

# Audits, Waivers, and Updates



Barbara A. Loescher, CIA  
Chief, Internal Audit Section  
Office of the Inspector General  
WHSFMA Conference  
May 25, 2023

# Today's Topics

- Audit requirements
- Waivers
- The audit package
- Excess profit reserves
- Findings
- Inappropriate Activity
- Upcoming SSAG and Audit Guide revisions

# 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 over \$750,000 or more in federal funding.
- In reality, the vast majority of 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.
- This does not include county tax levy!

# Audit Waivers

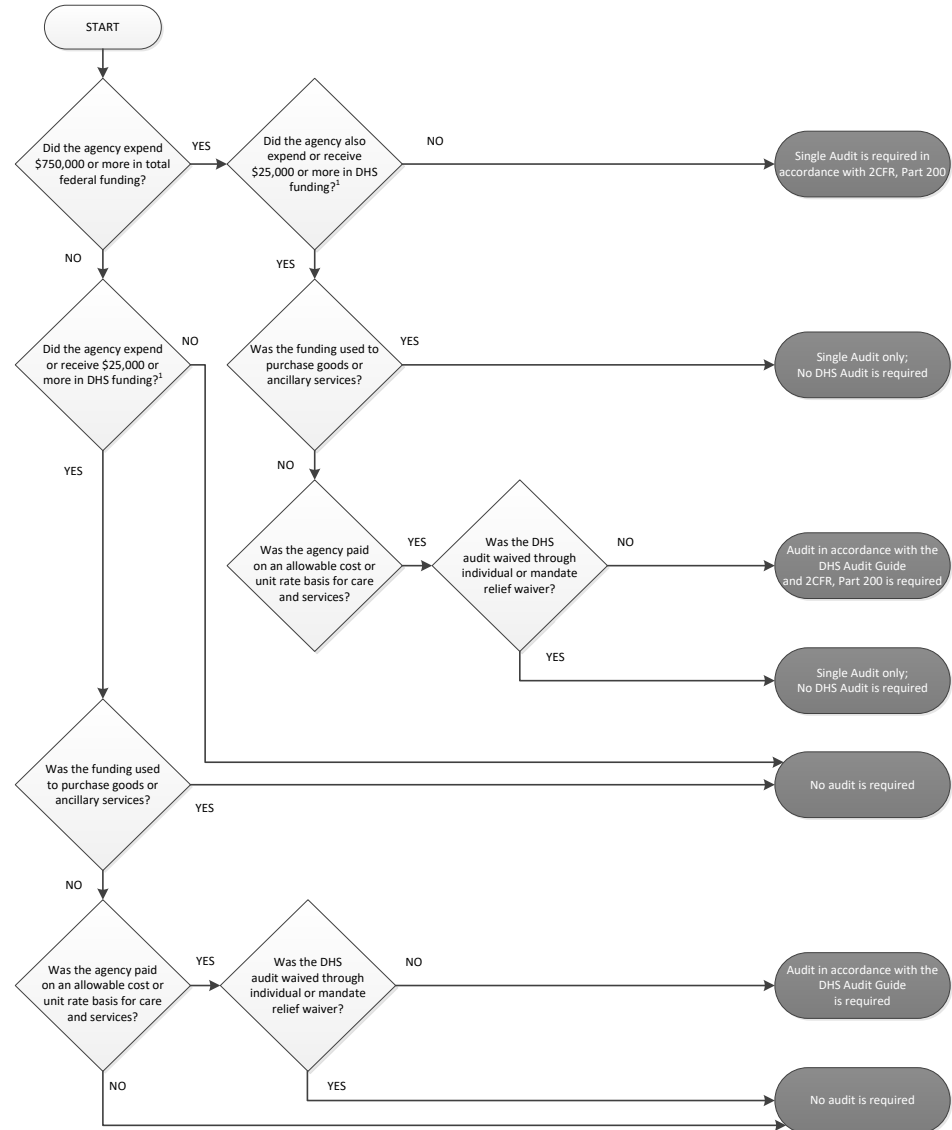
- State, but not federal audits, can be waived.
- Waivers are appropriate for low-risk agencies.
- Waivers must be approved by Area Administration.
- For certain types of providers, waivers just make sense.

# Inappropriate Waiver Requests

- Lack of adequate accounting system to provide necessary information
- Desire to avoid reimbursing excess profits or reserves
- No CPA to do the audit
- Exaggerated audit fees
- Haven't finished doing their bookkeeping
- Haven't had to do them before

# What Type of Audit is Necessary?

Source: Department of Health Services Audit Guide, 2018 Revision



<sup>1</sup>DHS 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”
  - DOA SSAG Main Document
- 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)

# 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

- Federally required 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.



# 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

Things to look for:

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



# Auditor's Report (Continued)

Things to look for:

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

# Report on Supplementary Information

Things to look for:

- List of schedules
- Opinion on schedules
- Reference to state audit guidance

# Financial Statements

Balance Sheet, Income Statement, and Footnotes

# Balance Sheet or Statement of Financial Position

What to look for:

- Positive cash position
- Reasonable borrowing
- Enough current assets to meet current liabilities
- Reasonable payroll accruals
- Positive net assets or shareholder's equity position
- Unusual changes from previous year

# Income Statement

Things to look for:

- Gain or loss
- Unusual changes from one year to the next
- Reasonableness of expenses
- Type of expenses
- Unallowable Costs

# Footnotes

What to look for:

- Related party transactions
- Pending litigation
- Contingencies
- Other interesting items

# Schedules

Findings and Questioned Costs, Revenues and Expenses

# Schedule of Findings and Questioned Costs

Things to look for:

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



# Schedule of Costs Reimbursed

- Provides a breakdown by contract of revenues and expenses
- Shows allocation of indirect costs across programs
- Should include a deduction for any unallowable costs incurred
- Shows net profit or loss by program
- Review for unusual costs or variances

# Allowable Reserves and Profit

Limits on What Can Be Retained

# Non-Profit Providers

Wis. Stat. §046.036 permits allowable 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 from receipt of audit report.

# Proprietary Agencies

- Guidance is set out in the DHS Audit Guide
- For-profit agencies may retain up to 10% profit
- Calculation includes allowances for capital expenses
- Excess must be claimed within 6 months

# Allowable Reserves or Profit

Things to look for:

- Amount of allowable expenses
- Calculation errors
- Lower allowable percentage by county, if applicable
- Excess to be claimed

# Audit Findings

Types of Findings and Resolution

# Types of Findings

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



# 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.

# Audit Guide Revisions

Changes to SSAG and DHS Audit Guide

# State Single Audit Guide Revisions

- DOA is issuing a revised SSAG Main Document later this summer
- Changes were to bring it more in line with Uniform Guidance
- Change in audit threshold requiring a Single Audit
- Changes related to major program determination

# DHS Audit Guide Revisions

- DHS will be issuing a revised guide later this summer as well.
- Changes in SSAG impact our Guide and will require explanation
- More detailed guidance involving some DHS programs (FSET, CLTS, etc.)
- Some changes are still being worked on

# Questions?

Contact information:

Barbara Loescher

Chief, Internal Audit Section

Department of Health Services

(608) 267-6773

[BarbaraA.Loescher@dhs.wisconsin.gov](mailto:BarbaraA.Loescher@dhs.wisconsin.gov)