

Department of Health Services Audit Guide

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

2014 Revision

(Changes to Sections 1.9, 1.10, and 1.11)

1 Introduction

Agencies that receive funding from the Department of Health Services (DHS) may be required by state law, federal law, and/or contract to have audits. The [Department of Health Services Audit Guide](#) (the *DHS Audit Guide*) defines the audit standards for audits that are required by state law under [Wisconsin Statute 46.036](#). 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](#), which is made up of the [Main Document of the State Single Audit Guidelines](#) and appendices for programs from specific state agencies.

1.1 Main Document of the State Single Audit Guidelines

This section applies to all audits.

Many of the sections in the [DHS Audit Guide](#) refer to the [Main Document of the State Single Audit Guidelines](#) for examples and guidance that commonly apply in any 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 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 requirement | Yes, see <i>DHS Audit Guide</i> , Section 1.4 for elements of report | Yes, see <i>DHS Audit Guide</i> , Section 1.4 for elements of report |

**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) |
|---|---|--|
| 2.2 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 through 1.8 | Yes, see <i>DHS Audit Guide</i> , Sections 1.4 through 1.8 |
| 2.3 The granting agency 2.3.1 Advise auditees of federal and state law 2.3.2 Require auditee to provide access to records 2.3.3 Prepare information for granting agency's programs 2.3.4 Provide technical assistance to auditees and auditor 2.3.5 Identify agencies that need audits and collect those audits 2.3.6 Review the audit report and resolve audit findings 2.3.7 Consider additional steps to promote audit quality 2.3.8 Notify other granting agencies of irregularities | Yes, <i>DHS Audit Guide</i> more generically refers to the "funding agency" | Yes, <i>DHS Audit Guide</i> more generically refers to the "funding agency" |
| 2.4 The Department of Administration 2.4.1 Maintain the <i>State Single Audit Guidelines</i> 2.4.2 Provide technical assistance 2.4.3 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 |
| 2.5 The Legislative Audit Bureau | No | Yes |

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 Main Document of the State Single Audit Guidelines | Grants and purchases of care and services (DHS Audit Guide , Section 1.2.1) | Additional requirements for single audits (DHS Audit Guide , 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 Government Auditing Standards (the yellowbook) | Yes |
| 3.4 Compliance | Yes, as needed for Government Auditing Standards (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 - 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, Chapter 51 boards when these agencies purchase care and services or make grants using 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 *DHS Audit Guide* Section 1.2.2, below, 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](#), the [DHS Audit Guide](#), and the [Main Document of the State Single Audit Guidelines](#) (*DHS Audit Guide*, 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 “Audits of States, Local Governments, and Non-Profit Organizations”](#) depending on the amount of federal expenditures 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 and including consideration of fraud (*Main Document*, Sections 3.6 and 4.1).
- 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” for all auditees (*Main Document*, Section 4.2)

- “Additional Supplemental Schedule Required by a Granting Agency,” as required by funding agency (*Main Document*, Section 4.3 and *DHS Audit Guide*, Section 2.3.3)
 - “Settlement of DHS Cost Reimbursement Award” (*DHS Audit Guide*, Section 2.3.4) is required when the auditee:
 - Is a nonprofit, a for-profit, or local unit of government other than a county, tribe, Chapter 51 board, or school district,
 - Receives funding directly from the Department of Health Services,
 - Payments are based on or limited to an actual allowable cost basis, and
 - The auditee reported expenses or other activity resulting in payment totaling \$100,000 for its grant(s) or contract(s) with DHS
 - “Reserve Supplemental Schedule” for nonprofits paid on a prospectively set rate basis (*DHS Audit Guide*, Section 2.3.5)
 - “Profit Supplemental Schedule” for for-profits (*DHS Audit Guide*, Section 2.3.6)
- Tests compliance and internal controls over at least 25% of total expenditures for DHS funding using the guidance in *DHS Audit Guide*, Section 2. For A-133 audits, this testing may be incorporated into the risk assessment testing for Type A programs and the compliance testing for major programs, and thus also count toward the A-133’s percentage of coverage requirements (See *DHS Audit Guide*, Section 1.2.2).
- Follows up on prior-year findings, performs procedures to assess the reasonability of the auditee’s “Schedule of Prior-Year Findings” (*Main Document*, Section 4.4), 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](#), the *DHS Audit Guide*, and selected sections of the [Main Document of the State Single Audit Guidelines](#). (*DHS Audit Guide*, 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, and including consideration of fraud (*Main Document*, Section 3.6). The financial statements of the program are usually just the “Schedule of Expenditures of Federal and State Awards” (*Main Document*, Section 4.2). Other supplemental schedules include:
- “Additional Supplemental Schedule Required by a Granting Agency,” as required by funding agency (*Main Document*, Section 4.3 and *DHS Audit Guide*, Section 2.3.3)

- “Settlement of DHS Cost Reimbursement Award” (*DHS Audit Guide*, Section 2.3.4) is required when the auditee:
 - Is a nonprofit, a for-profit, or local unit of government other than a county, tribe, Chapter 51 board, or school district,
 - Receives funding directly from the Department of Health Services,
 - Payments are based on or limited to an actual allowable cost basis, and
 - The auditee reported expenses or other activity resulting in payment totaling \$100,000 for its grant(s) or contract(s) with DHS
 - “Reserve Supplemental Schedule” for nonprofits paid on a prospectively set rate basis (*DHS Audit Guide*, Section 2.3.5)
 - “Profit Supplemental Schedule” for for-profits (*DHS Audit Guide*, Section 2.3.6)
- Tests compliance and internal controls over the program using the guidance in *DHS Audit Guide*, Section 2.
- Follows up on prior-year findings, performs procedures to assess the reasonability of the auditee’s “Schedule of Prior-Year Findings” (*Main Document*, Section 4.4), 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 of the *Main Document*, Section 4.11.

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](#), as implemented in [OMB Circular A-133 “Audits of States, Local Governments, and Non-Profit Organizations”](#) 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 [Main Document of the State Single Audit Guidelines](#) provides guidance on performing single audits involving federal funding passed through state agencies, and it extends the federal single audit concept to state-funded programs. The [DHS Audit Guide](#) provides guidance on applying 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 *Main Document*, Section 3.4, which applies the single audit percentage of coverage requirements to state funded programs.

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 must be tested as state major programs if the assessed risk is not low (*Main Document*, Section 3.4):

| | |
|--------------|--|
| Section 3.1 | Community Options Program (COP) |
| Section 3.2 | Community Integration Program I (CIP I) |
| Section 3.3 | Aging and Disability Resource Centers |
| Section 3.4 | Case Management Agency Providers |
| Section 3.5 | Community Integration Program II/Community Options Program Waiver (CIP II/COP-W) |
| Section 3.6 | Wisconsin Medicaid Cost Reporting |
| Section 3.9 | Community Recovery Services |
| Section 3.15 | School Based Services Benefit |
| Section 3.16 | Comprehensive Community Services |
| Section 3.18 | Children's Long Term Care cluster |

Designated state major programs

The Department of Health Services designates two 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 (*Main Document*, Section 3.4):

| | |
|--------------|--------------------------------|
| Section 3.7 | Medicaid Personal Care Program |
| Section 3.11 | Income Maintenance Consortia |

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 the *Main Document*, Section 3.4 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](#) 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 the *DHS Audit Guide*, Sections 2 and 3:

| Topic in Parts 3, 4, and 6 of the A-133 Compliance Supplement | Guidance in the DHS Audit Guide, Sections 2 and 3 |
|---|--|
| 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.

Contact the Division of Long Term Care for audit guidance for contracts for Managed Care Organizations with Family Care, Family Care Partnership, and PACE:

Bureau of Managed Care
 (608) 267-7286
 DHSFCWebmail@wisconsin.gov

In addition, refer questions about audit requirements for contracts between a managed care organization and a service provider to the managed care organization.

Managed care organizations might receive grants or other funding from the Department of Health Services that require the audit to be in accordance with the [DHS Audit Guide](#) or [OMB Circular A-133](#). Contact DHSAuditors@Wisconsin.gov for questions about such audit requirements, and include the name of the auditee and the name of the program(s).

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.)
- The [CARS website](#) has a crosswalk of the CARS profiles and their federal and state funding sources.

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 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 *DHS Audit Guide*, 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 of the State Single Audit Guidelines](#), Section 4 are based on AICPA models from 2001. You should always use current AICPA models, and just use the examples in the *Main Document* as guidance for modifying the current models to reflect inclusion of state programs and audit standards.

Note regarding AICPA models for report elements - Always use the AICPA model that is applicable to the period audited and date of auditor's opinion. These models change with the effective dates for the Clarity Project standards and the 2011 update to Government Auditing Standards. DHS cannot accept audit reports as meeting applicable standards if the reports have report elements that are not appropriate for the period covered by the audit or the date the audit was issued.

Illustration 1.4 - Elements of the Audit Reporting Package

| Report elements prepared by the auditee | 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 |
| Financial Statements of the Overall Agency (Main Document , Section 4.1) | Yes | No | Yes | No |
| Schedule of Expenditures of Federal and State Awards (of the Main Document , Section 4.2) | Yes | Yes | Yes | Yes |
| Additional Supplemental Schedule(s) Required by Funding Agency (funding agencies may require this schedule - Main Document , Sections 4.3 and DHS Audit Guide , Section 2.3.3) | Check with funding agency | Check with funding agency | Check with funding agency | Check with funding agency |
| Settlement of DHS Cost Reimbursement Award – (DHS requires this schedule if the auditee is a nonprofit, a for-profit, or a local unit of government other than a county, tribe, Chapter 51 board, or school district; if the auditee receives funding directly from DHS; if payment is based on or limited to an actual allowable cost basis; and if the auditee reported expenses or other activity resulting in payment totaling \$100,000 for all of its grant(s) or contract(s) with DHS - DHS Audit Guide , Section 2.3.4) | Yes | Yes | Yes | Yes |
| Reserve Supplemental Schedule (DHS requires this schedule if auditee is non profit, paid on a prospectively set rate - DHS Audit Guide , Section 2.3.5) | Yes | Yes | Yes | Yes |
| Allowable Profit Supplemental Schedule (DHS requires this schedule if auditee is for-profit - DHS Audit Guide , Section 2.3.6) | Yes | Yes | Yes | Yes |
| Schedule of Prior Audit Findings (Main Document , Section 4.4) | Yes | Yes | Yes | Yes |
| Corrective Action Plan (Main Document , Section 4.5) | Yes | Yes | Yes | Yes |

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 prepared by the auditor | 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 |
| Opinion on General-Purpose Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards (Main Document , Section 4.6, see note, below) | 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 (Main Document , Section 4.7, see note, below) | Yes, add reference to the DHS Audit Guide | No | Yes | No |
| 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> (Main Document , Section 4.8, see note, below) | NA | NA | Yes, reference to SSAG encompasses DHS Audit Guide | 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> (Main Document , Section 4.9, see note, below) | No | Yes, remove reference to OMB Circular A-133 and add reference to the DHS Audit Guide | No | Yes, reference to SSAG encompasses DHS Audit Guide |
| 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> (Main Document , Section 4.10, see note, below) | NA | NA | Yes, reference to SSAG encompasses DHS Audit Guide | No |
| Schedule of Findings and Questioned Costs (Main Document , Section 4.11) | Yes | Yes | Yes | Yes |
| Management Letter (Main Document , Section 4.12) | Yes, if issued | Yes, if issued | Yes, if issued | Yes, if issued |

Note regarding AICPA models for report elements - Always use the AICPA model that is applicable to the period audited and date of auditor's opinion. These models change with the effective dates for the Clarity Project standards and the 2011 update to Government Auditing Standards. DHS cannot accept audit reports as meeting applicable standards if the reports have report elements that are not appropriate for the period covered by the audit or the date the audit was 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 (i.e. program service recipient) 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. The department's Privacy Officer recommends that auditors:

- Collect only the minimum amount of data necessary for appropriately documenting the audit.
- 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 AU Section 530 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](#) 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 in the current guidance for audit sampling, by AICPA’s AU Section 530, *Audit Sampling*.

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. See [OMB Circular A-133 Compliance Supplement](#) for federal audit requirements related to ARRA funding. In this section, the Department of Health Services requires 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). DOA reports the cumulative payment information to the federal government, and it also makes this information available on [its website](#).

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](#).

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 DOA website, the department requires additional information as shown in [DHS Audit Guide](#), 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 continued into 2012. 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.

1.7.3 Selection of ARRA programs for major program testing

In the [OMB Circular A-133 Compliance Supplement](#), 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 [DHS Audit Guide](#), Illustration 1.7.1 for each ARRA program.

Illustration 1.7.1 – ARRA in the audit report

Notes to the Schedule of Expenditures of Federal Awards

_____. The Wisconsin Department of Health Services requires the following additional information be presented 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:
 CARS or invoice expenses and payments by contract year:

| | 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 (Add'l years if needed) | x,xxx (1) | x,xxx |
| Total | x,xxx | x,xxx (2) |

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### 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:

- o The program or cluster had ARRA expenditures in the prior audit period,
- o The program or cluster was audited as a major program in the prior audit period,
- o The ARRA expenditures in the current audit period are less than 20% of the total program or cluster, and
- o The auditor followed the guidance in OMB Circular A-133 to determine that the program or cluster was otherwise low risk.

Yes/No/NA

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

## 1.8 Peer review

The section applies to all auditors.

All auditors performing audits involving DHS funding must be qualified to perform the audit. The auditor's qualifications are described in [Main Document of the State Single Audit Guidelines](#), Section 2.2.1 and they include having undergone a peer review in accordance with the requirements in [Government Auditing Standards](#) and [State of Wisconsin licensing standards](#). This section adds the following requirements for the 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 2014 update to the *DHS Audit Guide* (Revised)

This section applies to all audits.

The 2014 update to the [DHS Audit Guide](#) is effective for audit periods ending on or after December 31, 2014 and before December 31, 2015.

## 1.10 Due date for audit reports *(Revised)*

This section applies to all audits.

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

- For all agencies, the date specified in the contract or grant agreement.
- For agencies with ARRA funding, the federal government's specified timeframe for reporting significant issues.
- For agencies that have single audits, the federal government's due date for [OMB Circular A-133](#) audits
- For all other agencies, six months from the end of the fiscal period.

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 *(Revised)*

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 paper copies of audit reports.* Audit reports must be electronically-created pdf documents that are text searchable, unlocked, and unencrypted. To ensure that pdf files are unlocked and text-searchable, do not scan a physical copy of the audit report and do not change the default security settings in your pdf creator. The reports must be sent by either the auditee or auditor to [DHSAuditors@Wisconsin.gov](mailto:DHSAuditors@Wisconsin.gov) with cc to the auditor or auditee, respectively.

## 1.12 Contact information

The first part of 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](mailto: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.