

ODP Audit Requirements for Fiscal Year 2015/2016 Reporting Period

The audit requirements for providers delivering services under the Consolidated or P/FDS Waivers (Waivers) vary based on the services rendered by the provider and the associated level of expenditures. The audit requirements are published annually in the Office of Developmental Programs (ODP) Cost Report Instructions document. Prior to the release of the Year 9 Cost Report Instructions for the Fiscal Year (FY) 2015/2016 historical expense period, ODP is issuing this information to outline the audit requirements that will be effective for the Year 9 Cost Report period (i.e., July 1, 2015 – June 30, 2016). Providers should carefully review the following list, as some items are specific to providers who deliver Base services, Waiver Cost Report, Department-established Fee, Fee Schedule, Outcomes-based services, Transportation services, and Agency with Choice (AWC) services. Any questions related to this announcement or to the audit requirements in general should be directed to ODP Regional Fiscal Officer Agnes Rudolf at c-arudolf@pa.gov.

Required audit reports that support the current historical reporting period (July 1, 2015 – June 30, 2016) must be submitted within nine months from the close of the fiscal year, or by the due date of the Cost Report, whichever is later. For providers whose organization's reporting is not based on a June 30 fiscal year end, the audited financial statements for the year that ended during the period of July 1, 2015 – June 30, 2016 must be submitted (e.g., for providers whose organization's reporting is based on a calendar year, the audited financial statements for calendar year 2015 must be submitted).

Please note that the following audit requirements are applicable to fiscal years beginning on or after December 26, 2014. Audit thresholds, references, requirements, etc. have changed based on the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"), which was effective for fiscal years beginning on or after December 26, 2014. **These changes will affect most ODP providers in Year 9.** ODP is requiring the submission of the Year 9 Cost Report for residential eligible and transportation trip services. All Waiver services whose FY 2017/2018 rates will be developed based on the ODP Cost Report (i.e., Waiver Cost Report-based services) are deemed to be subrecipient services. Federal awards expended as a subrecipient are subject to all Federal audit requirements, including 2 CFR 200 §200.500, et seq. (i.e. the Uniform Guidance) and Title 45 CFR 75.01. Providers who meet these criteria must submit their single audit to the Federal Audit Clearinghouse (FAC), and then send a copy of the confirmation from the FAC to the Bureau of Audits (BOA) at RA-BOASingleAudit@pa.gov; providers of residential services must also upload a copy of the confirmation from the FAC to the ODP cost report website as a separate AF document. Providers submitting audits other than single audits must upload a copy of the audit report to the ODP cost report website. Please note that only the expenditures for subrecipient-type services are considered for the dollar thresholds that follow.

All providers who are submitting a single audit in accordance with the Uniform Guidance and/or Title 45 CFR 75.501 are required to include in their single audit reporting package a supplemental schedule, which is to be subjected to an Agreed-Upon Procedures engagement. The schedule, for which an example is included in this announcement as Example #3, is a reconciliation of the expenditures listed on the Schedule of Expenditures of Federal Awards (SEFA) to the Federal award income received from the Pennsylvania Department of Human Services (DHS), as noted in the revenue audit confirmation received from the Commonwealth of Pennsylvania. Providers must submit a copy of this audit confirmation to the ODP cost report website as a separate AF document. The procedures to be performed on the reconciliation schedule are as follows:

- A) Agree the expenditure amounts listed on the reconciliation schedule under the "Federal Expenditures per the SEFA" column C to the audited Schedule of Expenditures of Federal Awards (SEFA).
- B) Agree the receipt amounts listed on the reconciliation schedule under the "Federal Awards Received per the audit confirmation reply from Pennsylvania" column D to the

subrecipient Federal amounts that were reflected in the audit confirmation reply from the Office of Budget, Comptroller Operations.

- C) Recalculate the amounts listed under the "Difference" column E and the "% Difference" column F.
- D) Agree the amounts listed under the "Difference" column E to the audited books and records of the Provider.
- E) Agree the "Detailed Explanation of the Differences" to the audited books and records of the Provider.
- F) Based on the procedures detailed in paragraphs (A) through (E) above, disclose any adjustments and/or findings which have not been reflected on the corresponding schedules (List each separately.).

As is the case with other financial statements and schedules, management (the auditee) is responsible for the preparation of the required supplemental financial schedules. The auditor is asked to perform certain procedures on these schedules and incorporate all such schedules into the Audit package using the Independent Accountant's Report on Applying Agreed-Upon Procedures.

If a provider does **not** have expenses during FY 2015/2016 for services whose rates will be Waiver Cost Report-based for FY 2017/2018 but does have expenses during FY 2015/2016 for Waiver services that will be paid based on a Department-established Fee, Fee Schedule or Outcomes-based payment in FY 2017/2018, the provider is not required to submit an independent audit to ODP.

1. Any provider who signs a county contract for Base funds is required to comply with the terms of the contract.
2. A provider that expends less than \$500,000 in combined federal and Commonwealth funds during the FY 2015/2016 reporting period is exempt from DHS audit requirements for the Waiver program, but is required to maintain auditable records for each program year. Records should be available for review by DHS or its designee. If an audit is required for other programs in which the provider may participate, the provider must include the Waiver program in the audit and submit a copy of the audit, even if funds expended are less than \$500,000.
3. Providers who expend \$500,000 or more in combined federal and Commonwealth funds during the FY 2015/2016 reporting period (but less than \$750,000) are **not** required to have a Compliance Attestation completed in accordance with the American Institute of Certified Public Accountants' (AICPA) Statement on Standards for Attestation Engagements (SSAE) No. 10 (AT § 601, Compliance Attestation). This may be a requirement in future years of the prospective payment system (PPS). For the FY 2015/2016 reporting period, providers who meet these expenditure criteria are exempt from DHS audit requirements for the Waiver program. However, providers are required to maintain auditable records for each program year and the records should be available for review by DHS or its designee. If an audit is required for other programs in which the provider may participate, the provider must include the Waiver program in the audit, and submit a copy of the audit, even if funds expended are less than \$750,000.
4. Providers expending \$750,000 or more in combined federal and Commonwealth funds during the FY 2015/2016 reporting period must have an independent audit of their financial statements conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS), also known as the Yellow Book. In instances where the provider expends \$750,000 or more in federal funds, they are subject to the Uniform Guidance (Single Audit); Title 45, CFR 75.501 (federal guidance regarding audit requirements of for-profit entities) and any other federal requirements.

Please note that all for-profit entities that expend \$750,000 or more in federal funds may choose to provide a program-specific Yellow Book audit, as permitted by Title 45 CFR

75.501. All providers that expend \$750,000 or more in combined federal and Commonwealth funds, but less than \$750,000 in federal funds are required to submit a Yellow Book audit.

For purposes of this requirement, a Yellow Book audit has the same meaning as is described in Yellow Book Section 2.07a, financial statement audits (the 2011 version of the Yellow Book). Such providers are required to submit a complete set of financial statements, including notes thereto, prepared in accordance with Accounting Principles Generally Accepted in the United States of America (US GAAP), as of the provider's fiscal year end. These financial statements must be audited in accordance with Auditing Standards Generally Accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. As such, the auditor must include a report on the financial statements and also a report on internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

5. Providers who incur expenses for Waiver Cost Report-based services and also have expenses for Department-established Fee, Fee Schedule and/or Outcomes Based services must meet the \$750,000 threshold for subrecipient-type expenditures to meet the independent audit submission requirement. The total expenses for FY 2015/2016 Department-established Fee, Fee Schedule and Outcome Based services are not included in the determination of the \$750,000 threshold. Base Funded Department-established Fee, Base Funded Fee Schedule and Base Funded Outcomes-based services are also not included in the determination of the \$750,000 threshold. However, if the provider is required to have a Single Audit or Yellow Book audit performed for other federal funding, such provider is required to submit a copy of its Single Audit or Yellow Book audit to ODP.

Additionally, if a provider has other lines of business where the services provided are deemed to be subrecipient-type services, the expenditures related to subrecipient-type services should be included in the determination of the \$750,000 threshold. For example, if a provider has \$300,000 in expenses for Waiver Cost report-based services, \$400,000 in expenses for Department-established Fee or Fee Schedule services, and \$450,000 in expenses for services deemed to be subrecipient-type services related to the provider's other line(s) of business, the provider would meet the \$750,000 ($\$300,000 + \$450,000 = \$750,000$) threshold for subrecipient-type expenditures, thus requiring an independent audit submission. If in this example, the expenses for services deemed to be subrecipient-type services for the provider's other line(s) of business were \$250,000 instead of \$450,000, the provider would not meet the \$750,000 ($\$300,000 + \$250,000 = \$550,000$) threshold for subrecipient-type expenditures and would not be required to submit an independent audit.

All Providers who are required to submit the Year 9 cost report (residential and transportation trip services) are also required to submit an independent audit that includes a supplemental schedule in their audited financial statements that is specific to the Waiver line of business (LOB) expenses for the FY 2015/2016 reporting period. Regardless of the provider's fiscal year end, the audited financial statements must also include an additional supplemental schedule that reconciles the Cost Report **Waiver** expenses, for the FY 2015/2016 reporting period, as reported in the Cost Report, to the **Waiver** LOB supplemental schedule of expenses identified in the audit. Examples of these supplemental schedules are included on pages 6-8. Providers do not have to follow this format exactly but their supplemental schedules do need to contain the same type and level of information.

Both of these supplemental schedules (Waiver LOB and reconciliation) must be subjected to the auditing procedures applied in the audit of the basic financial statements and include an opinion on whether these supplemental schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole, as described in AICPA Statement on Auditing Standards No. 122, AU-C §725, Supplementary Information in Relation to the Financial Statements as a Whole (AU-C §725). If the audit is on a reporting year other than

fiscal year end 6/30, then the auditor does not need to issue an opinion on the supplemental schedules.

6. Providers who are required to submit the Year 9 cost report (residential and transportation trip) are required to describe their cost allocation methodology within the appropriate expense allocation schedule of the Cost Report. If deemed necessary, ODP may request a copy of the provider's cost allocation plan during the desk review process. For providers subject to audit, a separate audit opinion specific to the cost allocation plan is not required; disclosure of the cost allocation plan in the notes to the financial statements as part of the overall financial statement presentation is sufficient.
7. Non-County providers who incur expenses for Waiver Cost Report-based transportation trip services of \$750,000 or more in combined federal and Commonwealth funds during the FY 2015/2016 reporting period must have an independent audit of their financial statements conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS), also known as Yellow Book. In instances where the provider expends \$750,000 or more in federal funds, they are subject to Single Audit requirements in accordance with the Uniform Guidance; Title 45, CFR 75.501 (federal guidance regarding audit requirements of for-profit entities) and any other federal requirements.

Please note that all for-profit entities that expend \$750,000 or more in federal funds and choose to provide a program-specific Yellow Book audit, as permitted by Title 45 CFR 75.501, and all providers that expend \$750,000 or more in combined federal and Commonwealth funds, but less than \$750,000 in federal funds are required to submit a Yellow Book audit. For purposes of this requirement, a Yellow Book audit has the same meaning as is described in Yellow Book Section 2.07a, financial statement audits (the 2011 version of the Yellow Book). Such providers are required to submit a complete set of financial statements, including notes thereto, prepared in accordance with Accounting Principles Generally Accepted in the United States of America (US GAAP), as of the provider's fiscal year end. These financial statements must be audited in accordance with Auditing Standards Generally Accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. As such, the auditor must include a report on the financial statements and also a report on internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

County transportation providers must include the transportation expenses/revenues in their county audit.

8. An Agency with Choice (AWC) provider that is subject to federal audit requirements (e.g. a Single Audit in accordance with the Uniform Guidance, Title 45, CFR 75.501 [federal guidance regarding audit requirements of for-profit entities], et.al.) based on the other services the provider delivers, must include a supplemental schedule in their audited financial statements containing expenses that are specific to the AWC line of business. This supplemental schedule must be subjected to the auditing procedures applied in the audit of the basic financial statements and include an opinion on whether the supplemental schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole, as described in AICPA Statement on Auditing Standards No. 119, Supplementary Information in Relation to the Financial Statements as a Whole (SAS 119) (AU §551). If the audit is on a reporting year other than fiscal year end 6/30 then the auditor does not need to issue an opinion on the supplemental schedules.
9. Providers should prepare their financial statements in accordance with US GAAP and 55 PA CODE Chapter 51, rather than the 4300 regulations.
10. Residential Providers subject to audit are reminded of the audit requirement that includes an evaluation of the system of internal controls over consumer funds and that a representative

sample of individual consumer accounts are to be tested as part of this evaluation. In addition, the Room and Board payments made by consumers should be tested against the actual costs associated with residential occupancy.

Submission of Audited Financial Statements

For providers who are required to submit a Year 9 cost report (residential and transportation trip services), failure to submit an audit within nine months from the close of the provider's accounting period (or by the due date of the Cost Report, whichever is later) will result in ODP assigning a payment rate(s) to the provider. Failure to submit a revised cost report due to differences resulting from audit adjustments, if applicable, within 30 days of the date the final audit was issued, may also result in ODP assigning a rate(s).

Please note that no extensions will be granted for AFS submissions.

Except for single audits, all audits for RESIDENTIAL providers should be uploaded to ODP via the Cost Report submission website. Audits for providers who only deliver TRANSPORTATION TRIP services should be emailed to the AE conducting the desk review and to the Regional Fiscal Officer (i.e., should not be uploaded to the ODP Cost Report submission website). For single audits, a copy of the confirmation from the FAC should be uploaded to the Cost Report submission website, or emailed to the AE conducting the desk review and the Regional Fiscal Officer, as appropriate.

All providers that meet the thresholds must submit their audits to the FAC and provide a copy of the confirmation from the FAC to BOA within the nine-month time frame.

Office of Comptroller Operations
Bureau of Audits
Special Audit Support Services
RA-BOASingleAudit@pa.gov

Instructions for submitting these audits to BOA can be obtained from their website:
<http://www.budget.pa.gov/Services/ForGranteesAndSubrecipients/Pages/SingleAuditSubmissions.aspx>

Audit confirmation requests should be sent to:

Office of Comptroller Operations
Division of Quality Assurance
RA-QAPromiseConf@pa.gov.

Examples of AFS Supplemental Schedules

Example #1: Waiver LOB Supplemental Schedule

ABC Provider Agency

YEAR ENDED JUNE 30, 2016

OFFICE OF DEVELOPMENTAL PROGRAMS SUPPLEMENTAL SCHEDULE SCHEDULE A – EXPENSE REPORT

EXPENSES BY CATEGORY	Excluded Non- Allowable Waiver Expenses	Eligible Expenses for Waiver Participants
Program Direct Care Staff Salary/Wages	\$ 18,552	\$ 1,399,485
Program Direct Care Staff ERE	\$ 5,406	\$ 354,785
Other Program Staff Salary/Wages	\$ -	\$ 292,301
Other Program Staff ERE	\$ -	\$ 82,736
Contracted Staff	\$ -	\$ 403,786
Administrative Staff Salary/Wages	\$ 7,142	\$ 254,614
Administrative Staff ERE	\$ 1,818	\$ 68,023
Program Supplies	\$ -	\$ 864
Other Vehicle Expense	\$ -	\$ 281
Other Program Expense	\$ 1,755	\$ 204,830
Transportation - Participant Motor Vehicle	\$ -	\$ 11,803
Transportation - Participant	\$ -	\$ 94,280
Other Occupancy Expense	\$ 70	\$ 29,259
Depreciation - Buildings	\$ 208	\$ 10,623
Depreciation - Fixed Assets/Equipment	\$ 19	\$ 1,028
TOTAL EXPENSES	\$ 34,970	\$ 3,208,697
CONTRIBUTIONS/REVENUE	\$ 5,764	\$ 21,919
EXPENSES, NET OF CONTRIBUTIONS/REVENUE	\$ 29,207	\$ 3,186,778

Example #2: Reconciliation between AFS and Cost Report Supplemental Schedule

ABC Provider Agency
YEAR ENDED JUNE 30, 2016

OFFICE OF DEVELOPMENTAL PROGRAMS SUPPLEMENTAL SCHEDULE
RECONCILIATION - AUDIT TO COST REPORT

	<u>Per Audit</u>		<u>Per Cost Report</u>		Difference
	Eligible Expenses for Waiver Participants	Eligible Expenses for Waiver Participants	Eligible Expenses for Waiver Participants	Eligible Expenses for Waiver Participants	
EXPENSES BY CATEGORY					
Program Direct Care Staff Salary/Wages	\$ 1,399,485	\$ 1,399,485	\$ 1,399,485	\$ 1,399,485	\$ -
Program Direct Care Staff ERE	\$ 354,785	\$ 354,785	\$ 354,785	\$ 354,785	\$ -
Other Program Staff Salary/Wages	\$ 292,301	\$ 292,301	\$ 292,301	\$ 292,301	\$ -
Other Program Staff ERE	\$ 82,736	\$ 82,736	\$ 82,736	\$ 82,736	\$ -
Contracted Staff	\$ 403,786	\$ 403,786	\$ 403,786	\$ 403,786	\$ -
Administrative Staff Salary/Wages	\$ 254,614	\$ 254,614	\$ 254,614	\$ 254,614	\$ -
Administrative Staff ERE	\$ 68,023	\$ 68,023	\$ 68,023	\$ 68,023	\$ -
Program Supplies	\$ 864	\$ 864	\$ 864	\$ 864	\$ -
Other Vehicle Expense	\$ 256	\$ 281	\$ 281	\$ 281	\$ (25)
Other Program Expense	\$ 204,830	\$ 204,830	\$ 204,830	\$ 204,830	\$ -
Transportation - Participant Motor Vehicle	\$ 11,618	\$ 11,803	\$ 11,803	\$ 11,803	\$ (185)
Transportation - Participant	\$ 94,280	\$ 94,280	\$ 94,280	\$ 94,280	\$ -
Other Occupancy Expense	\$ 29,259	\$ 29,259	\$ 29,259	\$ 29,259	\$ -
Depreciation - Buildings	\$ 9,676	\$ 10,623	\$ 10,623	\$ 10,623	\$ (948)
Depreciation - Fixed Assets/Equipment	\$ 806	\$ 1,028	\$ 1,028	\$ 1,028	\$ (222)
TOTAL EXPENSES	\$ 3,207,317	\$ 3,208,697	\$ 3,208,697	\$ 3,208,697	\$ (1,380)
CONTRIBUTIONS/REVENUE	\$ 21,919	\$ 21,919	\$ 21,919	\$ 21,919	\$ -
EXPENSES, NET OF CONTRIBUTIONS/REVENUE	\$ 3,185,398	\$ 3,186,778	\$ 3,186,778	\$ 3,186,778	\$ (1,380)
TOTAL REVENUE	\$ 3,413,939	\$ 3,413,939	\$ 3,413,939	\$ 3,413,939	\$ -
Difference due to use allowance expense on Cost Report					

Example #3: Reconciliation between SEFA and Revenue Confirmation Reply

Year Ended June 30, 2016

OFFICE OF DEVELOPMENTAL PROGRAMS SUPPLEMENTAL SCHEDULE

RECONCILIATION

Federal Awards Passed through the Pennsylvania Department of Human Services
Expenditures per the SEFA to Revenue Received per the Pennsylvania Audit Confirmation Reply

(A)	(B)	(C)	(D)	(E)	(F)	(G)
<u>CFDA</u> <u>Name</u>	<u>CFDA</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u> <u>per the SEFA</u>	<u>Federal Awards</u> <u>Received per the Audit</u> <u>Confirmation Reply from</u> <u>Pennsylvania</u>	<u>Difference</u> <u>(C-D)</u>	<u>% Difference</u> <u>(E/D)</u>	<u>Detailed Explanation</u> <u>of the Differences</u>
Medical Assistance Program	93.778	\$ 9,864,727	\$ 8,539,468	\$ 1,325,259	15.52%	\$452,049 represents a timing difference; \$873,210 represents vendor-type services erroneously included in the SEFA
Special Education - Grants for Infants and Families	84.181	\$ 113,162	\$ -	\$ 113,162	100.00%	Vendor-type payments erroneously included on the SEFA