary ledgers, reconciliation of claim forms to accounting records, etc.

Agencies should have both preventive and detective controls. *Preventive controls* are designed to discourage or pre-empt errors or irregularities from occurring. *Detective controls* are designed to search for and identify errors after they have occurred. An internal control system that primarily relies on detective controls does not completely mitigate segregation of duties findings.

Developing segregation of duties findings

The *Main Document of the State Single Audit Guidelines*, Section 4.11 discusses the information to include in findings. To help report users understand the particular nature of a segregation of duties finding, the auditor should present the condition and recommendation in terms of the four general categories of duties or responsibilities for segregation of duties—authorization, custody, recordkeeping and reconciliation—and whether existing controls are preventive or detective.

Developing corrective action plans for segregation of duties findings

Agencies need to provide their corrective action plan for each audit finding. A corrective action plan that is limited to stating impracticality of adding additional staff is not sufficient for a segregation of duties finding. The agency should be able to mitigate the risk related to the segregation of duties finding with involvement of program administrators, board members and others associated with the agency.

Therefore, when addressing the segregation of duties findings, management should present specific control activities for mitigating the risks associated with a segregation of duties weakness and identify personnel, by position, who are responsible for these activities. The organization should disclose control activities which are present that decrease the risks related to the lack of segregation of duties.

2.2 Activities allowed or unallowed

This section applies to all audits. For A-133 audits, this section supplements guidance for Topic A Activities Allowed or Unallowed in the A-133 Compliance Supplement and Addenda.

The requirements for activities allowed or unallowed are unique to each department program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. Examples of allowed or unallowed activities include:

Services to be provided and the means for delivering them – The contract specifies what the provider can do with the funding.

Subcontracting – Some contracts require that agencies obtain written approval from the funding agency prior to subcontracting department funds and that the agency retains all responsibility for fulfillment of the terms and conditions of its contract with the funding agency. (All subcontracts of department funds are to be listed in the “Schedule of Expenditures of Federal and State Awards.”)

Fiduciary responsibilities for resident funds – Administrative rules for residential care providers (community-based residential facilities, adult family homes, residential care apartment complexes, nursing homes, and facilities for the developmentally disabled) specify what providers can do when holding resident funds.

Compliance requirement(s)

Department funds can only be used for allowed activities.

Suggested audit procedure(s)

- Apply the guidance for Topic “A. Activities Allowed and Unallowed” in Parts 3 and 6 of OMB Circular A-133 Compliance Supplement (<http://www.whitehouse.gov/omb/circulars/>) (applicable whether or not the audit is a single audit, see introduction to Section 2, above).
- If the provider has fiduciary responsibility for resident funds, (typically community-based residential facilities, adult family homes, residential care apartment complexes, nursing homes, and facilities for the developmentally disabled), determine whether the provider:
 - Had written authorization from the resident or the resident’s guardian, agent, or designated representative to hold the resident’s funds.
 - Segregated resident funds from the provider’s funds.
 - Maintained written records of the resident’s funds and provided reports of these funds to residents, guardians, agents, or designated representatives.

2.3 Allowable costs

This section applies to all agencies audited under the *DHS Audit Guide*, when

- payments are made on or limited to an allowable cost basis (for a discussion of reserves and profit, see Sections 2.3.4 and 2.3.5, respectively)
- the auditee has a match requirement that is met through other allowable expenditures for the program (Sections 2.5 and 2.6)
- audited allowable costs are required to be reported in the audit report

Section 2.3.1 “Allowable costs, generally” and Section 2.3.2 “Related party transactions” apply to all audits when allowable costs are applicable. Section 2.3.3 “Draft Settlement of DHS Cost Reimbursement Contract” is a draft presented for comment. Starting with the 2012 audits, we expect to require this schedule for awards directly from DHS that are paid on or settled to an allowable cost basis. Section 2.2.4 “Reserve Schedule” applies only to nonprofits paid on a cost reimbursement basis or prospective rate that is settled to an allowable cost basis. Section 2.3.5 “Allowable Profit Schedule” applies only to for-profits paid on a cost reimbursement basis or prospective rate that is settled to an allowable cost basis.

For A-133 audits, this section supplements guidance for Topic B Allowable Costs/Cost Principles in the A-133 Compliance Supplement and Addenda.

Grant agreements and contracts involving department funds require that agencies comply with the *Allowable Cost Policy Manual (ACPM)*. The *ACPM* incorporates the federal cost principles by reference. These principles are in OMB Circular A-87 for governments, OMB Circular A-21 for educational institutions, OMB Circular A-122 for non-profit organizations, and *Contract Cost Principles and Procedures* for for-profit organizations. Requirements for allowable costs may also be found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. (The *ACPM* and the federal allowable cost policies are available at <http://dhs.wisconsin.gov/Grants/Administration/AllowableCost/AllowCost.HTM>.)

The Department of Health Services does not approve any agency’s cost allocation or indirect cost plan. The department relies on the independent audit to confirm that the plans are in accordance with the *ACPM* and applicable federal cost policy. The cost allocation or indirect cost plans must be tested in the audit if the agency claimed reimbursement from department programs for allocated or indirect costs.

2.3.1 Allowable costs, generally

This part applies to all audits when allowable costs are applicable.

Compliance Requirement(s)

All costs charged to department programs must be allowable.

Suggested Audit Procedure(s)

- Apply the guidance for Topic “B. Allowable Costs/Cost Principles” in Parts 3 and 6 of OMB Circular A-133 Compliance Supplement (<http://www.whitehouse.gov/omb/circulars/>), including costs charged through cost

allocation or indirect cost plans (applicable whether or not the audit is a single audit, see introduction at the beginning of Section 2).

- For cost allocation or indirect cost, specifically determine whether:
 - The agency's cost allocation and/or indirect cost plans are in accordance with the *Allowable Cost Policy Manual* and the applicable federal allowable cost policy.
 - The agency followed the plan(s) when charging costs to the funding agency.

If the agency's cost allocation and/or indirect cost plans are not included in the scope of the audit, for example, a program audit that does not include audit of the cost allocation/indirect cost plan, all costs charged to department programs through such unaudited plans must be reported as questioned costs in the Schedule of Findings and Questioned Costs.

See Section 3.11 "Income Maintenance Administration Program" for audit procedures related to a county's Agency Management, Support, and Overhead (AMSO).

2.3.2 Related party transactions

This part applies to all audits when allowable costs are applicable.

Compliance requirement(s)

Audits performed in accordance with generally accepted auditing standards include procedures to identify related party transactions so that the required financial statement disclosures can be made. However, related party transactions that involve charges to financial assistance programs require further audit consideration, because some agencies have used related party transactions to circumvent the limitations on excess revenue and profit. Examples of related party transactions include:

- Purchasing care and services from an agency with joint control or ownership.
- Renting a building from the director of the agency.
- Paying for consulting services provided by a member of the board of directors.

All costs that are fully or partially reimbursed with any type of federal or state financial assistance (including costs associated with related party transactions) are reimbursable only if they meet the criteria of allowability (Section 2.3.1). The fact that two parties in a transaction are related does not mean that the cost incurred is inappropriate or unallowable. However, it does mean that the auditor may have to do additional work in order to determine whether the related party transaction involves unallowable costs.

Unallowable costs resulting from related party transactions must be reported as a finding. When related party transactions do not affect department programs or do not include unallowable costs, we suggest stating this in the financial statement disclosure so that it is clear to report users that the related party transaction did not adversely affect department programs.

Suggested audit procedure(s)

Determine whether the related party transactions involved costs that affect department programs. If they did, continue with the following procedures:

- Determine whether the cost incurred as the result of a related party transaction is allowable (Section 2.3.1).
- Determine whether the agency followed procurement policies and practices that include maximum open and free competition and price and cost analysis to ensure that costs incurred are reasonable.
- If the related party transaction involves rent, determine whether the costs charged to the department's programs are limited to the actual costs that would have been allowed had title to the property been vested with the provider.

2.3.3 Draft Settlement of DHS Cost Reimbursement Award – comment version

This part contains a draft schedule presented for comment. Starting with the 2012 audits, we expect to require this schedule for awards from DHS that are paid on or settled to an allowable cost basis.

Section 4.3 of the *Main Document of the State Single Audit Guidelines* (www.ssag.state.wi.us) allows funding agencies to require additional supplemental schedules to suit their information needs. The Department of Health Services has had a long-standing requirement that audit reports include the “Schedule of Revenue and Allowable Costs by Contract” that is in Section 4.3 of the *Main Document*. DHS is moving toward supplementing this schedule in the Main Document with a new “Settlement of DHS Cost Reimbursement Award” for awards that are paid on or settled to an allowable cost basis. A draft of the new schedule is in Illustration 2.3.3.

We encourage people to test the new settlement schedule and send us their comments. We expect to finalize the settlement schedule and phase it in as a required report element for awards from DHS over several years starting with fiscal years ending in 2012. In the meantime, we might ask for this schedule on a case by case basis when we need additional information to understand an agency's expenditure reporting.

Like other supplemental schedules, the “Settlement of DHS Cost Reimbursement Award” will need to be covered by an auditor's opinion. In program audits, the settlement schedule will be covered by the auditor's “Opinion on the Financial Statement of a Program in Accordance with the Program Audit” (Section 4.9 of the *Main Document*), which states the auditor's opinion on whether the schedule is fairly presented in all material respects. For single audits, the settlement schedule will be covered by the auditor's “Opinion on Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards” (Section 4.6 of the *Main Document*), which states the auditor's opinion on whether the information in the schedule is “fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.”

Instructions for the Settlement of DHS Cost Reimbursement Award

See Illustration 2.3.3 for an example of a “Settlement of DHS Cost Reimbursement Award.”

Prepare a “Settlement of DHS Cost Reimbursement Award” for each award from DHS that is paid on a cost reimbursement basis.

If the award period is not the same as the audit period, present a separate column in the schedule for each of the award periods that overlap the audit period.

A – Payment from DHS - For presenting the payment from DHS, show the amount DHS paid to the agency based on reported costs or based on units-time-unit-rate. Do not include pre-payments or takebacks of pre-payments (DHS makes pre-payments to the agency to facilitate cash flow at the beginning of the award period, and DHS later recovers those pre-payments).

B – Actual allowable cost of the award - For presenting the actual allowable cost of the award, all costs must meet the criteria in the DHS *Allowable Cost Policy Manual* and the relevant federal cost circulars

(<http://www.dhs.wisconsin.gov/Grants/Administration/AllowableCost/ACPM.htm>).

- Present program expenses and management/general expenses in separate sections. For management/general expenses, indicate the basis for allocating these expenses to the award.
- For the program and the management/general expenses, use the functional expense categories specified in the budget or in the reporting instructions for the award. If the award does not specify functional categories, use the categories from Schedule IX of the IRS 990 “Return of Organization Exempt from Income Tax.” (All allowable costs are likely to fit into one of the IRS 990’s functional expense categories, but the reverse is not true. Some IRS 990 functional expense categories, such as lobbying and fundraising, are not allowable for reimbursement from grants. Other expenses, such as rent and interest, are allowable under certain circumstances. Include only actual allowable costs in the schedule.)

C – Less program revenue and other offsets to costs - Deduct program revenue and other offsets to costs.

D – Total allowable costs before profit and **E - Allowable profit** – Sections D and E only apply to for-profit organizations. Use the amount for “D -Total allowable costs before profit” in this schedule for “Line 1a - Net allowable operating cost” in the Allowable Cost Schedule shown in Section 2.3.5. Use the amount of “Line 3 Allowable profit” in the Allowable Cost Schedule for the “E - Allowable profit” in this schedule.

F – Total allowable costs - Total allowable cost for the award is the program costs plus management and general costs allocated to the program less program revenue and other offsets to costs plus profit, when applicable. If total allowable costs are less than the payment based on reported allowable costs, the auditor must present a finding and questioned cost on the Schedule of Findings and Questioned Costs.

Illustration 2.3.3 – Settlement of DHS Cost Reimbursement Award

This example uses IRS 990 Functional Expense Categories. If the department has specified expense categories for the award budget or for reporting, use those classifications instead.

<Name or organization> <Name of grant> Settlement of DHS Cost Reimbursement Award For the year ended <date>		
DHS Identification number	CARS profile XXXXX	CARS profile XXXXX
Award Amount	\$XXX,XXX	\$XXX,XXX
Award period	m/d/y – m/d/y	m/d/y – m/d/y
Period of award within audit period	<u>m/d/y – m/d/y</u>	<u>m/d/y – m/d/y</u>
A. Payment from DHS	\$ xxx,xxx	\$ xxx,xxx
B. Actual allowable cost of award		
Program expenses		
1. Grants and other assistance to governments and organizations in the US	\$ xx,xxx	\$ xx,xxx
2. Grants and other assistance to individuals in the US	xx,xxx	xx,xxx
3. Grants and other assistance to governments, organizations, and individuals outside the US	xx,xxx	xx,xxx
4. Benefits paid to or for members	xx,xxx	xx,xxx
5. Compensation of current officers, directors, trustees, and key employees	xx,xxx	xx,xxx
6. Compensation not included above, to disqualified persons	xx,xxx	xx,xxx
7. Other salaries and wages	xx,xxx	xx,xxx
8. Pension plan contributions	xx,xxx	xx,xxx
9. Other employee benefits	xx,xxx	xx,xxx
10. Payroll taxes	xx,xxx	xx,xxx
Etc.	<u>.....</u>	<u>.....</u>
Total program expenses	\$ xx,xxx	\$ xx,xxx
Management and general expenses allocated to program		
5. Compensation of current officers, directors, trustees, and key employees, allocated based on _____	xx,xxx	xx,xxx
6. Compensation not included above, to disqualified persons, allocated based on _____	xx,xxx	xx,xxx
7. Other salaries and wages, allocated based on _____	xx,xxx	xx,xxx
8. Pension plan contributions, allocated based on _____	xx,xxx	xx,xxx
9. Other employee benefits, allocated based on _____	xx,xxx	xx,xxx
10. Payroll taxes, allocated based on _____	xx,xxx	xx,xxx
Etc.	<u>.....</u>	<u>.....</u>
Total management and general expense allocated to program	\$ xx,xxx	\$ xx,xxx
C. Less program revenue and other offsets to costs	<u>(xx,xxx)</u>	<u>(xx,xxx)</u>
D. Total allowable costs before profit (for-profits only)	\$ xxx,xxx	\$ xxx,xxx
E. Allowable profit (for-profits only, Line 3 on Allowable Profit Schedule)	<u>\$ xx,xxx</u>	<u>\$ xx,xxx</u>
F. Total allowable costs	<u>\$ xxx,xxx</u>	<u>\$ xxx,xxx</u>

2.3.4 Reserves Supplemental Schedule

This part applies only to nonprofits paid on a cost reimbursement basis or prospective rate that is settled to an allowable cost basis.

Wisconsin Statute 46.036(5m) (<http://www.legis.state.wi.us/rsb/stats.html>) allows reserves funded by department programs when the agency is a non-profit, nonstock corporation *and* the funding agency purchased care and services for clients on the basis of a unit rate per unit of client service. The statute defines rate-based service as “a service or a group of services, as determined by the department, that is reimbursed through a prospectively set rate and that is distinguishable from other services or groups of services by the purpose for which funds are provided for that service or group of services and by the source of funding for that service or group of services.” Examples of ways to distinguish services include services with different rate per unit of service, services provided at different locations, services funded with different funding sources, and services purchased by different purchasers.

The statute limits the amount that can be retained with a two-part test. The first test limits the amount that can be retained in any one year to 5% of the contract amount, that is the amount paid under the terms of the contract. The second test limits accumulated reserves for all years to 10% of the amount paid under the current contract. However, funding agencies may set lower thresholds or prohibit holding their funds in reserves. See below for discussion of handling reserves in excess caps.



Some providers that receive funding from the Department of Health Services also receive funding from the Department of Children and Families. The two departments have similar statutes allowing providers to retain reserves, and the statutes governing reserves for funding from the Department of Children and Families are in Wisconsin Statute 49.34. 2009 Wisconsin Act 335 modifies Wisconsin Statute 49.34 to exempt certain child welfare providers from limitations on use of surplus revenue. These changes do not apply to funding from the Department of Health Services. Auditors should be alert to potential that providers have mistakenly applied the changes for reserves involving funding from the Department of Children and Families to funding from the Department of Health Services.

The “Reserve Schedule” - If the auditee maintains a reserve of funding from department programs, the audit report must include a “Reserve Schedule” for each rate-based service.

For program audits, the "Reserve Schedule" must be covered by the auditor’s “Opinion on the Financial Statement of a Program in Accordance with the Program Audit,” which states the auditor’s opinion on whether the schedule is fairly presented in all material respects. For agency-wide audits, the schedule must be covered by the auditor’s “Opinion on Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards,” which states the auditor’s opinion on whether the information in the schedule is “fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.”

For purposes of this schedule, materiality is in relation to the service, taking into account additional considerations in discussion in Section 4.11 of the *Main Document of the State Single Audit Guidelines* (www.ssag.state.wi.us).

General agency costs cannot be included in the schedules for the program unless the overall cost pool/distribution basis is included in the scope of the audit.

Excess Reserves – Reserves in excess of either the first or second test need to be returned to the funding agency, including situations where the funding agency ceases contracting with a provider. The department recommends that the auditee contact the purchaser to work out disposition of the excess reserve in accordance with the allowable uses for this funding stated in Wis. Stat. 46.036(5m)(b)2. The auditor should report a finding if an agency diverts or uses excess reserve in a way that is not in accordance with an agreement with the purchaser or the terms of the statute.

Instructions for Preparing the Reserve Schedule - See Illustration 2.3.4 for an example of a “Reserve Schedule.” This format is to be used whenever an agency maintains a reserve funded by department programs, unless the funding agency specifies an alternate format.

Facility -- Enter the name of the facility. A separate schedule is needed for each rate-based service operated by the agency/facility.

Period Covered by the Audit -- Enter the period covered by the audit.

1. **Total Units of Service** -- Enter the total units of service provided by the facility for rate-based service during the period.
2. **Total Allowable Expenses for Rate-Based Service** -- Enter the total allowable expenses for rate-based service.
3. **Revenue for Rate Based Service** -- Enter the total amount of rate-based revenue received from all sources.
4. **Excess (Deficiency) Revenue over Expenses** -- Subtract allowable expenses (2d) from revenue for rate based service (3) and enter the difference. This is the amount that may be applied to the reserve, subject to contractual and statutory limits.
5. **Total Reserve from All Prior Periods** -- Enter the amount of reserve carried forward from all prior periods. Do not include reserve from the period covered by the current audit.
6. **Calculation of Reserve and Amounts Due to Purchasers**
 - 6a. **Purchaser** -- List the names of all purchasers that provided rate-based revenue to the facility.
 - 6b. **Revenue from Purchaser** -- List the amount of rate-based revenue from each purchaser. The total revenue for this column would agree with the amount shown on line 3.
 - 6c. **Purchaser's Share of Total Revenue** -- Calculate each purchaser's share of the total revenue for rate-based service by dividing revenue from the purchaser in column 6b by total revenue in column 6b. The sum of the shares in this column would equal 1.

The next four columns are for the first test: limiting the amount that may be retained for the current period to 5% of contract revenue (s. 46.036) or the limit imposed by the contract, whichever is lower.

- 6d. **Purchaser's Share of Excess Revenue (Deficiency)** -- Calculate each purchaser's share of the excess revenue by multiplying the amount from line 4 by the share of total revenue in column 6c. The total for this column would equal the amount in line 4.
- 6e. **Cap on Reserve for First Test** -- Enter the cap on the reserve specified by the contract or 5% of the amount of revenue from the purchaser (column 6b), whichever is lower.
- 6f. **Amount to Add to Reserve for this Period and 6g. Amount Due to Purchaser as a Result of the First Test** -- If the purchaser's share of excess revenue (column 6d) exceeds the cap on reserve for the first test (column 6e), enter the amount of the cap in column 6f and enter the amount in excess of the cap (column 6d - column 6e) in column

6g. Otherwise, enter the amount of the purchaser's share of excess revenue (deficiency) in column 6f and \$0 in column 6g.

The last five columns are for the second test: limiting the amount that may be retained for all periods to 10% of contract revenue (s. 46.036) or the limit imposed by the contract, whichever is lower.

6h. *Purchaser's Share of Reserve from All Prior Periods* -- Enter the purchaser's share of reserve from all prior periods. Facilities may use any method agreed to by their purchasing agencies for determining the shares. Two possible ways to determine shares are to use the purchaser's share as determined by prior audit or to use a pro-rata share obtained by multiplying the amount of reserve for all prior periods (line 5) by the purchaser's share of total revenue (column 6c). The total for this column would agree with the amount in line 5.

6i. *Purchaser's Share of Reserve from All Periods* -- Add the amount to be added to the reserve for this period (column 6f) to the share of the reserve from prior periods (column 6h).

6j. *Cap on Reserve for Second Test* -- Enter the cap on the reserve specified by the contract or 10% of the amount of revenue from the purchaser (column 6b), whichever is lower.

6k. *Amount of Reserve and 6l. Amount due to Purchaser as a Result of the Second Test* -- If the purchaser's share of the reserve from all periods (column 6i) exceeds the cap on reserve for the second test (column 6j), enter the amount of the cap in column 6k and enter the amount in excess of the cap (column 6i - column 6j) in column 6l. Otherwise, enter the amount of the purchaser's share of reserve from all periods (column 6k) in column 6k and \$0 in column 6l.

6m. *Total Amount Due to Purchaser* -- Add the amounts due to the purchaser from the first test (column 6g) and the second test (column 6l) to determine the total amount due to the purchaser, if the purchaser chooses to collect it.

2.3.5 Allowable Profit Supplemental Schedule

Part 2.3.5 “Allowable Profit Supplemental Schedule” applies only to for-profits paid on a cost reimbursement basis or prospective rate that is settled to an allowable cost basis.

Wisconsin Statute 46.036(3)(c) (<http://www.legis.state.wi.us/rsb/stats.html>) indicates that contracts with proprietary agencies may include a percentage add-on for profit according to the rules promulgated by the department. The requirements for profit are in the *Allowable Cost Policy Manual* (<http://www.dhs.wisconsin.gov/Grants/Administration/AllowableCost/AllowCost.HTM>) which indicates that allowable profit is determined by applying a percentage equal to 7 1/2% of net allowable operating costs plus 15% applied to the net equity, the sum of which may not exceed 10% of net allowable operating costs.¹ Net equity is defined as the cost of equipment, cost of buildings, cost of land and cost of fixed equipment less accumulated depreciation and long term liabilities. The average net equity for the year shall be used. When net equity is less than zero, the department practice is to disregard the net equity part of the calculation for allowable profit.

Funding agencies may establish lower limits on allowable profit or prohibit profit for their contracts.

The “Allowable Profit Schedule” - If the auditee is a for profit entity, the audit report must include an “Allowable Profit Schedule,” Illustration 2.3.5. For program audits, the “Allowable Profit Supplemental Schedule” must be covered by the auditor’s “Opinion on the Financial Statement of a Program in Accordance with the Program Audit,” which states the auditor’s opinion on whether the schedule is fairly presented in all material respects. For agency-wide audits, the schedule must be covered by the auditor’s “Opinion on Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards,” which states the auditor’s opinion on whether the information in the schedule is “fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.”

Profit should be calculated at the function or program level when agencies operate multiple functions or programs.

For purposes of this schedule, materiality is in relation to the program, taking into account additional considerations in discussion in Section 4.11 of the *Main Document of the State Single Audit Guidelines* (www.ssag.state.wi.us).

General agency costs cannot be included in the schedules for the program unless the overall cost pool/distribution basis is included in the scope of the audit.

Excess profit – Profit in excess of the allowable limit must be returned to the funding agency. The auditee should consult with the funding agency on treatment of excess profit. Funding agencies decide how to handle excess profit, and they make this decision based on the terms of

¹ See Section 2.3.3 for discussion of the DRAFT “Settlement of DHS Cost Reimbursement Award.” When this schedule is implemented for DHS awards, the Allowable Profit Schedule will be used to determine allowable profit for inclusion in the calculation of overall allowable costs.

the contract and requirements of the funding source. Their options include returning the funds outright and recovering through a rate adjustment.

Illustration 2.3.5 - Allowable Profit Supplemental Schedule

ABC Facility XYZ Parent Corporation Allowable Profit Supplemental Schedule For the year ended XXX			
1	Base calculation		
1a	Net allowable operating cost	\$ -	
	x 7 1/2%	\$ -	
	Note -- deduct unallowable costs (such as costs above cost of ownership in related party rent) and cost offsets (such as commodities)		
1b	Adder for average net equity (disregard this step if equity is less than zero)	Beginning of Period	End of Period
	Cost of equipment	\$ -	\$ -
	Cost of building	\$ -	\$ -
	Cost of land	\$ -	\$ -
	Cost of fixed equipment	\$ -	\$ -
	Less accumulated depreciation	\$ -	\$ -
	Less long term liabilities	\$ -	\$ -
	Net equity	\$ -	\$ -
	Average net equity	\$ -	
	x 15%	\$ -	
1c	Total base calculation	\$ -	
	(Sum of amounts calculated in steps 1a and 1b)		
2	Cap on allowable profit:		
	Net allowable operating cost	\$ -	
	x 10%	\$ -	
3	Allowable profit	\$ -	
	(Lesser of amounts calculated in steps 1c and 2)		

Adapted from allowable profit calculator in the Allowable Cost Policy Manual,
<http://dhs.wisconsin.gov/Grants/Administration/AllowableCost/AllowCost.HTM>)

2.4 Eligibility

This section applies to all audits of agencies that determine eligibility. For A-133 audits, this section supplements guidance for Topic E Eligibility in the A-133 Compliance Supplement and Addenda.

The requirements for eligibility are unique to each department program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

Compliance requirement(s)

Only eligible individuals can participate in the program. Amounts or services provided to or on behalf of clients must be in accordance with program requirements.

Suggested audit procedure(s)

Apply the guidance for Topic “E. Eligibility” in Parts 3 and 6 of OMB Circular A-133 Compliance Supplement (<http://www.whitehouse.gov/omb/circulars/>) (applicable whether or not the audit is a single audit, see introduction to Section 2, above).

2.5 Matching, level of effort, and earmarking

This section applies to all audits of agencies that have funding with a matching, level of effort, or earmarking requirement. For A-133 audits, this section supplements guidance for Topic G Matching, Level of Effort, Earmarking in the A-133 Compliance Supplement and Addenda.

The auditor must test matching, level of effort, or earmarking if these requirements are a condition of the agency’s funding. The requirements for matching, level of effort, and earmarking are unique to each program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. Matching, level of effort and earmarking are defined as follows:

Matching or cost sharing includes requirements to provide contributions of a specified amount or percentage to match program awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions).

Level of effort includes requirements for (a) a specified level of service to be provided from period to period, (b) a specified level of expenditures from other sources for specified activities to be maintained from period to period, and (c) program funds to supplement and not supplant non-program funding of services.

Earmarking includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered.

Compliance requirement(s)

The provider must provide at least the minimum amount or percentage of contributions or matching funds.

Suggested audit procedure(s)

Apply the guidance for Topic “G. Matching, Level of Effort, Earmarking” in Parts 3 and 6 of OMB Circular A-133 Compliance Supplement (<http://www.whitehouse.gov/omb/circulars/>) (applicable whether or not the audit is a single audit, see introduction to Section 2, above).

2.6 Reporting

Sections 2.6.1 and 2.6.2 of this section apply to all audits. Sections 2.6.3 and 2.6.4 apply to counties, and the two nonprofits administering Children’s Long Term Support Waiver (CLTS, Section 3.18).

For A-133 audits, Section 2.6 supplements guidance for Topic L Reporting in the A-133 Compliance Supplement and Addenda.

Reporting requirements are unique to each program and are found in the laws, regulations, the contract provisions and/or grant agreements pertaining to the program. Under the *DHS Audit Guide*, the compliance testing for reporting must be performed as a basic procedure whether or not the auditee has major programs from the department. In addition, this section provides guidance on applying the federal guidance on audit reporting for federal programs passed through the Department of Health Services.

Problems with reporting can result in over or under payment for the program. In addition, some reporting problems signal the potential for a significant disallowance or even violation of laws governing use of program funds. When auditors find problems with reporting, they should expand testing to determine the extent of the problem. Auditors should also contact the funding agency for assistance in understanding the ramifications of the problem and for advice on how the agency can take corrective action.

2.6.1 Reporting, generally

This section applies to all audits.

Apply the guidance for Topic “L. Reporting” in Parts 3 and 6 of OMB Circular A-133 Compliance Supplement (<http://www.whitehouse.gov/omb/circulars/>) (applicable whether or not the audit is a single audit, see introduction to Section 2, above). OMB describes reporting as being in three categories:

Financial reporting -- Most Federal granting agencies require reporting of costs or activities as the basis for making payments to providers.

Performance and program reporting -- Many granting agencies require performance or program reporting. These reports generally contain the following information:

1. A comparison of actual accomplishments with the goals and objectives established for the period.
2. Reasons why established goals were not met, if appropriate.
3. Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

Special reporting – Granting agencies may require other reports to meet their information needs.

Examples of financial reporting mechanisms include invoices and Community Aids Reporting System (*DHS Audit Guide*, Section 2.6.2) and Human Services Reporting System (*DHS Audit Guide*, Section 2.6.3 and 2.6.4). An example of performance reporting is the reporting requirements for the objective based program cluster Public Health Program Cluster (*DHS Audit Guide*, Section 3.13).

2.6.2 Reporting allowable costs for reimbursement through invoices and Community Aids Reporting System (CARS)

This section applies to all audits, and it supplements Section 2.6.1. for agencies that are reimbursed for allowable costs reported through invoices or through the Community Aids Reporting System (CARS).

Compliance requirement(s)

Expenses and revenues reported to the department through CARS or through invoices must be complete, accurate, and supported by the agency's records. All expenses must meet the criteria for allowability in the *Allowable Cost Policy Manual* and OMB Circular A-87, the federal cost principles that apply to local governments (both documents can be accessed through <http://dhs.wisconsin.gov/Grants/Administration/AllowableCost/AllowCost.HTM>). Third party revenues such as collections from private insurers, client cost share, and payments for medical assistance card services must be credited to the respective programs (waiver programs require additional explanation for third party revenues - see Sections 2.6.3 and 2.6.4.).



CARS prepayments must be earned or returned. Some agencies that are new to reporting costs to the Department of Health Services for payment through CARS are surprised to owe money back to the department at the end of the contract. Here's what happens: Because there is a several month lag between when an agency incurs costs and when CARS pays those costs, CARS makes up to three "prepayments" at the beginning of the grant to help with cash flow. Then CARS switches to making payments based on reported costs, and toward the end of the grant, CARS takes back the prepayments by deducting them from payments based on reported costs. Some agencies have stopped reporting costs once their prepayments plus payments on reported costs equal their contract amount, not realizing that they need to report all costs in order to earn the full contract amount.

Pre-payments can result in situations where an agency has received more funding than it has incurred in allowable costs, especially early in the contract or in situations where the bulk of the contract activity is later in the contract.

Suggested audit procedure(s)

- Determine whether the agency is reporting allowable costs and third party revenues on CARS and invoices. (This procedure may be performed in conjunction with major program testing for programs from this department.)
- Determine whether the agency is performing control activities for ensuring accurate reporting, such as timely and accurate reconciliations between what it records in its records and what it reports to the department through CARS or invoices.
- Confirm that the agency has reconciled final reported costs to their accounting records and that those amounts are supported by the audited financial statements.
- At the end of the contract, CARS payments that are made to and retained by the agency in excess of allowable costs net of third party revenues must be reported to the Department of Health Services as a questioned cost.

2.6.3 Reporting through the Human Services Reporting System (HSRS)

Section 2.6.3 (and 2.6.4) applies to counties, and the two nonprofits administering Children's Long Term Support Waiver (CLTS, Section 3.18). It supplements Section 2.6.1 for agencies that report long-term care costs to the department through Human Services Reporting System (HSRS). HSRS is the system of record for Medicaid payment for the waiver programs, and agencies report detailed information on waiver services on this system. As HSRS does not have the capacity to generate payments, agencies also report summary information on CARS, which is a payment system. The department adjusts the amount on CARS to agree with the waiver service costs that the county reported on HSRS.

Compliance requirement(s)

Expenses and revenues reported to the department through HSRS must be complete, accurate, and supported by the agency's records. All expenses must meet the criteria for allowability in the *Allowable Cost Policy Manual* and OMB Circular A-87, the federal cost principles that apply to local governments (both documents can be accessed through <http://dhs.wisconsin.gov/Grants/Administration/AllowableCost/AllowCost.HTM>). In addition, all costs must meet the criteria for allowability for the particular service category, 1) the service was approved for the client through the Individual Service Plan, and 2) the cost of the service does not include non-service components, such as personal allowance. Third party revenues such as collections from private insurers, client cost share, and payments for medical assistance card services must be credited to the respective programs (waiver programs require additional explanation for third party revenues - see Section 2.6.4).

Suggested audit procedure(s)

- Determine whether the agency is reporting allowable costs and third party revenues on HSRS. (This procedure may be performed in conjunction with major program testing for programs from this Department.)
- Determine whether the agency is performing control activities for ensuring accurate reporting, such as timely and accurate reconciliations between what it records in its accounting records and what it reports to the department through HSRS.
- Confirm that the agency has reconciled final reported costs to their accounting records and that those amounts are supported by the audited financial statements. Costs reported in

excess of those supported by the audited financial statements must be reported as a questioned cost .

2.6.4 Additional considerations for reporting for Medicaid waiver programs

Section 2.6.4 (and 2.6.3) applies to counties, and the two nonprofits administering Children's Long Term Support Waiver (CLTS, Section 3.18). This section and Illustration 2.6.4 supplement Sections 2.6.1, 2.6.2, and 2.6.3 for agencies that report costs for Medical Assistance waiver programs to the department through CARS and HSRS.

The Medical Assistance waiver programs are established with Federal approval in accordance with Sections 1115 or 1915 of Title XIX of the Social Security Act. These programs include Community Integration Program I (Section 3.2) and Community Integration Program II/Community Options Program Waiver (Section 3.5). They provide flexibility for the State of Wisconsin and its counties in providing community based care to citizens who might otherwise require services in a nursing home or other institution. Because of the flexibility allowed under the Medical Assistance waiver programs, the Federal granting agency imposes more stringent and extensive financial and programmatic reporting requirements.

Throughout the year, the county reports Medical Assistance waiver programs on HSRS, along with other service detail that supports the federal funds used for the waiver. Since HSRS is not a payment system, the county also reports costs on the respective CARS waiver profile. Except for the Children's Long Term Support waiver program as it operated prior to transition in 2011 to Third Party Administrator, there is no link at this point between the costs reported on HSRS and those reported on CARS other than the county's records supporting what it reported on those systems.

As noted above, all costs reported on CARS and HSRS must be complete, accurate, and supported by the agency's records. All expenses must meet the criteria for allowability in the *Allowable Cost Policy Manual* and OMB Circular A-87, the federal cost principles that apply to local governments (both documents can be accessed through <http://dhs.wisconsin.gov/Grants/Administration/AllowableCost/AllowCost.HTM>). In addition, all costs must be meet the criteria for allowability for the particular service category, 1) the service was approved for the client through the Individual Service Plan and, 2) the cost of the service does not include non-service components, such as personal allowance or room and board.

The costs reported on HSRS and on the CARS profiles for the waiver programs must be net of applicable credits for third party revenues. These revenues include collections from private insurers and payments for medical assistance card services, which must be credited to the respective programs. It is not appropriate to report the cost of these services to the waiver programs and later credit those programs for collections: even with subsequent adjustment, such a practice constitutes duplicate billing for Medicaid. (Client cost share is reported on HSRS as SPC 095.01, which HSRS handles as a negative number.)

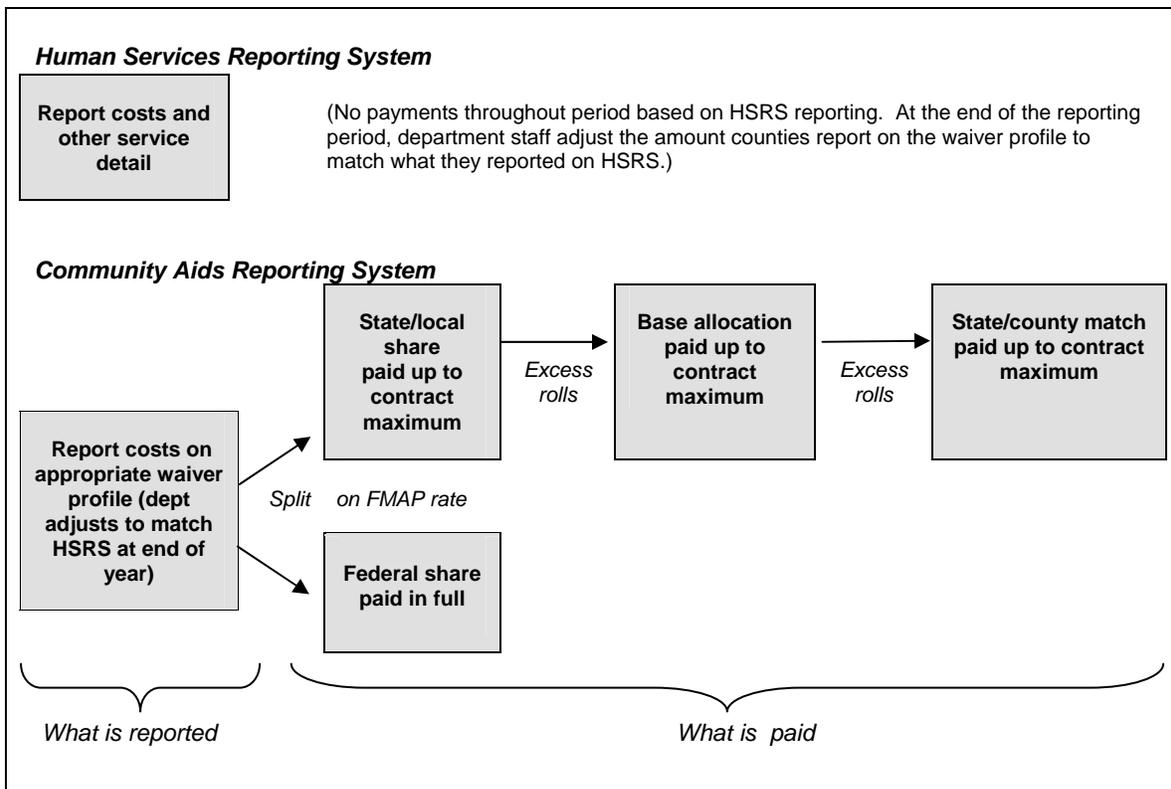
However, in some cases there is uncertainty as to what the county will collect under the medical assistance card billing, making it difficult to determine the net amount that could be reported to

the waiver program. Counties may report the cost of services that are billed to medical assistance card services and the subsequent revenues for the Base County Allocation. This avoids the possibility of duplicate billing for Medicaid, while ensuring completeness of reporting.

Costs that the county reported on the Home and Community-Based Services waiver profiles are split between profiles for the state share and the federal share based on the Federal Medical Assistance Participation (FMAP) rate that is in effect for that period (see Illustration 2.6.4, below). CARS makes monthly payments for the state share up to the contract maximum, and it rolls any excess to the Base County Allocation. CARS pays the Base County Allocation up to its contract maximum, and it rolls the excess to the state/county match profile. Counties commonly have significant amounts ultimately roll to the state/county match.

Costs allocated to the federal share profiles are reimbursed to the reporting county in full. The department draws federal funds to cover reimbursement of waiver costs. At reconciliation for closing out the contract year, the department's program managers adjust the costs recorded and paid based on CARS waiver profile to match the more detailed cost information on HSRS, the system of record. Payments are adjusted based on this year-end reconciliation and any contract amendments.

Illustration 2.6.4 - What is reported and what is paid on HSRS and CARS



2.7 Information technology (IT) security provision in state/county contract

This section applies to audits of counties and 51 boards.

Compliance requirement(s)

Federal regulations 45 CFR Part 95 require agencies administering federal financial assistance programs to establish a plan, policy, and procedures to address information technology (IT) security. The Department of Health Services included the following IT security requirements in the state/county contract (<http://dhs.wisconsin.gov/sca>):

- (1) The County shall keep all State owned data processing equipment that is located in the County in a secure place and compensate the Department for any theft, damage, or other loss of the equipment if the Department's prescribed security precautions have not been met.
- (2) The County shall designate an employee as County Security Officer to be responsible for ensuring compliance with security precautions for state-owned computer equipment, data confidentiality, and user access.
- (3) ...
- (4) The County shall comply with the provisions contained in HIPAA and 45 C.F.R. § 95.621 and any other applicable federal or state laws or requirements for maintaining security and privacy for protected health information, personally identifiable information and any other confidential information.

Federal security regulations 45 CFR Part 164 implementing the Health Insurance Portability and Accountability Act (HIPAA) require DHS to enter into business associate agreements with counties that are administering the Home and Community Based Waiver programs on behalf of DHS. The agreements require counties to implement certain security safeguards.

1. Safeguarding and maintenance of Protected Health Information (HIPAA Business Associate Agreement Addendum)

- a. The County will develop, implement, maintain, and use:
 - (i) appropriate administrative, technical, and physical safeguards to prevent improper use or disclosure of Protected Health Information (PHI), in any form or media; and
 - (ii) appropriate administrative, technical, and physical security measures to preserve the confidentiality, integrity and availability of stored electronically maintained or transmitted PHI.
- b. The County will document and keep these safeguards and security measures current and available for inspection by the Department or its agents, upon request. Security measures employed by the County must comply with HIPAA security requirements.

2. Use or disclosure of Protected Health Information by subcontractors and agents of the county (HIPAA Business Associate Agreement Addendum)

The County agrees to require any agent, including subcontractors, to whom the County provides PHI to comply with the same restrictions and conditions applicable to the County with respect to PHI. This provision does not apply to the use or disclosure of PHI by subcontractors that provide health care treatment to individuals or to other

persons or organizations that have entered into an Organized Health Care Arrangement (OHCA) as provided for under the provisions of HIPAA. (See Section 2.8 for other compliance requirements for subcontracts.)

Suggested audit procedure(s)

Determine whether the county has procedures and controls to provide reasonable assurance of achieving the following objectives and whether the county actually did achieve these objectives:

- Only authorized personnel have access (i.e. view, add, change, or delete) to department systems and to confidential information entered into or extracted from these systems.
- Access is removed or changed on a timely basis when a person leaves employment or changes job duties.
- Department-owned equipment is protected from loss due to damage or theft.
- The agency has a contingency plan to ensure continuation of essential IT services in event of a disaster.
- The county periodically assesses the effectiveness of its IT security plan in meeting the requirements in the *Security Manual* and the requirements under HIPAA, and the county identifies and implements improvements to the plan.
- The county has required subcontractors to whom protected health information is provided to comply with the same restrictions to which the county is held in the HIPAA Business Associate Agreement Addendum. (See Section 2.8 for other audit procedures for subcontracts.)

2.8 Procurement and suspension and debarment

Section 2.8.1 applies to all agencies, while Section 2.8.2 applies only to counties, 51 boards and tribes.

Section 2.8 supplements guidance for Topic I “Procurement and Suspension and Debarment” and Topic M “Subrecipient Monitoring” in the A-133 Compliance Supplement and Addenda in situations where the agency needs to have an A-133 audit.

2.8.1 Procurement and Suspension and Debarment, generally

This part applies to all agencies

Procurement requirements of this section apply to all agencies when:

- payments are made on or limited to an allowable cost basis, including limits on reserves and profit (Section 2.3),
- the auditee has a match requirement that is met through other allowable expenditures for the program (Section 2.5), or
- audited allowable costs are required to be reported in the audit report

Grant agreements and contracts involving department funds require that agencies comply with the *Allowable Cost Policy Manual (ACPM)*. The *ACPM* discusses several aspects of acceptable procurement practices, including written standard of conduct, open and free competition, and minimum procedural requirements. The *ACPM* also directs agencies to detailed guidance on

procurement and subcontracting in OMB Circular A-102/Common Rule and OMB Circular A-110 by reference. (These documents are available at <http://www.dhs.wisconsin.gov/grants/Administration/index.htm>.)

Many grant agreements and contracts involving funding from DHS prohibit contracting or granting funds to parties that have been suspended or debarred or whose principals are suspended or debarred.



Credit cards and purchasing cards are particularly vulnerable to fraudulent, abusive, and inappropriate transactions, warranting attention when assessing risks for an agency's purchasing function. The Association of Government Accountants has a best practices guide for purchase cards that can be a useful resource for agencies. This guide is available at <http://www.agacgfm.org/research/downloads/CPAGNo7PurchaseCard.pdf>.

Compliance Requirement

Agencies must follow acceptable procurement practices.

Suggested Audit Procedures

- Apply the guidance for Topic “I. Procurement and Suspension and Debarment” in Parts 3 and 6 of OMB Circular A-133 Compliance Supplement (<http://www.whitehouse.gov/omb/circulars/>).

2.8.2 Purchase of Care and Services

This section applies to counties, 51 boards and tribes.

In addition to compliance requirements on procurement in general that are discussed in Section 2.8.1, Wisconsin Statute 46.036 (<http://www.legis.state.wi.us/rsb/stats.html>) establishes the standards for purchases of care and services made by a county social services department, a county department of public welfare, or a board established under s. 46.23, 51.42 or 51.437. Per section 20.002(13) these standards are also applicable to Indian Tribes. Additional purchase of service (subcontracting) requirements are contained in the *Financial Management Manual* (<http://dhs.wisconsin.gov/Grants/Administration/FMM/FMMTOC.htm>), the federal Common Rule and OMB Circular A-133 (both federal documents are available at <http://www.whitehouse.gov/omb/circulars>). See Section 2.7 of the *DHS Audit Guide* for compliance requirements and audit procedures under the Health Insurance Portability and Accountability Act (HIPAA) related to subcontracting.

Procurement of care and services

Compliance requirement(s)

Counties must follow acceptable procurement standards when purchasing care and services using funds from the Department of Health Services.

Suggested audit procedure(s)

Determine whether the county:

- procured the care and services through a process that is consistent with applicable procurement policies and procedures.

- has a conflict of interest policy regarding the selection, award, or administration of the contract.
- has contracts on file for purchase of services, where applicable, or a waiver from the Department of Health Services.
- monitors contract compliance, including collecting financial, performance, program, and special reports; reviewing them in a timely manner; and taking action when problems were noted.
- ensures that payments for care and services do not exceed the amount specified in the contract.

License and certification of providers

Compliance requirement(s)

Services that are paid using funding from DHS must meet standards for quality. One of the ways that a funding agency ensures that the services they purchase from providers meet the standards for quality is to confirm that the providers hold the appropriate license or certification for the type of service being purchased.

- *License or certification requirements for providers for residential care* – Providers of residential care services must hold the appropriate license or certification. Examples of residential care providers typically paid with funding from DHS include:

- Adult Family Home
- Community Based Residential Facility
- Residential Care Apartment Complex (RCAC facilities may be “certified” or “registered.” Facilities must be “certified” to serve publicly funded tenants, and facilities that are “registered” may serve only private pay tenants.)

- *Certification requirements for providers for alcohol and other drug abuse or mental health services* – Providers for alcohol and other drug abuse or mental health services may need to be certified prior to receiving payments under Chapter 51 of Wisconsin Statutes, third party reimbursement (e.g. health maintenance organizations (HMO’s)), or the Medicaid program. HMO’s may require certification based on their guidelines.

Alcohol and Other Drug Abuse

- DHS 75.04 Prevention Service
- DHS 75.05 Emergency Outpatient Service
- DHS 75.06 Medically Managed Inpatient Detoxification Service
- DHS 75.07 Medically Monitored Residential Detoxification Service
- DHS 75.08 Ambulatory Detoxification Service
- DHS 75.09 Residential Intoxication Monitoring Service
- DHS 75.10 Medically Managed Inpatient Service
- DHS 75.11 Medically Monitored Treatment Service
- DHS 75.12 AODA Day Treatment
- DHS 75.13 Outpatient Treatment
- DHS 75.14 Transitional Residential
- DHS 75.15 Narcotic Treatment Service For Opiate Addiction
- DHS 75.16 Intervention Service

Mental Health

DHS 34	Emergency Mental Health Services
DHS 35	Outpatient Mental Health Clinics
DHS 36	Comprehensive Community Services
DHS 40	Mental Health Day Treatment Services for Children
DHS 61.71	Inpatient
DHS 61.75	Day Services
DHS 61.79	Children and Adolescent Inpatient
DHS 63	Community Support Programs

Suggested audit procedure(s)

For a sample of providers of residential care and of alcohol and other drug abuse or mental health services, determine whether the county has confirmed that the providers have the appropriate license(s) or certification(s) for the nature of the services purchased from these providers.

Audits of providers

Compliance requirement(s)

Wisconsin Statute 46.036(4)(c) (<http://www.legis.state.wi.us/rsb/stats.html>) requires providers that receive more than \$25,000 in funds from the Department of Health Services or from a county to have an audit that meets department standards, unless the audit is waived by the department. The statute allows the department to waive audits on a case-by-case basis. In addition, Wis. Stat. 66.0143 authorizes local governments to file requests for waivers of statutory mandates with the Department of Revenue. Several counties have used this provision to receive waivers increasing the \$25,000 threshold in Wis. Stat. 46.036 for requiring providers to have audits to \$75,000 or, in a few instances, \$100,000. These waivers are effective for four years, and the department may renew the waivers for additional four-year periods. A current list of counties that have these waivers, the thresholds for their waivers, and the dates the waivers expire is on the department's website at <http://www.dhs.wisconsin.gov/grants/Audit/auditdept/index.HTM>.

The department's standards for audits are in *State Single Audit Guidelines* and the *DHS Audit Guide*, which is an appendix to the SSAG. Provider audit reports are typically due to the funding agency six months from the end of the provider's fiscal period, and the funding agency should review and resolve the provider audit reports within six months of receipt of the reports.

Because of the timing of audit fieldwork, auditors are likely to encounter situations where the deadlines for when audit reports are due to the county and for when the county must review and resolve the audit reports have not yet passed as of the end of fieldwork. In these cases, there is no finding of noncompliance, and county auditors must follow-up on the status of the provider audits in the subsequent county audit. Guidance on presenting audit findings involving provider audit reports is included at the end of this section.

Suggested audit procedure(s)

Determine whether the agency:

- documented its decision process for deciding whether to require an audit.
- performed alternate monitoring, if it planned to rely on alternate monitoring in order to waive the audit or require a lesser-scoped audit than the risk would have otherwise indicated.

- gave the provider information on the nature of funding (federal, state, local, mixture) so the provider could have the appropriate type of audit.
- received the provider audit reports or has a waiver on file from the Department of Health Services.
- reviewed the provider audit reports to ensure they contain all applicable report elements required by the contract and by the type of audit that was performed.
- resolved audit findings within six months of receipt of the audit.

Guidance on reporting purchase of service findings in the Schedule of Findings and Questioned Costs

For provider audit reports which have not been received as of the end of fieldwork:

- if the deadline for receiving the provider audit report has not passed, there is no finding of noncompliance. (The auditor follows up in the subsequent county audit.)
- if the deadline for receiving the provider audit report has passed, report a finding in the Schedule of Findings and Questioned Costs.

For provider audit reports which have been received, but not yet reviewed and resolved as of the end of fieldwork:

- if the deadline for reviewing and resolving the provider audit report has not passed, there is no finding of noncompliance. (The auditor follows up in the subsequent county audit.)
- if the deadline for reviewing and resolving the provider audit report has passed, report a finding in the Schedule of Findings and Questioned Costs.

At a minimum, the finding must include:

- the name of the provider,
- the payments made applicable to the contract period,
- the Community Aids Reporting System (CARS) line number on which the related expenditures were reported the Department of Health Services, and
- the program title and identification number.

2.9 Client rights and client funds

This section applies to audits of counties and 51 boards.

Wisconsin Statute 51.61 and Administrative Code DHS 94, Patient Rights, define the legal requirements for client rights and client funds for clients with a mental illness, a developmental disability, alcohol abuse or dependency, or other drug abuse or dependency. The purpose of this section is to ensure that county agencies and boards comply with the requirements for client rights and client funds when county staff provide services to these clients. The program manager notes that audit results have assisted in making substantial improvements in implementation requirements for rights and monitoring of client funds.

Compliance requirement(s)

See s. 51.61, Stats. and DHS 94 (online at <http://www.legis.state.wi.us/rsb/stats.html> and <http://www.legis.state.wi.us/rsb/code.htm>, respectively).

Suggested audit procedure(s)

For a representative sample of case files, determine whether the county has complied with the laws and administrative rules governing client rights and client funds. Counties typically document compliance with these requirements in case files using forms or other notations in the treatment record.

1. Check for an annual invitation to or meeting with the client/guardian to facilitate their participation in the planning of their treatment and care.
2. Check for annual written informed consent, signed by the client/guardian, for treatment.
3. Check for annual written informed consent, signed by the client/guardian, for each medication.
4. Check for documentation of annual re-notification of rights, including the right to file a grievance.
5. When the county acts as representative payee for the client, check for consent for the county to act as the representative payee.
6. When the county handles client funds, check for records on the uses of the client funds and cash disbursements and confirm that clients have access to their personal allowance/petty cash.
7. Check for documentation of client rights training for all staff who work with clients.

Report absence of appropriate case file documentation or training documentation as a finding.

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2.10 Illegal Acts and other misconduct

This section applies to all audits.

Federal grant administration policies that apply to all federal grants, and by extension to all DHS funding, require recipients of funding to report to the funding agency issues which will materially impair the ability to meet the objective of the award. The Recovery Act and its implementation memoranda provide descriptions of the kinds of issues that must be reported for situations involving recovery act funds. We believe that the Recovery Act guidance is consistent with the intent of the more general grant administration policies, making the Recovery Act guidance useful for any grant situation.

This section supplements the discussion of the auditee’s and the auditor’s responsibilities in Section 2.1.4 “Prevent and detect fraud” and Section 3.6 “Consideration of fraud in a financial assistance environment” of the *Main Document of the State Single Audit Guidelines* (www.ssag.state.wi.us). In this section, we are adding clarification from the Recovery Act guidance on the situations involving illegal acts and other misconduct that the agency must report and the parties that the agency must report those situations to.

Compliance requirement(s)

Agencies receiving the department's funds must promptly report all suspected illegal acts or other misconduct to the funding agency, investigate in accordance with these guidelines and the funding agency's direction, take corrective action for weaknesses that led to the fraud or misconduct, and repay the funding agency for all losses of department funding due to illegal acts or other misconduct.

The term "illegal acts" includes false claims under the False Claims Act; a criminal or civil violation of laws pertaining to fraud, conflict of interest, bribery, gratuity; or similar misconduct. Suspected illegal acts are to be reported in writing by mail to DHS Auditors, 1 West Wilson Street, Room 627, P.O. Box 7850, Madison, WI 53707-7850 or by email to DHSAuditors@Wisconsin.gov. For funding received under the American Recovery and Reinvestment Act, the contractor/grantee must also report evidence of illegal acts to the Inspector General of the federal agency that provided the funds. Inspector General contact information is online at <http://www.recovery.gov/?q=content/agency-fraud-hotlines>.

The term "other misconduct" includes:

- 1) gross mismanagement of an agency contract or grant relating to funds received under this agreement;
- 2) a gross waste of funds received under this agreement;
- 3) a substantial and specific danger to public health or safety related to the implementation or use of funds received under this agreement;
- 4) an abuse of authority related to the implementation or use of funds received under this agreement; or
- 5) a violation of law, rule, or regulation related to an agency contract (including the competition for or negotiation of a contract) or grant, awarded or issued relating to funds received under this agreement.

The contractor/grantee shall promptly report such misconduct involving funding received under this agreement in writing to the contract administrator.

Suggested audit procedure(s)

- Apply the procedures in Section 3.6 "Consideration of fraud in a financial assistance environment" of the *Main Document* and current professional guidance on consideration of fraud in an audit.
- If the auditor becomes aware that the auditee had an incident involving illegal acts, confirm with DHS Auditors that the auditee has reported the incident.
- If the auditor becomes aware that the auditee had an incident involving other misconduct, confirm with the contract administrator that the auditee has reported the incident.