AUDIT GUIDELINES

Substance Use Disorder Services (SUDS) Program

Michigan Department of Community Health

March 2009
(Effective Beginning with Fiscal Year 2008/2009 Audits)

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INTRODUCTION

The Substance Use Disorder Services (SUDS) Program Audit Guidelines are intended to provide clarification of the audit requirements contained in the SUDS Program contracts between the Michigan Department of Community Health (MDCH), and Regional Substance Abuse Coordinating Agencies (CAs) or Direct Contractors (agencies contracting directly with MDCH). The SUDS Program Audit Guidelines prescribe general audit responsibilities, and may not address all circumstances or conditions that are unique to the SUDS Program. Therefore, the auditor is required to exercise professional judgment to determine the necessary audit steps needed to accomplish the audit objectives.

Under the terms of Office of Management and Budget (OMB) Circular A-133, MDCH is considered a primary pass-through entity and the CAs or Direct Contractors become secondary pass-through entities having the same responsibility for enforcing the audit requirements among their subcontractors. Additionally, the SUDS Program contract between MDCH, and CAs or direct contractors, Part II, Section III. Assurances, G. Subcontracts, states, "Assure for any subcontracted service, activity or product:…2. That any executed subcontract to this agreement shall require the subcontractor to comply with all applicable terms and conditions of this agreement." Therefore, the audit requirements contained in the SUDS Program contracts between MDCH, and CAs or direct contractors, and the clarifications contained herein also apply to subcontract agencies receiving federal awards as a subrecipient. If, however, the subcontractor received payment for goods or services provided as a vendor, the subcontractor would be exempt from the audit requirements contained in the SUDS Program contracts and the clarifications contained herein (See the section titled "Subrecipient vs. Vendor Determination" in these Audit Guidelines).

AUDIT REQUIREMENTS

Single Audit

Coordinating agencies, direct contract agencies, and subcontract agencies that expend $500,000 or more in Federal awards [1] during the fiscal year must obtain a single audit or program-specific audit (when administering only one federal program) in accordance with the Code of Federal Regulations (CFR), Title 45, Part 96.31; the Single Audit Act Amendments of 1996 (31 U.S.C. 7501-7507); and updated Office of Management and Budget (OMB) Circular A-133 "Audits of State, Local Governments, and Non-Profit Organizations."

The single audit must be performed by an independent auditor, and in accordance with Generally Accepted Government Auditing Standards (GAGAS).

A program-specific audit must be performed by an independent auditor, and in accordance with GAGAS and the program-specific audit guide from the Office of Inspector General. If a program-specific audit guide is not available, the requirements outlined in Section .235(b) of OMB Circular A-133 must be followed.

Financial Statement Audit

Coordinating agencies, direct contract agencies, and subcontract agencies that are exempt from the Single Audit requirements, but receive $500,000 or more in total funding (state and Federal) directly or indirectly from MDCH must obtain a Financial Statement Audit prepared by an independent auditor and in accordance with Generally Accepted Auditing Standards (GAAS). Subcontract agencies receiving payments for goods or services provided as a vendor are exempt from the financial statement audit requirements.

Supplemental Audit Schedules A and B

For coordinating agencies, direct contract agencies, and subcontract agencies that expend $500,000 or more in Federal awards, or receive $500,000 or more in total funding (state and Federal) directly or indirectly from MDCH their independent auditors must prepare Supplemental Audit Schedules A and B.

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[1] Guidance on determining Federal awards expended is provided in Section .205 of OMB Circular A-133. Generally, Medicaid payments to a subrecipient for providing patient care services to Medicaid eligible individuals are not considered Federal awards expended. Additionally, payments received for goods or services provided as a vendor would not be considered Federal awards. Guidance in Section .210 (b) and (c) should be considered in determining whether payments constitute a Federal award or a payment for goods and services. Guidance is also provided in the section titled "Subrecipient vs. Vendor Determination" in these Audit Guidelines.

Supplemental Audit Schedules A and B must reflect budgeted, reported and audited revenues and expenditures covering the contract period. The audited expenditures must be reported on the accrual basis and in compliance with applicable cost principles. Further details are provided on pages 12 & 21-24. Sample schedules are attached.

Note: Agencies contracting directly with MDCH must use the Schedule A and Schedule B formats provided in these Guidelines. However, subcontract agencies (agencies that contract with a Coordinating Agency) may use a substitute format if it includes all of the required information (budgeted, reported and audited revenues and expenditures), it provides all of the information needed by the Coordinating Agency, and it is approved by the Coordinating Agency.

Note: Subcontract agencies receiving payments for goods or services provided as a vendor are exempt from the supplemental audit schedule requirements.

Reporting Package

The following sections list the specific items that must be included in the reporting package for various scenarios:

For coordinating agencies, direct contract agencies, and subcontract agencies subject to Single Audit (even if federal funding received from, or indirectly from, MDCH is less than $500,000), the reporting package includes:

1. The single audit reporting package described in Section .320(c) of OMB Circular A-133, including the corrective action plan;
2. Supplemental Audit Schedules A and B; and
3. Management letter, if one is issued, and management's response.

For coordinating agencies, direct contract agencies, and subcontract agencies exempt from Single Audit, but spend $500,000 or more in total funding from, or indirectly from, MDCH in state and federal grant funding, the reporting package includes:

1. The financial statement audit prepared in accordance with GAAS;
2. Supplemental Audit Schedules A and B; and
3. Management letter, if one is issued, and management's response.

For coordinating agencies, direct contract agencies, and subcontract agencies exempt from Single Audit, that spend less than $500,000 in total funding from MDCH in state and federal grant funding, but a financial statement audit includes disclosures that may negatively impact MDCH-funded programs, including, but not limited to fraud, going concern uncertainties, and financial statement misstatements, the reporting package includes:

1. The financial statement audit prepared in accordance with GAAS; and
2. Management letter, if one is issued, and management's response.

For coordinating agencies, direct contract agencies, and subcontract agencies exempt from Single Audit, that spend less than $500,000 in total funding from MDCH in state and federal grant funding, and the financial statement audit does not include any disclosures that may negatively impact MDCH-funded programs, the reporting package includes:

1. An Audit Status Notification Letter certifying the exemptions.

Due Date

The CA or direct contract agency must submit the reporting package described above to MDCH within nine months after the end of the agency's fiscal year.

Subcontract agencies must submit the reporting package described above to their applicable CA or direct contract agency within nine months after the end of the subcontractor's fiscal year. CAs or direct contract agencies may contractually require an earlier reporting package due date for their subcontractor agencies.

Penalty

If the CA or direct contract agency fails to submit the applicable single audit or financial statement audit reporting package within nine months after the end of the agency's fiscal year and an extension has not been approved by the cognizant or oversight agency for audit, the Department may withhold from current funding five percent of the audit year's grant funding (not to exceed $200,000) until the required reporting package is received. MDCH may retain the withheld amount if the reporting package is delinquent more than 120 days. The department may terminate the current grant if the Contractor is more than 180 days delinquent in meeting the filing requirements, and an extension has not been approved by the cognizant or oversight agency for audit.

If the CA or direct contract agency fails to submit the Audit Status Notification Letter within nine months after the end of the agency's fiscal year, the Department may withhold one percent of the audit year's grant funding from current funding until the Audit Status Notification Letter is received.

Where to Send

The CA or direct contract agency must submit the reporting package described above to MDCH at the following address:

Michigan Department of Community Health
Office of Audit
Quality Assurance and Review Section
P.O Box 30479
Lansing, Michigan 48909-7979
Or

Capital Commons Center
400 S. Pine Street
Lansing, Michigan 48933

Alternatives to paper filing may be viewed at: http://www.michigan.gov/mdch by selecting Inside Community Health – MDCH Audit.

Incomplete or Inadequate Audits

If MDCH determines the reporting package is incomplete or inadequate, the auditee and possibly its independent auditor will be informed of the reason of inadequacy and its impact in writing. The recommendations and expected time frame for resubmitting the corrected reporting package will be indicated.

Management Decision

MDCH will issue a management decision on findings and questioned costs contained in the CA or direct contract agency single audit within six months after the receipt of a complete and final reporting package. The management decision will include whether or not the audit finding is sustained; the reasons for the decision; and the expected CA or direct contract agency action to repay disallowed costs, make financial adjustments, or take other action. Prior to issuing the management decision, MDCH may request additional information or documentation from the CA or direct contract agency, including a request for auditor verification or documentation, as a way of mitigating disallowed costs.

However, if there are no findings and/or questioned costs, MDCH will notify the CA or direct contract agency that the review of the audit and supplemental audit schedules is complete and the results of the review.

SUBRECIPIENT VS. VENDOR DETERMINATION

An entity receiving pass-through federal funds may be a subrecipient or a vendor. Federal awards expended by a subrecipient would be subject to Single Audit requirements. The payments received for goods or services provided as a vendor would not be considered federal awards and are therefore not subject to the Single Audit requirements.

A **subrecipient** is defined as "a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program but does not include an individual who is a beneficiary of such a program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency."

A **vendor** is "a dealer, distributor, merchant, or other seller providing the goods or services that are required for the conduct of a federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the federal program."

The following checklist is designed to help determine whether an entity receiving federal funds should be considered a subrecipient or a vendor for Single Audit purposes. Generally, a preponderance of "yes" answers for a particular classification should assist this determination. However, in some instances, it may be difficult to determine whether a relationship is that of a subrecipient or a vendor; therefore, the decision should be based on the substance of the relationship over the form of the agreement. [OMB Circular A-133, Section .210(d)]

General Instructions:

1. Answer all questions for both types of organizations. Each question should be answered either "Yes" or "No." A "Yes" answer is indicative of the type of relationship being reviewed. However, there are certain factors that will have a greater bearing on the conclusion than others, such as responsibility for determining eligibility for the program.

2. After completing the checklist, document the conclusion and the basis for the classification in Step #2.

Step 1
Answer the following questions (1-10) for the entity receiving federal funds:

Subrecipient Classification
Characteristics indicative of a federal award received by a subrecipient (questions 1 – 5):

1. Does the entity determine who is eligible to receive federal financial assistance? [OMB Circular A-133, Section .210(b)(1)]

2. Does the entity have programmatic decision-making responsibility such as the determination of program benefits, approval of costs incurred, establishment of program service area, etc.? [OMB Circular A-133, Section .210(b)(3)]

3. Does the entity have its performance measured against whether the objectives of the federal program are met? [OMB Circular A-133, Section .210(b)(2)]

4. Does the entity have responsibility for adherence to applicable federal program compliance requirements? [OMB Circular A-133, Section .210(b)(4)]

5. Does the entity use the federal funds to carry out a program of the pass-through entity as compared to providing goods or services for a program of the pass-through entity? [OMB Circular A-133, Section .210(b)(5)]

Vendor Classification
Characteristics indicative of a payment of goods or services received by a vendor (questions 6 – 10):

6. Does the entity provide the goods or services within normal business operations? [OMB Circular A-133, Section .210(c)(1)]

7. Does the entity provide similar goods or services to many different purchasers? [OMB Circular A-133, Section .210(c)(2)]

8. Does the entity operate in a competitive environment? [OMB Circular A-133, Section .210(c)(3)]

9. Does the entity provide goods or services that are ancillary to the operation of the federal program? [OMB Circular A-133, Section .210(c)(4)]

10. Is the entity not subject to compliance requirements of the federal program? [OMB Circular A-133, Section .210(c)(5)]

Step 2 - Conclusion

Based on the preponderance of "Yes" answers, substance of the relationship, and discussions with appropriate personnel, the entity has been determined to be a: (check one)

Subrecipient _____
Vendor _____

Comments:

COORDINATING AGENCY / DIRECT CONTRACT AGENCY RESPONSIBILITIES

(AUDITS, SUBRECIPIENT MONITORING, OTHER REQUIREMENTS)

To ensure fulfillment of the audit, subrecipient monitoring, and other requirements of OMB Circular A-133 and the contract with MDCH, CAs and direct contract agencies must:

1. Identify in its accounts all Federal awards received and expended and the Federal programs under which they were received including the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity; and inform subcontractors of CFDA title and number, award name and number, and name of Federal agency for Federal awards passed through to subcontractors.
2. Maintain internal control over programs assuring that the Federal and state grants are being managed in compliance with applicable laws, regulations, and the provisions of contracts.
3. Comply with provisions of contracts, laws, and regulations, including the compliance requirements applicable to the Federal program as listed in the Compliance Supplement to OMB Circular A-133; and advise subcontractors of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements.
4. Ensure that any executed subcontract requires the subcontractor to comply with all terms and conditions of the contract between MDCH, and the CA or direct contract agency; and any billing or request for reimbursement for subcontract costs is supported by a valid subcontract and adequate source documentation on costs and services.
5. Prepare appropriate financial statements in accordance with generally accepted accounting principles, including (as required) the schedule of expenditures of Federal awards in accordance with Section .310 of OMB Circular A-133.
6. Ensure that the required audit and supplemental audit schedules are completed by an independent auditor, and the required reporting package is submitted to MDCH by the contractually required due date; and submit the single audit reporting package and data collection form to the Federal clearinghouse within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period according to the requirements of OMB Circular A-133, Section .320.
7. Permit access by authorized representatives of MDCH, Federal grantor agency, Comptroller General of the United States and State Auditor General to records, files and documentation related to the SUDS Program as requested; and ensure that any executed subcontract allows the CA or direct contract agency access to the records and financial statements of the subcontractor as necessary.
8. Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with Section .315 of OMB Circular A-133.

9. Monitor the activities of subcontractors (including those below the single audit threshold) as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts as required by OMB Circular A-133, Section .400(d)(3).
10. Ensure that each of the subcontractors comply with the applicable audit requirements, and require timely submission of subcontractor audit reports to the CA or direct contract agency.
11. Review subcontractors' audit reports and issue a management decision on audit findings within six months after receipt of the subcontractor's audit report and ensure that the subcontractor takes appropriate and timely corrective action as required by Section .400(d)(5) of OMB Circular A-133.
12. Ensure the procurement, receipt, and payment for goods and services to vendors comply with laws, regulations, and the provisions of contracts or grant agreements as required by Section .210(f) of OMB Circular A-133.

AUDIT OBJECTIVES

The "Audit Requirements" Section details the type of audit required, and the supplemental audit schedule requirements. Following are the objectives of each:

The objective of a financial statement audit is primarily limited to determining whether the financial statements of the audited agency are presented fairly in all material respects in conformity with Generally Accepted Accounting Principles.

The objectives of a single audit /program-specific audit are to determine whether:

1. The financial statements of the audited agency are presented fairly in all material respects in conformity with Generally Accepted Accounting Principles and/or the Schedule of Expenditures of Federal Awards is presented fairly in all material respects in relation to the financial statements taken as a whole.

2. The audited agency has complied with laws, regulations and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs.

   To assist auditors in performing the required compliance audit and to help identify important compliance requirements, auditors should refer to the OMB Circular A-133 Compliance Supplement AND the section of these SUDS Program Audit Guidelines titled "Items Requiring Special Consideration."

   The OMB Circular A-133 Compliance Supplement, Part 2 identifies the compliance requirements that are applicable to the programs included in the Supplement (e.g. CFDA 93.959). Part 3 includes a general description of compliance requirements, audit objectives, and suggested audit procedures. Part 4 or Part 5 contains additional information about the compliance requirements that arise from laws and regulations applicable to each program, including the requirements specific to each program that should be tested. For programs not covered in the Compliance Supplement (e.g. CFDA 93.243), the auditor should use the types of compliance requirements contained in the compliance supplement as guidance for identifying the types of compliance requirements to test, and determine the requirements governing the Federal program by reviewing the provisions of contracts and grant agreements and the laws and regulations referred to in such contracts and grant agreements.

   The section of these SUDS Program Audit Guidelines titled "Items Requiring Special Consideration" highlights various contractual and other regulatory provisions that require compliance testing in addition to the items specifically identified by the OMB Circular A-133 Compliance Supplement.

Compliance testing must include tests of transactions, and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance.

3. The audited agency has internal accounting and other control systems in place to provide reasonable assurance to achieve the following objectives with regards to the federal grant:
    - Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and federal reports;
    - Compliance with laws, regulations and other compliance requirements; and
    - Funds, property and other assets are safeguarded against loss from unauthorized use or disposition.

The objectives of the Supplemental Audit Schedule A are to confirm that the revenue and expenditure amounts reported by the agency are actual, supported by the agency's records, allowable, appropriate, in compliance with the applicable cost principles (OMB Circular A-87 or A-122), and within the budget limits; identify variances between reported and audited amounts; identify MDCH overpayments; and determine compliance with the contractual/regulatory local match requirement.

The objectives of the Supplemental Audit Schedule B are to identify variances between reported and audited revenues and expenditures (by program), determine questioned costs (by program), monitor PA2 funds and ensure all entitled PA2 funds were received and recorded, reconcile PA2 funds to reported expenditures, monitor Medicaid managed care funds, and reconcile Medicaid managed care funds to reported expenditures.

Additional Note: The primary objectives of the audits are financial and compliance issues. Auditors are not expected to perform an economy and efficiency audit. However, auditors should report conditions that come to their attention that are material in their opinion that reflect:

a. Unnecessary duplication of effort
b. Inefficient or wasteful use of resources
c. Ineffective or costly procedures

ITEMS REQUIRING SPECIAL CONSIDERATION

As stated in the "Audit Objectives" section, this section highlights various contractual and regulatory provisions that require compliance testing as part of a single audit in addition to the items specifically identified by the OMB Circular A-133 Compliance Supplement. The provisions are listed in alphabetical order. Contract and regulatory references are provided where deemed feasible. The auditor should report material noncompliance as an audit finding in the schedule of findings and questioned costs.

NOTE: If an MDCH contract provision (i.e. ABW services) is subcontracted, the auditor of the CA or Direct Contractor is not expected to perform compliance testing at the subcontractor level. However, the auditor is expected to perform testing at the CA or Direct Contractor level to determine if subcontracts contain all applicable terms and conditions, and the CA or Direct Contractor performed their required pass-through agency responsibilities (see "Subcontracts – Pass-Through Agency Responsibilities" section below).

Administration Expenditures

The auditor should determine if the agency's administration expenditure reporting complies with all applicable provisions of Attachment B. 3 of the contract.

Adult Benefit Waiver (ABW)

The auditor should determine if the expenditures charged for the ABW program were for covered services provided to the enrolled/eligible population that are not residents in institutions for mental diseases. The auditor should determine if the ABW program expenses were accounted for separately. The auditor should determine if the agency provided the required general fund match (27.81%). If not all of the ABW authorization was used and excess ABW funds were retained by the agency as local funds, the auditor should determine that state-allocated community grant funds were not used on ABW program services in place of ABW program funds. *(Contract – Attachment A – Services - 2. Treatment Services e. Adult Benefit Waiver)*

ABW savings from the prior year should be entered in Section E. Local, Row e.3. Other Local in the RER. (C*ontract – Attachment B – VIII. MIChild and ABW Savings)*

Budget Amendments and Revisions

The auditor should determine if budget amendments and revisions complied with contractual provisions. (C*ontract – Attachment B – Sections II. and III.)*

To change the amount (up or down) of any state-administered fund source in Section A of the Revenues and Expenditures Report (RER), or Total Agreement Amount, a budget amendment is required and must be submitted to MDCH for approval by the due date annually set by MDCH.

To move state-administered funds between expenditure budgets, a budget revision is needed. The contract allows certain limited discretionary budget revisions without prior MDCH approval, but MDCH must be notified within ten business days. Other revisions require advance MDCH approval.

The auditor must use approved or otherwise properly revised budget amounts when completing Supplemental Audit Schedules A, and B.

Debarment and Suspension

The auditor should determine if the agency verified its employees and subcontractors were not debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any federal department or contractor; or received certifications of such by subcontractors. *(Contract - Part II. Section III. D. 1*)

Equipment Purchases

The auditor should determine if the agency has properly acquired and accounted for equipment purchases.

Agencies must comply with the procurement standards set forth in OMB Circular A-102 or A-110, as applicable. *(Contract – Part II, Section III. H.)*

Costs charged to the SUDS Program for equipment purchases must comply with the applicable cost principles. *(Contract – Part II, Section III. A.)*

For any contract containing Attachment B.2 (Equipment Inventory Schedule), equipment purchases must be included in the budget and approved as evidenced in the Equipment Inventory Schedule for them to be an allowable cost supported in whole or in part with SUDS Program funds. *(Contract - Part I, Section 2. B.)*

Expenditure Reporting

The auditor should determine if the agency's expenditures reported on the Revenue and Expenditure (RER) Report comply with applicable OMB Circular cost principles and contract provisions. Any reported expenditures that do not comply with the applicable OMB Circular cost principles or contract provisions should be deducted from "audited costs" on Schedules A and B.

OMB Circular A-87 (located at 2 CFR, Part 225) is applicable to agencies that are local government entities, and OMB Circular A-122 (located at 2 CFR, Part 230) is applicable to agencies that are non-profit entities. *(Contract – Part II, Section III. A.)*

Generally, OMB Circular cost principles require that for costs to be allowable they must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient performance and administration of the grant.
b. Be allocable to the grant under the provisions of the applicable OMB Circular. (*)
c. Be authorized or not prohibited under State or local laws or regulations.
d. Conform to any limitations or exclusions set forth in the applicable OMB Circular, other applicable laws and regulations, or terms and conditions of the grant and agreement.
e. Be accorded consistent treatment. (**)
f. Be determined in accordance with generally accepted accounting principles.
g. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period.
h. Be the net of all applicable credits.
i. Be adequately documented.

* Agencies cannot bill the community grant for Medicaid eligible services**.**

** Agencies must use the same method to allocate costs to Medicaid and non-Medicaid services.

All reported expenditures must be traceable to the agency's general ledger, and adequately supported.

If an accounts payable is not liquidated by December 31, the associated expenditure is not allowable unless properly extended according to contract terms. *(Contract – Attachment B – Final Reporting)*

Reimbursements to **subcontractors** must be supported by a valid subcontract and adequate, appropriate supporting documentation on costs and services. *(Contract – Part II, Section III. G. 4.)*

Reported costs for **less-than-arms-length transactions** must be limited to underlying cost. For example, the agency may rent their office building from the agency's board member/members, but rent charges cannot exceed the actual cost of ownership if the lease is determined to be a less-than-arms-length transaction. Guidance on determining less-than-arms-length transactions is provided in OMB Circulars A-87 and A-122.

Financing of media campaigns is allowed if approved in advance and in writing by MDCH. *(Contract – Attachment A – Administrative and Financial – 12. Media Campaigns)*

Community grant funds shall NOT be used for the following purposes (*Contract – Attachment A – General – 3. SUDS Block Grant Requirements and Applicability to State Funds)*:

a. Inpatient hospital services except under condition specified in federal law.
b. Cash payments to intended recipients of services.
c. Purchase or improve land; purchase, construct, or permanently improve (other than minor remodeling) any building or any other facility; or purchase major medical equipment.
d. Satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funding.
e. Provide individuals with hypodermic needles or syringes so that such individuals may use illegal drugs.
f. Enforce State laws regarding the sale of tobacco products to individuals under the age of 18.
g. Pay the salary of an individual at a rate in excess of Level I of the Federal Executive Schedule, or approximately $186,600 (for full time).

Funds made available through MDCH shall not be made available to hospitals which refuse, solely on the basis of an individual's substance use disorders or substance dependence, admission or treatment for emergency medical conditions. *(Contract - Attachment A – Administrative and Financial – 6. Subcontracts with Hospitals)*

Communicable Diseases Funds shall not be used to purchase primary health care unless MDCH approves such use in writing. *(Contract - Attachment A – Administrative and Financial 10. Reimbursement for Primary Health Care with CD Funds)*

Fees and Collections (Collection and Reporting)

The auditor should determine if the agency has made reasonable efforts to collect 1st and 3rd party fees where applicable. Any under recoveries of otherwise available fees resulting from failure to bill for eligible services must be excluded from reimbursable expenditures. *(Contract – Part II, Section I. B.)*

The auditor should determine if the agency has properly reported all fees and collections (e.g. determine if all fees and other 3rd party reimbursements were properly reported on the RER as instructed in the contract). The agency is required to report all fees and collections revenue received by the agency as well as all fees and collections revenue received and reported by its subcontracted services providers on the Revenue and Expenditures Report Form. *(Contract – Attachment A, Administrative and Financial – 2. Reporting Fees and Collections Revenues)* All fees and collections reported on the RER need to be verified with the agency's records. The portion of fees and collections revenue reported and actually received by the agency needs to be traced and agreed to the agency's general ledger. The portion of fees and collections revenue received and reported by subcontracted services providers, and reported by the agency on the RER (subcontractor revenue not actually received by the agency but reported by the agency on the RER), needs to be traced and agreed to the underlying agency records used to prepare this information (i.e. Care Net).

The Audited Expenditures column on Schedule A should include all verified information (including the portion of reported fees and collections revenue received and reported by subcontracted service providers, but not actually received by the agency and recorded on their general ledger.) Schedule B should reconcile to Schedule A, and should include all verified information (including the portion of reported fees and collections revenue received and reported by subcontracted service providers, but not actually received by the agency and recorded on their general ledger.) The variances between the Supplemental Schedules and the audited financial statements created by including fees and collections not actually received by the agency should be explained in footnotes to the Schedules.

"Fees and collections" are defined in the Administrative Rules (*Rule 325.4151*), and include only those fees and collections that are associated with services paid for by the agency. *(Contract – Attachment A - Administrative and Financial -1. Match Rules)*

Note that agencies may not charge Medicaid, ABW, and MIChild beneficiaries co-pays or fees.

Indirect Costs

The auditor should determine if the agency's reported indirect costs and the allocation methodology comply with applicable OMB Circular cost principles, and if the agency completed and submitted the required Certificate of Central Cost Allocation Plan to MDCH. Any reported indirect costs that do not comply with the applicable OMB Circular cost principles should be deducted from "audited costs" on Schedules A and B with a resulting "questioned cost."

OMB Circular A-87 is applicable to agencies that are local government entities, and OMB Circular A-122 is applicable to agencies that are non-profit entities. *(Contract – Part II, Section III. A.)*

OMB Circular cost principles require that indirect costs be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. Therefore, indirect costs must be equitably distributed to all programs that benefit. In other words, the SUDS Program, Medicaid, ABW and MI Child must each be charged their proportionate share of indirect costs (e.g. administration and facilities). The requirements for cost allocation plans and indirect cost rates are detailed in OMB Circulars A-87 and A-122.

When there is a central cost allocation, the agency must submit to MDCH via the Electronic Grants Administration and Management System (EGrAMS), on agency letterhead, a Certificate of Central Cost Allocation Plan whenever a central cost allocation is introduced or is revised, or every two years, whichever is sooner. (*Contract – Attachment B – Introduction)*

Match Requirement

The auditor should determine if the agency met the contractual local match requirement.

Administrative Rules 325.4151 through 325.4153 (promulgated pursuant to Section 6213 of Public Act No. 368 of 1978, as amended) define allowable match and require that coordinating agency program budgets include allowable match funds equal to not less than 10% of the total program budget, less direct federal and other state funds.

The match requirement applies both to budgeted funds and actual expenditures. *(Contract – Attachment A – Administrative and Financial – 1. Match Rules)*

"Fees and collections" as defined in the Rule include only those fees and collections that are associated with services paid for by the CA. *(Contract – Attachment A – Administrative and Financial – 1. Match Rules)*

If the coordinating agency does not comply with the match requirement, or cannot provide reasonable evidence of compliance, MDCH may withhold payment or recover payment in an amount equal to the amount of the match shortfall. (*Contract – Attachment A - Administrative and Financial – 1. Match Rules)*

MIChild

The auditor should determine if the expenditures charged for the MIChild program were for services provided to eligible children for medically necessary substance abuse services, the services were covered under the MIChild program, and the MIChild program expenses were accounted for separately. The auditor should determine if the agency provided the required general fund match (27.81%). If not all of the MIChild authorization was used and excess MIChild funds were retained by the agency as local funds, the auditor should determine that state-allocated community grant funds were not substituted in place of available MIChild Program funds. *(Contract – Attachment A – Services – 2. Treatment Services d. MIChild)*

MIChild savings from the prior year should be entered in Section E. Local, Row E. 3. Other Local in the RER. (C*ontract – Attachment B – VIII. MIChild and ABW Savings)*

Sliding Fee Scale

The auditor should determine if the agency's sliding fee scale is applied to all persons (except Medicaid, MIChild, and ABW recipients) seeking treatment. If the agency opts to apply the fees to Access Management Services, the same sliding fee scale must be used.

The auditor should determine if the agency reviews individuals' financial information annually or at a change in an individual's financial status, whichever occurs sooner.

(Contract - Attachment A – Administrative and Financial – 4. Sliding Fee Scale)

Subcontracts

The auditor should determine if the agency has properly awarded and managed subcontracts. **The following subsections address various requirements relating to subcontracts**:

Classification between Subrecipient and Vendor

The auditor should determine if the agency properly classified their payments to contractors as Federal awards to subrecipients, or payments for goods and services to a vendor according to the guidance provided in Sections .210 (b) and (c) of OMB Circular A-133.

Procurement Standards

The auditor should determine if the agency complied with the procurement standards set forth in either OMB Circular A-102 or OMB Circular A-110, as applicable, to ensure that materials and services are obtained in an effective manner and in compliance with the provisions of applicable Federal statutes and executive orders. *(Contract - Part II, Section III. H. Procurement)*

Timely Execution of Complete Subcontracts

The auditor should determine if there was a subcontract executed **prior** to the initiation of any subcontracted activity, and if the subcontract required the subcontractor to comply with all applicable terms and conditions of the agreement between the agency and MDCH. Any billing or reimbursement request for subcontract costs must be supported by a valid subcontract and adequate source documentation on costs and services. *(Contract - Part II, Section III. G. Subcontracts)*

Same Rates for Medicaid and Community Grant

The auditor should determine if the Agency paid the same rate when purchasing the same service from the same provider, regardless of whether the services were paid for by Community Grant funds, Medicaid funds, or other Department administered funds, including Adult Benefit Waiver and MIChild funds. (*Contract – Attachment A – Administrative and Financial – 9. Reimbursement Rates for Community Grant, Medicaid and Other Services)*

Fixed Unit Rates

The auditor should determine if the Agency's rate setting complied with contractual provisions. Rate setting must be consistent with criteria in OMB Circular A-87 or A-122, whichever is applicable. Federal cost principles (OMB Circular A-87 or A-122) must be used as a guide in the pricing of fixed price arrangements. (*Contract – Attachment A – Administrative and Financial – 14.b. Documentation of How Fixed Unit Rates Were Established)*

Retention of Subcontractor Information

The auditor should determine if the agency complied with the record retention requirements relating to subcontractors. The agency must retain budgeting information for each service, documentation on the establishment of fixed unit rates, indirect cost documentation and fidelity bond documentation. *(Contract - Attachment A – Administrative and Financial – 14. Subcontractor Information to be Retained at the CA)*

Pass-Through Agency Responsibilities

The auditor should determine if the Agency complied with their pass-through responsibilities. For Federal awards (as defined by OMB Circular A-133) passed through to subrecipients (as defined by OMB Circular A-133), agencies must (*OMB Circular A-133, Section .400 (d))*:

a. Advise subcontractors of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements;
b. Ensure that any executed subcontract allows the agency access to the records and financial statements of the subcontractor as necessary;
c. Inform subcontractors of CFDA title and number, award name and number, and name of Federal agency for Federal awards passed through to subcontractors;
d. Monitor the activities of subcontractors (including those below the single audit threshold) as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts as required by OMB Circular A-133, Section .400(d)(3);
e. Ensure that each of the subcontractors comply with the applicable audit requirements;
f. Require timely submission of subcontractor audit reports to the agency; and
g. Review subcontractors' audit reports and issue a management decision on audit findings within six months after receipt of the subcontractor's audit report and ensure that the subcontractor takes appropriate and timely corrective action as required by Section .400(d)(5) of OMB Circular A-133.

The auditor should determine if the agency developed a subrecipient monitoring plan that addresses "during the award monitoring" of subrecipients. The subrecipient monitoring plan should include a risk-based assessment to determine the level of oversight, and monitoring activities such as reviewing financial and performance reports, performing site visits, and maintaining regular contact with subrecipients. *(Contract – Part II, Section I. H. Subrecipient/Vendor Monitoring)*

Vendor Contract Responsibilities

The auditor should determine if the Agency ensured the procurement, receipt, and payment for goods and services to vendors complied with laws, regulations, and the provisions of contracts or grant agreements. (*OMB Circular A-133, Section .210 (f))*

SUPPLEMENTAL AUDIT SCHEDULES A & B

Schedule A – Schedule of Budgeted, Reported and Audited Amounts

As stated previously, the objectives of the Supplemental Audit Schedule A are to confirm that the revenue and expenditure amounts reported by the agency are actual, supported by the agency's records, allowable, appropriate, in compliance with the cost principles of OMB Circular A-87 or A-122 as applicable, and within the budget limits; identify variances between reported and audited amounts; identify MDCH overpayments; and determine compliance with the contractual/regulatory local match requirement.

Following the same format as the RER Report, the auditor must record the budgeted amounts, reported amounts, audited amounts, and variances between the audited and reported amounts (with explanations) on Schedule A. Additionally, the auditor must record eligible local match funds in the final local match column, determine the local match required amount, and calculate the local match shortfall or excess. Finally, the auditor must determine the amount billable to MDCH, actual MDCH payments, and any MDCH overpayment or underpayment. If the entity's fiscal year is different than the contract period, the schedule must represent the contract period. The schedule must be prepared on the full accrual basis. A sample Schedule A is attached to these guidelines.

The following provides greater detail for completing various sections of Schedule A:

Budgeted column: Amounts must be drawn from the **final** budget agreement.

Reported column: Amounts must be drawn from the agency's **final** year end RER submitted to MDCH.

Audited Expenditures column: Amounts must represent audited expenditures by funding source that are supported by the agency's records and adjusted as needed for any reallocations and/or unallowable items (costs that do not comply with applicable OMB Circular cost principles or contractual provisions). Note that an adjustment to one funding source (e.g. increase in fees and collections from the reported amount) may warrant an adjustment to another funding source (e.g. decrease in community grant from the reported amount.)

Variance column: Amounts must represent variances between audited and reported amounts. **Footnotes explaining each variance must be provided**.

Local Match Funds column: Amounts must represent allowable local match funds as defined in the Administrative Rules (R325.4152) and the contract.

Amount Billable to MDCH: Amount is the subtotal of Section A (audited amount).

Total MDCH Payments: Amount must represent MDCH payments for the contract period only.

(Overpayment)/ Underpayment: Amount represents the difference between the amount billable to MDCH and the amount previously paid by MDCH. If MDCH has made an overpayment, the funds are due back to MDCH. If MDCH has made an underpayment, the funds will not be paid by MDCH due to the fact that the grant year is closed and no additional federal or state funds are available. Additionally, accurate reporting of costs within established timeframes is the responsibility of the agency; subsequent amendments are not allowed.

Local Match Requirement: Amount is calculated by applying 10% to the total expenditures less Medicaid, ABW, MIChild, and Other Contracts & Sources.

The financial data included in Schedule A must reconcile to the corresponding amounts reflected on Schedule B.

Schedule B – Schedule of Expenditures and Funding Sources by Program

As stated previously, the objectives of the Supplemental Audit Schedule B are to identify variances between reported and audited revenues and expenditures (by program), determine questioned costs (by program), monitor PA2 funds and ensure all entitled PA2 funds were received and recorded, reconcile PA2 funds to reported expenditures, monitor Medicaid managed care funds, and reconcile Medicaid managed care funds to reported expenditures. If the entity's fiscal year is different than the contract period, the schedule must represent the contract period. Additionally, the schedule must be prepared on the full accrual basis. A sample Schedule B is attached to these guidelines.

For each program category, the auditor must record the following:

Budgeted column: Amounts must be drawn from the **final** budget agreement.

Reported column: Amounts must be drawn from the agency's **final** year end RER submitted to MDCH.

Audited Expenditures column: The "Gross Amount" column must represent total audited expenditures for the specific program category that are supported by the agency's records and adjusted as needed for any reallocations and/or unallowable items (costs that do not comply with applicable OMB Circular cost principles or contractual provisions). The Medicaid and fees used to support the expenditures are recorded and deducted from the gross amount to determine the net audited expenditures.

Audited Funding Sources: The audited amount of each funding source for each program category is recorded.

Schedule B should include the entire MIChild and ABW fund amount received by the coordinating agency. Funds received in excess of expenditures will show as a questioned cost, but a footnote should explain that this is retained as local funds according to contract provisions.

Note that PA2 funds cannot be used for administration.

Variance (Audited-Reported): This column represents the difference between audited gross expenditures and reported gross expenditures.

Questioned Cost: (Expenditures – Funding): This column represents the difference between audited expenditures (net of Medicaid and fees) and audited funding sources.

The Reconciliation of PA2 Funds must show the beginning balance, PA2 funds received from the county(ies) in the current year, current year expenditures of PA2 funds (must agree with audited PA2 funds shown on Schedules A & B), and the ending balance. Note that the beginning fund balance should reconcile to the previous fiscal year's ending balance, and any variances should be explained. If PA2 funds were not received and/or expended during the fiscal year, the applicable areas should be reflected as zero with the beginning and ending balances updated accordingly.

Interest earned on the PA2 fund balance should be included on Schedule A at Line E3 "Other Local" if spent during the year. If not spent during the year, the interest earned on the PA2 fund balance should be included in the "Reconciliation of PA2 Funds" on a separate line as an addition to the fund balance.

Any variance between the PA2 fund amount(s) the county(ies) is required to distribute to the coordinating agency according to the General Property Tax Act (MCL 211.24e(11)) and the amount actually received by the coordinating agency must be noted and explained in a footnote on Schedule B. The amount that should be distributed is 50% of the amount shown on the Convention Facility Development Fund Distributions By County Report prepared by the Economic and Revenue Forecasting Division, Michigan Department of Treasury.

The Reconciliation of Medicaid Managed Care (PEPM) Funds must show current year PEPM payments received, Medicaid savings carried over from prior years, current year expenditures of Medicaid funds (must agree with audited Medicaid funds shown on Schedules A & B), Medicaid savings being carried forward (including prior year savings being carried forward again), and the lapse amount (amount to be returned to the grantee). Note that the Medicaid savings carried over from prior years should reconcile to the previous fiscal year's reported amount, and any variances should be explained. If Medicaid funds were not received and/or expended during the fiscal year, the applicable areas should be reflected as zero.

The financial data included in Schedule B must reconcile to the corresponding amounts reflected on Schedule A.

Note: Electronic templates for Schedules A and B are provided to the financial contacts of each coordinating agency.

MATERIAL WASTE OR LOSS

If during the course of the audit, the auditor finds material waste or loss (e.g. defalcations, theft, etc.), the auditor should promptly notify the agency and MDCH, or, if conditions warrant it, notification may only be to MDCH. Notification should also be made if the audited agency's records are found to be non-auditable.

RETENTION OF AUDIT WORKING PAPERS AND RECORDS

Audit working papers and records must be retained for a minimum of three years after the final audit review closure by MDCH. The agencies are required to keep subcontractors' reports on file for three years from date of receipt. All audit working papers must be accessible and are subject to review by representatives of the Michigan Department of Community Health, the Federal Government and their representatives. There should be close coordination of audit work between the Coordinating Agency auditor and the auditors of its subcontractors. To the extent possible, they should share audit information and materials in order to avoid redundancy.

EFFECTIVE DATE AND MDCH CONTACT

These SUDS Program Audit Guidelines replace the October 2005 Guidelines and are effective beginning with the fiscal year 2008/2009 audits. Any questions relating to these Guidelines should be directed to:

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SAMPLE SCHEDULE A ATTACHMENT

SAMPLE SCHEDULE B ATTACHMENT