

Clarifications on Audit Requirements for Fiscal Year 2010/2011 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 4 Cost Report Instructions for the Fiscal Year (FY) 2010/2011 historical expense period, ODP is issuing this announcement to clarify the audit requirements that will be effective for the Year 4 Cost Report period (i.e., July 1, 2010 – June 30, 2011). Providers should carefully review this entire list of clarifications, as some items are specific to providers who deliver Base services, Waiver Cost Report, Fee Schedule and 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 Officers.

1. Any provider who signs a county contract for Base funds is required to comply with the terms of the contract.
2. All Waiver services whose rates are 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 OMB Circular A-133 and Title 45 CFR 74.26.
3. If a provider does **not** have expenses for Waiver Cost Report-based services but does have expenses for Waiver Fee Schedule services and/or Outcomes-Based services during FY 2010/2011, the provider is not required to submit an independent audit.
4. A provider that expends less than \$300,000 in combined federal and Commonwealth funds during the FY 2010/2011 reporting period is exempt from Department of Public Welfare (DPW) audit requirements for the Waiver program, but is required to maintain auditable records for each program year. Records should be available for review by DPW 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 \$300,000.
5. Providers who expend \$300,000 or more in combined federal and Commonwealth funds during the FY 2010/2011 reporting period (but less than \$500,000) 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 will be a requirement in future years of the prospective payment system (PPS). For the FY 2010/2011 reporting period, providers who meet these expenditure criteria are exempt from DPW 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 DPW 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.
6. Providers expending \$500,000 or more in combined federal and Commonwealth funds during the FY 2010/2011 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 \$500,000 or more in federal funds, they are subject to OMB Circular A-133 (Single Audit); Title 45, CFR 74.26 (federal guidance regarding audit requirements of for-profit entities) and any other federal requirements.

Please note that all for-profit entities that expend \$500,000 or more in federal funds and choose to provide a program-specific Yellow Book audit, as permitted by Title 45 CFR 74.26, and all providers that expend \$500,000 or more in combined federal and Commonwealth funds, but less than \$500,000 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 1.22a, financial statement audits (the 2007 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.

7. Providers who incur expenses for Waiver Cost Report-based services and also have expenses for Fee Schedule Services and/or Outcomes Based services must meet the \$500,000 threshold for subrecipient-type expenditures to meet the independent audit submission requirement. The total expenses for Fee Schedule and Outcome Based services are not included in the determination of the \$500,000 threshold. Base Funded Fee Schedule services and Base Funded Outcomes-based Services are also not included in the determination of the \$500,000 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 \$500,000 threshold. For example, if a provider has \$300,000 in expenses for Waiver Cost report-based services, \$400,000 in expenses for Fee Schedule Services, and \$250,000 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 \$500,000 ($\$300,000 + \$250,000 = \$550,000$) 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 \$150,000 instead of \$250,000, the provider would not meet the \$500,000 ($\$300,000 + \$150,000 = \$450,000$) threshold for subrecipient-type expenditures and would not be required to submit an independent audit.

8. All providers who are required to submit an independent audit must include a supplemental schedule in their audited financial statements that is specific to the Waiver line of business (LOB) expenses and revenues for the FY 2010/2011 reporting period. This Waiver LOB schedule should mirror Columns E & F of Schedule A of the Cost Report. The supplemental schedule should be consistent with and reflect the exact same level of detail as Schedule A, Columns E & F, Lines 1 through 18, 24 and 26. Note that contributions/revenue amounts on Line 17 of Schedule A are to be included as part of this supplemental schedule. For providers who submit multiple Cost Reports, the total Waiver LOB expense on the supplemental schedule should reflect the Total Waiver expense (i.e., sum of the Waiver expenses in Columns E and F of Schedule A across of all of the provider's Cost Reports).

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 (Schedule A, Column F) and revenues (Schedule B, Column B) for the FY 2010/2011 reporting period, as reported in the Cost Report, to the **Waiver** LOB supplemental schedule of expenses and revenues identified in the audit, as described above. This reconciliation of Waiver expenses shall replace the Year 3 requirement for a supplemental schedule containing a reconciliation of variances between the provider's audited financial statements and the provider's Total expenses reported in Schedule A, Column A and the provider's Total revenues reported in Schedule B, Column A, which was required to be submitted as a separate attachment.

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. 29, Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents (SAS 29), as amended (AU §551).

9. For the Year 4 Cost Report (FY 2010/2011 reporting period), providers are no longer required to upload a copy of their cost allocation plan as a supplemental schedule. However, providers are required to describe their cost allocation methodology within the appropriate expense allocation schedule of the Cost Report (i.e., Schedule H). 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.
10. Non-County providers who incur expenses for Waiver Cost Report-based transportation services (per diem or trip) of \$500,000 or more in combined federal and Commonwealth funds during the FY 2010/2011 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 \$500,000 or more in federal funds, they are subject to OMB Circular A-133 (Single Audit); Title 45, CFR 74.26 (federal guidance regarding audit requirements of for-profit entities) and any other federal requirements.

Please note that all for-profit entities that expend \$500,000 or more in federal funds and choose to provide a program-specific Yellow Book audit, as permitted by Title 45 CFR 74.26, and all providers that expend \$500,000 or more in combined federal and Commonwealth funds, but less than \$500,000 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 1.22a, financial statement audits (the 2007 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.

11. An Agency with Choice (AWC) provider that is subject to federal audit requirements (e.g. OMB Circular A-133 [Single Audit], Title 45, CFR 74.26 [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 revenues and 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. 29, Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents (SAS 29), as amended (AU §551).

An AWC provider with expenditures of \$500,000 or more for Consolidated and P/FDS Waiver services (who is not subject to federal audit requirements, as described above) must submit an independent audit of their financial statements conducted in accordance with Generally Accepted

Government Auditing Standards (GAGAS), also known as Yellow Book. For purposes of this requirement, a Yellow Book audit has the same meaning as is described in Yellow Book Section 1.22a, financial statement audits (the 2007 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.

12. Providers should prepare their financial statements in accordance with the financial reporting policies outlined in the Cost Report Instructions document and US GAAP, rather than the 4300 regulations.