

Audit and Contract Requirements for County Health Departments



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Internal Audit Section
Office of the Inspector General
May 5, 2022

Today's Questions

- Who should you be getting audits from?
- What should you be looking for?
- How to handle excess profit and excess reserves?
- How can you detect inappropriate activity?
- How do you handle findings?
- Who can get an audit waiver?

Audits Overview

Requirements, Waivers, Guidance and Due Dates

Audit Requirements

Federal Single Audit Requirements

- Audits are required from subrecipients, not contractors.
- Audits are required if a subrecipient expends \$750,000 or more in federal funding.
- In practice, most agencies receiving county funding are contractors, not subrecipients.

Audit Requirements

State Audit Requirements

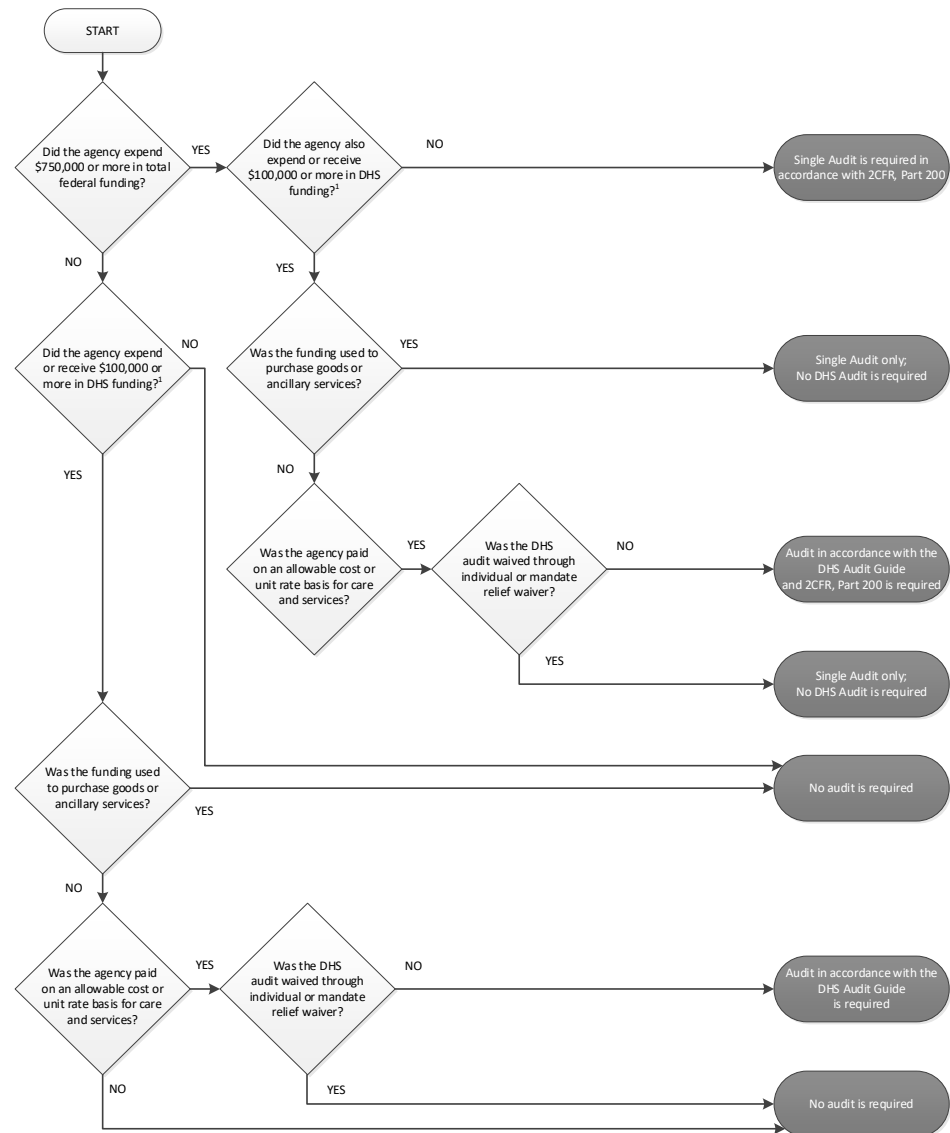
- Audit requirements are defined in Wis. Stat. § 46.036 and by policy.
- Audits are required for agencies that expend more than \$100,000 in grant funding or for purchases of services.
- Audits are not required for purchases of goods or ancillary services.

Audit Waivers

- State, but not federal audits, can be waived.
- Waivers *may be* appropriate for low-risk agencies.
- Waivers must be approved by Area Administration.
- DHS is less inclined to grant audit waivers as providers had access to COVID-related funding.
- If audit costs are included in contractual rates or grant awards, then “we are unable to afford an audit” is not a valid reason for an audit waiver.
- Paycheck Protection Program loans may put providers in an excess profit/reserves position. Audit waivers eliminate identification of this possibility.

What Type of Audit is Required?

Source: Department of Health Services Audit Guide, 2018 Revision



¹DHS funding may have been received directly from DHS or passed through a federal agency. This decision point also applies to other non-federal entities that received funding directly or passed through DHS, a County, a Tribe, or other non-federal entity.

Audit Guidance

- For Federal Single Audits
 - 2 CFR Part 200, Subpart F, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards”
- For State Audits
 - Department of Health Services Audit Guide, 2018 Revision

Auditing Industry Guidance

- Generally Accepted Accounting Principles (GAAP)
- Generally Accepted Auditing Standards (GAAS)
- Generally Accepted Government Auditing Standards (GAGAS) aka the Yellow Book

Audit Package Components

- Independent Auditor's Report
- Financial Statements and Footnotes
- Report on Internal Control
- Schedule of Findings and Questioned Costs
- Summary Schedule of Prior Audit Findings, if applicable

Audit Package Components

- Supplemental Schedules
 - Schedule of Expenditures of Federal and State Awards (SEFSA)
 - Cost Reimbursement Award Schedule
 - Allowable Reserves Schedule
 - Allowable Profit Schedule
- Corrective Action Plan (CAP)
- Management Letter, if issued

Audit Due Dates

- Federal single audits are due no later than 9 months after the end of the audit period.
- State required audits are due no more than 6 months after the end of the audit period.
- No current due date extensions as of 5/5/22. The CPA industry continues to lobby OMB for additional federal extensions. DHS would adopt any federal extensions for DHS-required audits.



General Review

Completeness, Timeliness and the Auditor's Report

Resolving Audits - General

- Is the audit package complete?
- Is the audit submitted on time?
- Was the right type of audit performed?
- Was the audit conducted in accordance with GAAP, GAAS and GAGAS?
- Is the proper State guidance cited?

The Auditor's Report

Page 1

Things to look for

- Audit period
- Responsibility of management
- Responsibility of the auditor
- Opinion statement
- Basis of accounting
- Applicable audit guidance

Board of Directors

██████████, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of ██████████, Inc. which comprise the balance sheet as of **December 31, 2017**, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ██████████, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with **accounting principles generally accepted in the United States of America.**

The Auditor's Report

Page 2

Things to look for

- Opinion on Supplementary Information
- Reference to Government Auditing Standards (GAS)
- Reference to DHS Audit Guide
- Date of audit

Board of Directors

, Inc.

Report on Summarized Comparative Information

We have previously audited [REDACTED], Inc.'s December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of unrestricted functional revenue and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis in accordance with the Department of Health Services Audit Guide and the Provider Agency Audit Guide and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2018, on our consideration of [REDACTED], Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering [REDACTED], Inc.'s internal control over financial reporting and compliance.

[REDACTED]
Certified Public Accountants

Milwaukee, Wisconsin
December 5, 2018

Report on Internal Control

Page 1

Things to look for:

- Reference to Federal and State Audit Guidance
- Opinion on Internal Control over FR and Compliance
- Identification of material weaknesses or significant deficiencies (if applicable)

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards, the Department of Health Services Audit Guide and the Provider Agency Audit Guide

Independent Auditor's Report

To the Board of Directors

██████████, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, in accordance with the *Department of Health Services Audit Guide* issued by the Wisconsin Department of Health Services, and in accordance with the *Provider Agency Audit Guide* issued by the Wisconsin Department of Children and Families, the financial statements of ██████████, Inc., which comprise the balance sheet as of December 31, 2017, and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated December 5, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ██████████, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ██████████, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of ██████████, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2017-001 and 2017-002 that we consider to be material weaknesses.**

Report on Internal Control

Page 1

Things to look for:

- Results of Compliance Testing
- Identify any issues of noncompliance
- Citation of applicable federal and state audit guidance
- Date of report

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Financial Statements

Balance Sheet, Footnotes

Balance Sheet or Statement of Financial Position

What to look for:

- Positive cash position
- Reasonable borrowing
- Enough current assets to meet current liabilities
- Positive net assets or shareholder's equity position

████████████████████, INC.
BALANCE SHEET
DECEMBER 31, 2017
 (With Summarized Totals for December 31, 2016)

	ASSETS	
	2017	2016
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 6,753	\$ 14,536
Grants Receivable	74,869	152,051
Prepaid Expenses	2,760	3,101
Total Current Assets	<u>\$ 84,382</u>	<u>\$ 169,688</u>
FIXED ASSETS		
Equipment	\$ 67,516	\$ 67,516
Less: Accumulated Depreciation	(59,910)	(56,866)
Net Fixed Assets	<u>\$ 7,606</u>	<u>\$ 10,650</u>
OTHER ASSETS		
Security Deposits	\$ 3,200	\$ 3,200
Total Other Assets	<u>\$ 3,200</u>	<u>\$ 3,200</u>
TOTAL ASSETS	<u><u>\$ 95,188</u></u>	<u><u>\$ 183,538</u></u>
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES		
Accounts Payable	\$ 26,658	\$ 2,213
Accrued Salaries	2,748	5,666
Accrued Vacation	4,362	4,958
Line of Credit	8,705	—
Refundable Advances	—	11,213
Total Current Liabilities	<u>\$ 42,473</u>	<u>\$ 24,050</u>
Total Liabilities	<u>\$ 42,473</u>	<u>\$ 24,050</u>
NET ASSETS		
Unrestricted	\$ 52,715	\$ 159,488
Total Net Assets	<u>\$ 52,715</u>	<u>\$ 159,488</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 95,188</u></u>	<u><u>\$ 183,538</u></u>

Statement of Activities or Income Statement

What to look for:

- Gain or loss
- Unusual changes from one year to the next
- Reasonableness of expenses (Impact of COVID)
- Type of expenses
- Unallowable Costs
- Relationship to program expenses

████████████████████, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Summarized Totals for the Year Ended December 31, 2016)

	Unrestricted	
	2017	2016
REVENUE		
State of Wisconsin -		
Department of Health Services	\$ 65,434	\$ 113,270
████████████████████, Inc.	78,370	88,429
City of Milwaukee - ██████████	16,128	75,000
University of Wisconsin, ██████████		
████████████████████	---	23,320
In-Kind Revenue	---	12,552
Contributions	621	56,347
Special Events Income	9,772	16,978
Special Events Expense	(2,057)	(7,374)
Other Income	2,637	1
Interest Income	18	369
Total Revenue	<u>\$ 170,923</u>	<u>\$ 378,892</u>
EXPENSES		
Program Services	\$ 212,760	\$ 263,313
Management and Supporting Services	64,936	107,153
Total Expenses	<u>\$ 277,696</u>	<u>\$ 370,466</u>
CHANGE IN NET ASSETS	\$ (106,773)	\$ 8,426
Net Assets, Beginning of Year	<u>159,488</u>	<u>151,062</u>
NET ASSETS, END OF YEAR	<u>\$ 52,715</u>	<u>\$ 159,488</u>

Footnotes

What to look for:

- Related party transactions
- Pending litigation
- Contingencies and Commitments
- Subsequent events
- Paycheck Protection Program (PPP) loans
- Know your provider's line(s) of business
- Other interesting items

2. Related Party Transactions

██████████, LLC

██████████, LLC is a limited liability company owned by the Company's stockholders and the stockholders' children. The company owns and leases real estate, some of which is leased to ██████ Services Company. ██████ Services leases their corporate office space on a month-to-month basis from ██████ ██████, LLC. Under the lease for the year ended December 30, 2015, rent expense was \$50,378.

Note 4

Disallowed Costs Due to Funding Sources

In the current year, ██████ determined that there were inappropriate costs charged to grants and has recorded a payable to the following funding sources as of September 30, 2014:

Wisconsin Department of Justice	\$	21,257
Wisconsin Department of Health Services		20,074
██████████ Wisconsin		178
<u>Total</u>	<u>\$</u>	<u>41,509</u>

Schedules

Findings and Questioned Costs, Revenues and Expenses,

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2014

Things to look for:

- Type of opinion
- Material or significant weaknesses
- Going concern
- Audit guidance
- Management letter
- Partner signature
- Date of audit

A. Summary of Auditor's Results	
Financial Statements	
1. Type of auditors' report issued?	Unqualified
2. Internal control over financial reporting:	
a. Material weakness(s) identified?	No
b. Reportable condition(s) identified not considered to be material weaknesses?	None Reported
3. Noncompliance material to the financial statements noted?	No
B. Financial Statement Findings	No matters were reported
C. Other issues	
1. Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern?	No
2. Does the audit report show audit issues (i.e. material non-compliance, non-material non-compliance, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the <i>Provider Agency Audit Guide</i> :	
Department of Health and Human Services	No
Department of Workforce Development	N/A
Department of Corrections	N/A
3. Was a Management Letter or other document conveying audit comments issued as a result of this audit?	Yes

Name & Signature Partner

Date of Report August 5, 2015

Revenue & Expenses

██████████ Inc.
Schedule of Revenue and Expenses Allocated by Funding Source
For the years ended December 31, 2015 and 2014

	County	County	County	Other	2015 Total	2014 Total
Revenue						
Client Services	\$ 565,174	\$ 1,579,334	\$ 1,764	\$ 1,420,179	\$ 3,566,451	\$ 3,451,958
Expenses -						
Advertising and Marketing	3,670	10,255	11	9,222	23,158	17,233
Bank and Credit Card Charges	421	1,176	1	1,057	2,655	3,772
Board Fees	1,902	5,314	6	4,778	12,000	14,000
Depreciation and Amortization	3,047	8,515	10	7,657	19,228	22,213
Education and Training	1,358	3,795	4	3,412	8,569	16,094
Employee Benefits	-	-	-	-	-	4,879
Equipment Lease	2,131	5,955	7	5,355	13,447	-
Insurance	6,683	18,674	21	16,792	42,169	35,979
Interest Expense	10,987	30,702	34	27,608	69,331	58,991
Legal and Accounting	2,501	6,989	8	6,285	15,783	15,398
Licenses and Fees	1,358	3,795	4	3,412	8,569	1,603
Outside Services	84,925	237,316	265	213,401	535,906	362,204
Wages and Salaries	376,604	1,052,391	1,175	946,338	2,376,509	2,285,972
Payroll Taxes	40,296	112,603	126	101,256	254,281	259,357
Office Supplies and Postage	982	2,744	3	2,468	6,197	4,890
Printing Expense	102	286	0	257	645	10,601
Property Taxes	2,940	8,215	9	7,387	18,550	-
Rent	4,232	11,827	13	10,635	26,707	60,895
Repairs and Maintenance	2,478	6,925	8	6,227	15,638	27,845
Supplies	29,356	82,034	92	73,767	185,250	138,933
Telephone	8,119	22,688	25	20,401	51,233	21,295
Travel	3,026	8,457	9	7,605	19,098	17,964
Utilities	8,324	23,260	26	20,916	52,526	64,634
Total Expenses	595,441	1,663,914	1,858	1,496,235	3,757,449	3,444,752
Total Allowable Costs	595,441	1,663,914	1,858	1,496,235	3,757,449	3,444,752
Net Profit (Loss) after Allowable Costs	(30,267)	(84,580)	(94)	(76,056)	(190,998)	7,206
Allowable Profit (Allowable costs X 7.5%)	44,658	124,794	139	112,218	281,809	258,356
Net Profit in Excess of Allowable Profit	\$ (74,925)	\$ (209,373)	\$ (234)	\$ (188,274)	\$ (472,807)	\$ (251,150)
Units of Service	45,868					

To protect and promote the health and safety of the people of Wisconsin

Advertising and Marketing

2013

Advertising and Marketing for [REDACTED] Inc.

3/3/2016	Date	Account	Num	Description	Memo	Tag	Clr	Amount	Page 1
	EXPENSES							-34,429.62	
	Advertising & Marketing							-34,429.62	
	12/13/2013	AB Credit Ca...		[REDACTED] Restuarant Debit Card			R	-145.27	
	1/30/2013	CBT CK Clean 1314		Sign*A*Rama			R	-1,640.00	
	2/18/2013	CBT CK Clean 1378		Mental Health Association In Wauk...	KG307; 211 First Call for Help		R	-300.00	
	2/27/2013	CBT CK Clean 1409		[REDACTED] Little League	KG325; MVP Sponsorship		R	-500.00	
	3/20/2013	CBT CK Clean 1472		[REDACTED]			R	-200.00	
	4/3/2013	CBT CK Clean 1516		[REDACTED]	MR358; Volleyball Team Sponsorship		R	-315.30	
	4/10/2013	CBT CK Clean 1532		Gannett Wisconsin Media	KG362; Acct. #301832; Ref.#00067593...		R	-384.01	
	4/15/2013	CBT CK Clean 1550		JobsHQ	KG366; Acct. #293856; Stmt. #1197063		R	-308.00	
	4/15/2013	CBT CK Clean 1553		Ladysmith News	KG366; AODA Counselor Ad		R	-102.00	
	5/15/2013	CBT CK Clean 1641		Ladysmith News	KG397; AODA Counselor Ad		R	-102.00	
	5/15/2013	CBT CK Clean 1649		Wisconsin Club			R	-1,119.49	
	5/29/2013	CBT CK Clean 1677		[REDACTED]			R	-150.00	
	5/29/2013	CBT CK Clean 1683		Wisconsin Club			R	-348.28	
	6/3/2013	CBT CK Clean 1693		[REDACTED]	KG418; Sports Team Sign-up		R	-315.30	
	6/11/2013	CBT CK Clean 1714		Gannett Wisconsin Media	KG423; Acct. #301832; Ref.#00072262...		R	-244.89	
	6/11/2013	CBT CK Clean 1716		[REDACTED]			R	-50.00	
	6/18/2013	CBT CK Clean 1744		Wisconsin Club			R	-917.56	
	6/24/2013	CBT CK Clean 1749		American Telemedicine Association	KG437; Membership		R	-220.00	
	6/24/2013	CBT CK Clean 1757		[REDACTED]			R	-100.00	
	7/6/2013	CBT CK Clean		[REDACTED]			R	-6.98	
	7/10/2013	CBT CK Clean 1783		Eau Claire Press Company	KG453; Acct. # 10312; #0000712074		R	-91.33	
	7/10/2013	CBT CK Clean 1788		Monster.com	KG453; Acct. #MCMW2154318; Inv. #5...		R	-331.00	
	7/10/2013	CBT CK Clean 1798		Wisconsin Club			R	-907.28	
	7/10/2013	CBT CK Clean 1799		Wisconsin Correctional Association	KG453; Booth Rental		R	-400.00	
	7/17/2013	CBT CK Clean 1809		[REDACTED]			R	-50.00	
	7/24/2013	CBT CK Clean 1821		Capital Newspaper	KG469; Acct. #2608121; Ref. #207770...		R	-501.00	
	7/24/2013	CBT CK Clean 1826		Gannett Wisconsin Media	KG469; Acct. #301832; Ref.#00072971...		R	-283.87	
	8/5/2013	CBT CK Clean 1863		Wisconsin Club			R	-243.88	
	8/14/2013	CBT CK Clean 1874		[REDACTED]			R	-50.00	
	8/14/2013	CBT CK Clean 1882		Monster.com	KG489; Acct. #MCMW2154318; Inv. #5...		R	-250.00	
	8/14/2013	CBT CK Clean 1883		Morris Newspaper Corp. Of Wiscon...	KG489; Inv. #139680		R	-107.00	
	8/14/2013	CBT CK Clean 1894		Wisconsin Club			R	-1,381.81	
	8/28/2013	CBT CK Clean 7021		Wisconsin Club			R	-297.38	
	9/11/2013	CBT CK Clean 7057		Monster.com	KG505; Acct. #MCMW2154318; Inv. #5...		R	-250.00	
	9/19/2013	CBT CK Clean 7077		Wisconsin Club			R	-1,541.69	

More Marketing

2014

Advertising and Marketing for [REDACTED] Inc.

3/3/2016

Page 1

Date	Account	Num	Description	Memo	Tag	Clr	Amount
EXPENSES							-17,233.51
Advertising & Marketing							-17,233.51
2/11/2014	AB Credit Car...		Bella Cafe		R		-5.51
7/17/2014	AB Credit Car...		...Renaissance SEattle		R		-168.00
7/24/2014	AB Credit Car... 0		DDA PUR JOB POST-S 8005609439 C...		R		-29.00
8/15/2014	AB Credit Car... 0		DDA PUR ISTOCK *IN 866-478-6251 W...		R		-54.90
8/23/2014	AB Credit Car...		PensXpress		R		-89.83
9/23/2014	AB Credit Car...		MDA		R		-100.00
11/4/2014	AB Credit Car...		Forum Interactive		R		-318.00
11/10/2014	AB Credit Car... 0		DDA PUR CAREERBUIL 800-861-4182 ...		R		-419.00
11/10/2014	AB Credit Car... 0		DDA PUR CAREERBUIL 800-861-4182 ...		R		-419.00
12/1/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-59.98
12/1/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-59.98
12/1/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-59.98
12/2/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-103.97
12/2/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-59.98
12/2/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-59.98
12/2/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-59.98
12/2/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-59.98
12/2/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-59.98
12/2/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-109.00
12/2/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-109.00
12/2/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-109.00
12/2/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-109.00
12/2/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-109.00
12/2/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-109.00
12/2/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-54.98
12/2/2014	AB Credit Car... 0		DDA PUR OMAHASTEAK 08009608400...		R		-69.99
12/31/2013	CBT CK Clean		Google		R		-500.00
12/31/2013	CBT CK Clean		MilwaukeeJobs.com		R		-1,812.50
12/31/2013	CBT CK Clean		Wisconsin Club		R		-2,038.12
2/28/2014	CBT CK Clean 7460		Wisconsin Club		R		-869.75
3/5/2014	CBT CK Clean 7471		Ladysmith News		R		-216.75
3/12/2014	CBT CK Clean 7485		Gannett Wisconsin Media		R		-206.52
3/20/2014	CBT CK Clean 7502		Wisconsin Club		R		-887.76
4/28/2014	CBT CK Clean 7575		MilwaukeeJobs.com		R		-2,087.50
7/15/2014	CBT CK Clean 7734		MilwaukeeJobs.com		R		-1,812.50

To protect and promote the health and safety of the people of Wisconsin

Allowable Reserves and Profit

Impact of COVID-related Funding

Legislation About Reserves

Wis. Stat. §46.036 allows reserves for non-profit agencies:

- Agencies can retain up to 5% of revenue, with no restrictions on how it can be used.
- Excess must be claimed within 6 months.

Allowable Reserves

Things to look for:

- Amount of allowable expenses (see schedules for costs)
- Double-dipping concerns, auditors are aware and reviewing/adjusting allowable costs
- Calculation errors? Ask provider for calculation support and ask about PPP loans (should be disclosed in footnotes)
- Lower allowable % by county, if applicable
- Excess to be recovered? Notification required within six months

Company ZYX
WISCONSIN DEPARTMENT OF HEALTH SERVICES RESERVE SCHEDULE
Year Ended June 30, 2020

1. Contract	Some type of Program
2. Allowable expenses for rate-based service	\$ 2,827,625
3. Total revenue for rate-based service	\$ 3,095,198
4. Excess (deficiency) revenue over expenses (line 3 less line 2)	\$ 267,573
5. Calculation of reserve and amounts due to purchaser:	

Purchaser (5a)	Revenue from purchaser (5b)	Purchaser's share of total revenue (5c)	Purchaser's share of excess revenue (deficiency) (5d)	5% Cap on excess reserves (5e)	Amount due to the purchaser (5f)
Wisconsin Department of Health Services	2,330,294	0.75	200,680	116,515	84,165
Another Agency	764,904	0.25			
Total	3,095,198	1.00	200,680	116,515	84,165

*The amount due to the purchaser is recorded as a refundable advance in the statements of financial position.

**COMPANY XYZ
ALLOWABLE PROFIT SCHEDULE
YEAR ENDED DECEMBER 31, 20xx**

Allowable Profit

Things to look for:

- Amount of allowable expenses (review other schedules)
- Equity position in relation to the balance sheet
- Calculation errors?
Request supporting dox
- Potential double-dipping of expenditure reimbursements
- Auditors reviewing and adjusting PPP loan allocations
- Line 7: Excess profit identified
- Notify provider within 6 months if recovering funding

Name of Agency: Company xyz

Period: December 31, 20xx

Program: Some Services

Calculation of allowable profit:

Note -- calculate profit at the function or program level when agencies operate multiple functions or programs

Base calculation

1 Net allowable operating cost \$ 1,686,285
1a x 7 1/2% \$ 126,471

Note -- deduct unallowable costs (such as costs above cost of ownership in related party rent) and cost offsets (such as commodities)

2 Average net equity

	Beginning of Period	End of Period
Cost of equipment	\$ 28,319	\$ 28,319
Cost of building	\$ 5,993	\$ 5,993
Cost of land	\$ -	\$ -
Cost of fixed equipment	\$ -	\$ -
Less accumulated depreciation	\$ 29,307	\$ 30,009
Less long term liabilities	\$ 32,481	\$ -
2a Total equity	<u>\$ -</u>	<u>\$ 4,303</u>
2b Average net equity	<u>\$ 2,152</u>	
2c x 15%	<u>\$ 323</u>	

3 Total base calculation \$ 126,794
 (Sum of amounts calculated in steps 1a and 2c)

4 Cap on allowable profit:

4a Net allowable operating cost \$ 1,686,285
4b x 10% \$ 168,629

5 Maximum allowable profit \$ 126,794
 (Lesser of amounts calculated in steps 3 and 4b)

6 Actual profit:

Revenue from Wisconsin DHS contract \$ 2,023,113
 Total allowable costs \$ 1,686,285
 Net profit \$ 336,828

7 Excess profit calculation \$ 210,034
 (Amounts in step 6 less step 5.)

DHS Guidance on Excess Reserves or Profit

- *Under Wis. Stat. [46.036](#), the purchase of care and services can be contracted between vendors and the Department, or vendors and a county. Regardless of who contracts for services, the Department does not govern the conduct of the counties or oversee their contracts for the purchase of care and services. The Department publishes an Audit Guide that may be used by the counties, but any guidance the Department gives a county is only to be construed as guidance and is not controlling. As such, if there is a dispute between a county and a vendor regarding excess reserves or profits, the Department is not a party to that dispute.*
- *When there is a contract between a vendor and the Department, the OIG follows federal and state allowable cost principles and continues to guide counties that it is inappropriate to allow any reasonable and allowable expenditure to be paid more than once with federal and/or state funding sources. This allocation results in some providers showing excess reserves or profits. From each provider's submitted annual audit report, the OIG will continue to identify any excess profits of state funds. While the OIG is not responsible for recovering excess profits of federal funds (such as the Paycheck Protection Program), providers will continue to be reminded that returning excess profits to the State does not relieve them of any responsibilities they may have related to federal money they received and their obligation to follow all federal regulations.*

Audit Findings

Types of Findings and Resolution

Types of Findings

- Material weakness
- Significant deficiency
- Material non-compliance
- Known questioned costs
- Likely questioned costs

Item #2017-001 Material Weakness in Internal Controls and Non-Compliance Over Allowable Costs

- 2) Criteria: Organizations that receive and expend federal and state grants are required to comply with allowable cost principles including that costs shall be adequately documented and allocated to cost objectives in reasonable proportion to the benefit provided.
- 3) Condition: Four (4) out of 30 disbursements did not have documentation to support the cost as allowable and five (5) did not have documented approval. Grants were charged to grantors based on the budget and costs were not tracked within the general ledger as direct or indirect charges to each grant.
- 4) Cause: The financial statements maintained by an outside accountant were not regularly updated.
- 5) Effect: It is not possible to determine that costs reported were allowable.

Resolving Common Findings

- Lack of segregation of duties
- Lack of internal controls
- Lack of financial expertise to prepare GAAP financial statements
- Unallowable costs
- Lack of documentation
- Program non-compliance

Overall Guidance

Make sure that:

- Audit reports are complete and timely.
- The right type of audit was done.
- The agency is financially healthy.
- Costs are reasonable and necessary.
- Excess profit and reserves is claimed timely.
- Findings are resolved, if practicable.

Additional Information - Checklist

Handout materials include a checklist with suggestions and guidance that CHDs can use for reviewing the audit reports of their providers.

Questions?

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