

Year 3 (FY 09/10) Desk Review Procedures for Audited Financial Statements Review

Commonwealth of Pennsylvania
Department of Public Welfare
Office of Developmental Programs

MPI #:	Provider Name:
Name of Person Completing Desk Review Procedures:	
AE:	Date:

Purpose

The review of the Audited Financial Statements (AFS) of providers rendering services to individuals in the Consolidated and Person/Family Directed Supports Waiver program is to ensure that the information reported in the provider's cost report matches what has been reported in the AFS. Comparison to the AFS is an important part of the overall validation of cost reports since the AFS reflect revenues and expenditures that have been audited by an independent auditor. In addition, the review of Single Audit reports is intended to comply with the requirements of OMB Circular A-133 § 400(d), Pass-through entity responsibilities, et al.

Total revenue and expenses reported in the cost report should match or include a reconciliation to what was reported in the provider's AFS. If the two documents do not agree, the provider should have submitted a reconciliation document so that the differences are clearly defined and explained. It is anticipated that virtually all AFS will require a reconciliation document to the cost report.

Determine which providers are required to submit AFS

As instructed in previous trainings, AEs should have developed a tracking list of all providers subject to the Year 3 (FY 09/10) audit requirements to ensure that all providers who are required to submit an audit have done so. An audit tracking template is posted on the Connect website for use by the AEs. Audit requirements are described in Section 2 of the Cost Report Instructions (CRI), and may also be clarified in Commonwealth-issued Audit Bulletins. Generally, providers expending more than \$500,000 in Federal and Commonwealth funds are subject to the audit requirements, but AEs must remain current on audit requirements and bulletins to ensure a thorough understanding of the requirements.

Reconciliation between AFS and cost report

An audit is designed to provide reasonable, but not absolute assurance that the financial statements are fairly presented, in all material respects, in accordance with the basis of accounting on which they are prepared, which is why comparison of the cost report to the AFS is performed.

Providers must compare their cost report (Schedule A, Column A, Line 26 Provider Total Expenses and Schedule B, Column A, Line 12 Total Provider Revenue) to their AFS. When providers submit their AFS to the AEs, they must include explanations or additional schedules with their submission to explain any differences between the cost report (Schedule A, Column A and Schedule B, Column A) and the AFS.

If the provider submits multiple cost reports, all Schedule A, Column A, Line 26 values and Schedule B, Column A, Line 12 values should be the same. This will have been validated during the cost report desk review. Therefore, the AE only needs to compare Schedule A, Column A, Line 26 and Schedule B, Column A, Line 12 from one cost report to the AFS.

It should be noted that there will be providers with fiscal year ends other than June 30 (e.g., December 31). These providers are not required to submit a reconciliation for Year 3 (FY 09/10) since the AFS and cost report cover different time periods.

A reconciliation template is included in Appendix A as a resource to assist with the reconciliation process. In most cases, the AFS will not exactly match what is recorded in Schedule A, Column A, Line 26 and Schedule B, Column A, Line 12 of the cost report. This may be caused by several factors, such as:

- Depreciation methods allowed in the cost report may differ from depreciation methods allowed by US Generally Accepted Accounting Principles (GAAP). For example, GAAP generally does not recognize use allowances. GAAP would require depreciation over the estimated useful life of the asset. Assets under \$5,000 are expensed in the cost report, while GAAP may differ.
- Donated assets will likely result in different accounting treatments (i.e., the cost report reflects these as expense offsets, while GAAP would require donated assets to be depreciated).

The AE must review the reconciling items to determine if these items are reasonable and were reflected appropriately in the cost report. If depreciation expenses differ between the AFS and the cost report, a detailed explanation should be submitted by the provider describing the reasons for the differences. If the AE cannot be reasonably confident that the cost report has been prepared in accordance with the CRI, then it is likely the provider did not include sufficient documentation to explain the reconciling items.

It is also possible that the AFS include audit adjustments that were proposed by the independent auditors, but were not made in the cost report and should have been. Therefore, reconciling items may also include these adjustments. Once again, it should be made clear to the AE reviewer in the reconciliation documents if these adjustments should also be made to the cost report. If it is not clear, insufficient information has been provided.

Audit adjustments

If the reconciliation between the AFS and the cost report indicates that the cost report expenses are overstated by more than one percent of total Waiver expenses, the provider must complete and submit a restated cost report that incorporates the audit adjustments. This revised cost report must be submitted within 30 days of the date the final audit was issued. A provider must file a restated cost report if the audit adjustment results in a downward adjustment to the rate. For upward adjustments, it is the provider's discretion to submit or not submit a restated cost report. However, please note that **ODP will not accept restated cost reports for upward adjustments unless the adjustment is proposed by the provider's independent auditors.**

The AE will review the restated cost report and indicate whether or not it passes the cost report desk review procedures. If approved, the restated cost report data will be used to calculate rates. For cost reports that are restated due to audit adjustments and submitted to ODP after February 1, adjustments will be handled on a case-by-case basis and be communicated and incorporated into the rate table after the early May rate release.

If the impact of the audit adjustments is less than one percent of Waiver costs, the provider should include those audit adjustments in the following year's cost report, if such adjustments are the result of an inappropriate methodology and also apply to the next year.

Note: The rates developed from the cost reports are based upon reported expenditures, not revenue. If revenue is the only item requiring an adjustment to the cost report, a restated cost report is not required. The AE should note in the AFS procedures what the appropriate revenue amounts are, but the provider should not be requested to restate its cost report if the only reason to do so is to adjust revenue.

If any prior period adjustments are noted in the AFS that would affect the previous year's reported costs in the cost report, please contact your ODP Regional Fiscal Officer to discuss the appropriate next steps.

Single Audits

For providers subject to OMB Circular A-133 and/or 45 CFR 74.26 audit requirements, the AE must complete the A-133 checklist, in addition to the AFS desk review procedures.

General instructions for completing the desk review procedures – AFS review

A desk review of each AFS is required. This desk review procedures document is also the communication device, if necessary, to notify the provider that its cost report does not match its AFS or that the reconciliation is not clear or is insufficient.

In the following document, there are two sets of desk review procedures from which to choose:

- Procedures for providers who are on a state fiscal year (i.e., reporting period ends June 30)
- Procedures for providers who use any other annual reporting period

For each item in the desk review procedures, check the appropriate box:

- **Yes – Compliant** – If the provider has completed the item correctly.
- **No – Not Compliant [Action Required]** – If the information is incorrect and the provider must correct it, the provider indicates supporting information or explanation is not available, or the explanation is insufficient or not clear.
- **No – Not Compliant [NO Action Needed – Not Material]** – If the information is incorrect, but the item is not material enough to necessitate a correction by the provider.
- **NA** – If the item is inapplicable to this provider.

The **Comments** column must be completed if you have placed an “X” in either of the “**No – Not Compliant**” columns. If **[NO Action Needed – Not Material]** is selected, the comment entered by the desk reviewer must identify the error and explain why it is immaterial. If the **[Action Required]** column is selected, the comment should identify the error **and** how the provider should correct it.

Approved AFS

If the AFS and related cost report successfully pass the AFS desk review process and the AFS passes the A-133 audit checklist (if applicable), the **“Memorandum – Approval”** should be completed and sent to ODP Regional Fiscal Office staff, the Connect website and the Bureau of Financial Operations’ (BFO) Audit Resolution Section (Audit Resolution) if a Single Audit, for formal notification of the provider. After obtaining the **“Memorandum – Approval”** template from the Connect website, enter the provider’s MPI number, e-mail address (as indicated on the Certification Page) and the date the memorandum is completed. Once completed, the AE should send this document, along with the completed desk review procedures and A-133 checklist (if applicable), to the ODP Regional Fiscal Officer, the Connect website and ra-pwauditresolution@state.pa.us. AEs should NOT send the approval memorandum to the provider, as that will be done by ODP.

The AE is responsible for ensuring a copy of the desk review procedures and A-133 checklist (if applicable), as well as the completed **“Memorandum – Approval,”** are saved in the MPI-specific folder on the Connect website and that the disposition is updated on the ODP Desk Review website.

Resubmission required – AFS to cost report review failed

If the AFS are not approved, the **“Memorandum – Resubmission Required”** should be completed and sent to the provider (copying the ODP Regional Fiscal Officer, Connect website and Audit Resolution if a Single Audit), along with the completed desk review procedures. Using the **“Memorandum – Resubmission Required”** from this document, enter the provider’s MPI number, e-mail address (as indicated on the Certification Page) and the date the memorandum is completed. Enter the desk review procedures reference number of all items that need to be corrected at the end of the second paragraph of the document. For example, if findings are identified for questions 5 and 7, indicate those numbers in the second paragraph of the memorandum, so that the provider knows which items need to be corrected. If information is missing that is needed to complete the A-133 checklist, provide comments in the A-133 procedures section of this document.

All comments in the desk review procedures should contain enough information for the provider to understand how to correct the problem. If the provider fails the desk review, the **“Memorandum – Resubmission Required”** and the entire desk review procedures should be e-mailed to the provider.

If the resubmission of the AFS reconciliation fails the desk review, or a restated cost report is needed and the provider does not submit one, ODP Central Office will communicate to the provider that the cost report failed the desk review process because of the AFS reconciliation process.

Documentation

Comprehensive and readily accessible documentation records are crucial to support ODP's efforts to respond to provider inquiries. To that end, ODP requires AE staff to maintain detailed documentation of all e-mail and telephone communications with providers. To facilitate the documentation process, ODP has established a Connect website that AEs, ODP and BFO staff can access. The Connect website allows each AE to access a folder and upload documentation for each of its assigned MPIs. Items AEs must maintain include the completed desk review procedures, all e-mail correspondence between the AE and provider and documentation of any telephone conversations using ODP's standard telephone documentation template.

In addition to the documentation the AE must maintain on the Connect website, ODP also requires the AE to update the status of each MPI's AFS desk review results on the Desk Review website (use the link under "Provider Information Center" on the www.odpconsulting.net) website. The Desk Review website will provide four status options for AFS files:

- File received, pending desk review
- Desk review performed, failed desk review
- Desk review performed, passed desk review
- Does not require pass/fail decision

While the automated system will automatically assign the "File received, pending desk review" status, the AE will be responsible for updating this status upon completion of the desk review (i.e., choosing the second or third status option to acknowledge pass or fail). For AFS files that do not require a desk review (e.g., provider test submission or submission in error), the AE is also responsible for updating the status using the "Does not require pass/fail decision" option. This function will enable system users to run reports by MPI to understand how the AFS submission and desk review phases are progressing.

Memorandum – Resubmission Required

Commonwealth of Pennsylvania
Office of Developmental Programs
Year 3 (FY 09/10) AFS/Cost Report Review

RE: Cost Report Submission MPI #: _____
Provider E-mail Address indicated on Certification Page Line 3b: _____; Line 4b: _____
Date Memorandum Completed: _____

CC: [AE]@connectmail.mercer.com
ODP Regional Fiscal Officer
ra-pwauditresolution@state.pa.us

Dear Provider,

Thank you for the submission of your audited financial statements (AFS). Your AFS do not agree with your approved cost report and insufficient information or explanation was provided to explain the differences.

The following desk review procedure reference number(s) require review and resolution: _____

Please review these findings carefully. You must provide responses to the attached findings, or complete a revised cost report, within **seven** business days of the date of the e-mail to which this memorandum was attached.

Thank you for your prompt attention to this matter. If you have any questions, please contact your AE and we will respond as quickly as possible.

AFS Review – June 30 fiscal year end

The AE should use this section of the procedures if the provider's AFS fiscal year end is the same as the cost report (i.e., June 30 year end).

#	Procedure	Yes – Compliant	No – Not Compliant [Action Needed]	No – Not Compliant [NO Action Needed – Not Material]	NA	Comments
Audit opinion/notes to financial statements						
1	<p>Is the audit opinion an unqualified opinion?</p> <p><i>The audit should not include a disclaimer, qualified or adverse opinion.</i></p> <p><i>Read the entire Independent Auditor's Report. Refer to AFS desk review training materials for examples. If the audit is anything other than unqualified, mark "No – Not Compliant [Action Needed]", STOP and contact the Regional Fiscal Officer (RFO). The RFO will consult with the Bureau of Financial Operations to determine further action.</i></p>					

#	Procedure	Yes – Compliant	No – Not Compliant [Action Needed]	No – Not Compliant [NO Action Needed – Not Material]	NA	Comments
2	<p>Review the notes to the AFS. Do disclosures appear consistent with the AE's understanding of the provider based upon the submitted cost report?</p> <p><i>The services (indicated in the AFS) that the provider delivers should be consistent with the services selected and reported in the cost report. For example, if the AFS notes indicate the provider has other lines of business (LOB), but the overall amounts reported in the audit match the Waiver amounts reported in the cost report, this might suggest that the provider did not remove other LOB costs from its cost report.</i></p> <p><i>Another example is if the AFS suggests that the provider serves base-funded individuals, then expenses should be reported in Columns B or C of Schedule A.</i></p>					

#	Procedure	Yes – Compliant	No – Not Compliant [Action Needed]	No – Not Compliant [NO Action Needed – Not Material]	NA	Comments
3	<p>If there are any prior period adjustments noted in the AFS, are they less than 1% of total Waiver expenditures reported on Schedule B, Column B, Line 13?</p> <p><i>Note: A determination must be made of whether the expense adjustment is Waiver-related and requires a corrected cost report. If this cannot be determined, follow-up with the provider. The provider must identify the portion of the adjustment related to the Waiver.</i></p> <p><i>If prior period adjustments are noted and are greater than 1% of total Waiver expenditures, contact the ODP RFO to determine if the previous year's cost report needs to be adjusted.</i></p> <p><i>If no prior period adjustments are noted in the AFS, this procedure can be marked "NA".</i></p> <p><i>Refer to the reconciliation template in Appendix A for this procedure.</i></p>					
4	<p>Did the provider include a report on internal controls, typically labeled: "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"?</p> <p><i>If yes, mark as "Yes – Compliant".</i></p> <p><i>If no, mark "No – Not Compliant [Action Needed]" and request copy from provider.</i></p>					

#	Procedure	Yes – Compliant	No – Not Compliant [Action Needed]	No – Not Compliant [NO Action Needed – Not Material]	NA	Comments
5	<p>Did the report on internal controls conclude that there are no material deficiencies in internal controls?</p> <p><i>If yes, mark as "Yes – Compliant".</i></p> <p><i>If no, mark "No – Not Compliant [Action Needed]" and review internal control deficiencies with ODP Regional Fiscal staff to determine possible rate implications.</i></p>					
Schedule A						
6	<p>Do the provider's Total Expenses (Schedule A, Column A, Line 26) equal the total expenses included in the provider's AFS?</p> <p>If no, has a reconciliation been provided by the provider?</p> <p><i>Refer to the reconciliation template in Appendix A for this procedure.</i></p>					
7	<p>Does the reconciliation sufficiently explain why there are differences between Schedule A, Column A, Line 26 and the AFS?</p> <p><i>The explanation should be such that the AE can reasonably determine whether reported costs in the cost report are correct, or based upon review of the audit, determine that the cost report may need revision.</i></p> <p><i>If the expenses in Schedule A, Column A, Line 26 are equal to the AFS, then this procedure should be marked "NA".</i></p>					

#	Procedure	Yes – Compliant	No – Not Compliant [Action Needed]	No – Not Compliant [NO Action Needed – Not Material]	NA	Comments
8	<p>Based upon review of the reconciliation, is a restated cost report required?</p> <p>If yes, has a restated cost report been submitted?</p> <p>If a restated cost report is not required, this procedure should be marked “NA”.</p> <p><i>See Audit adjustments section of these procedures for guidance on determining whether a restated cost report is required. A restated cost report would be required if differences between the AFS and cost report are such that the cost report expenditures are overstated by more than 1% of total Waiver expenses. For providers with multiple lines of business, the AE may need to confirm with the provider the Waiver portion of the differences, if an explanation was not provided.</i></p> <p><i>If a restated cost report has been submitted, the AE must complete a desk review of the restated cost report.</i></p>					

#	Procedure	Yes – Compliant	No – Not Compliant [Action Needed]	No – Not Compliant [NO Action Needed – Not Material]	NA	Comments
Schedule B						
9	<p>Does the Total Provider Revenue reported on Schedule B, Column A, Line 12 agree with the provider's AFS?</p> <p>If no, has a reconciliation been provided by the provider?</p> <p><i>Refer to the reconciliation template in Appendix A for this procedure.</i></p>					
10	<p>Does the reconciliation sufficiently explain why there are differences between Schedule B, Column A, Line 12 and the AFS?</p> <p><i>The explanation should be such that the AE can reasonably determine whether reported revenue in the cost report is correct.</i></p> <p><i>Note: The rates developed from the cost reports are based upon reported expenditures, not revenue. If revenue is the only item requiring an adjustment to the cost report, a restated cost report is not required. The AE should note in this procedure what the appropriate revenue amounts are, but the provider should not be requested to restate their cost report if the only reason to do so is to adjust revenue.</i></p> <p><i>If the revenue in Schedule B, Column A, Line 12 is equal to the AFS, then this procedure should be marked "NA".</i></p>					

#	Procedure	Yes – Compliant	No – Not Compliant [Action Needed]	No – Not Compliant [NO Action Needed – Not Material]	NA	Comments
Related party transactions/cost allocations						
11	<p>Review the provider's AFS and notes to the AFS. Are all related party transactions disclosed in the AFS also disclosed on Schedule G of the cost report?</p> <p><i>If there are no related party transactions noted in the AFS or cost report, this item should be answered "NA".</i></p> <p><i>If there are related party transactions disclosed in the cost report, but not in the AFS, that fact should be noted in the Comments section.</i></p>					
12	<p>If the AFS contained a separate opinion, notes or supporting schedules related to the cost allocation methodology, was the methodology noted as being reasonable?</p> <p><i>Note: As long as there is not a qualified opinion or finding suggesting that cost allocations are not appropriate, this procedure can be marked as "Yes – Compliant". The lack of a finding or qualified opinion would indicate a reasonable cost allocation approach. Note that the provider must also include a copy of their actual cost allocation plan.</i></p>					

#	Procedure	Yes – Compliant	No – Not Compliant [Action Needed]	No – Not Compliant [NO Action Needed – Not Material]	NA	Comments
A-133 checklist completion						
13	<p>Was the provider subject to a Single Audit or program-specific audit in accordance with OMB Circular A-133 and/or 45 CFR 74.26? If yes, and a Single Audit was submitted, mark “Yes – Compliant”. If yes, and a Single Audit was not submitted, mark “No – Not Compliant [Action Needed]”. Otherwise, this item should be answered “NA”.</p> <p><i>If the provider is subject to the requirements of OMB Circular A-133 and/or 45 CFR 74.26, the Excel-based checklist for reviewing Single Audit reports must be completed as part of the review process. Contact the provider if further information is required.</i></p> <p><i>To determine if a provider is subject to Single Audit requirements, review the Federal funding of the provider. In addition, review the auditor’s opinion. It usually references Generally Accepted Government Auditing Standards (GAGAS) in addition to Auditing Standards Generally Accepted in the United States of America (US GAAS).</i></p>					

#	Procedure	Yes – Compliant	No – Not Compliant [Action Needed]	No – Not Compliant [NO Action Needed – Not Material]	NA	Comments
14	<p>If this is a provider subject to Single Audit requirements, remember to send a completed copy of the desk review and A-133 completed checklist to Audit Resolution at ra-pwauditresolution@state.pa.us</p> <p><i>Mark as “Yes – Compliant” when this procedure is completed. If this provider is not subject to Single Audit requirements, mark “NA”.</i></p>					

AFS review – fiscal year end other than June 30

The AE should use this section of the procedures if the provider's fiscal year end for which AFS are provided is different than June 30. Note that for providers with a fiscal year end other than June 30, a reconciliation is not required between the AFS and the cost report for Year 3 (FY 09/10), since the time periods differ.

#	Procedure	Yes – Compliant	No – Not Compliant [Action Needed]	No – Not Compliant [NO Action Needed – Not Material]	NA	Comments
Audit opinion/notes to financial statements						
1	<p>Is the audit opinion an unqualified opinion?</p> <p><i>The audit should not include a disclaimer, qualified or adverse opinion.</i></p> <p><i>Read the entire Independent Auditor's Report. Refer to AFS desk review training materials for examples. If the audit is anything other than unqualified, mark "No – Not Compliant [Action Needed]", STOP and contact the RFO. The RFO will consult with the BFO to determine further action.</i></p>					

#	Procedure	Yes – Compliant	No – Not Compliant [Action Needed]	No – Not Compliant [NO Action Needed – Not Material]	NA	Comments
2	<p>Review the notes to the AFS. Do disclosures appear consistent with the AE's understanding of the provider based upon the submitted cost report?</p> <p><i>The services (indicated in the AFS) that the provider delivers should be consistent with the services selected and reported in the cost report. For example, if the AFS notes indicate the provider has other LOB, but the overall amounts reported in the audit match the Waiver amounts reported in the cost report, this might suggest that the provider did not remove other LOB costs from its cost report.</i></p> <p><i>Another example is if the AFS suggests that the provider serves base-funded individuals, then expenses should be reported in Columns B or C of Schedule A.</i></p>					

#	Procedure	Yes – Compliant	No – Not Compliant [Action Needed]	No – Not Compliant [NO Action Needed – Not Material]	NA	Comments
3	<p>If there are any prior period adjustments noted in the AFS, are they less than 1% of total Waiver expenditures reported on Schedule B, Column B, Line 13?</p> <p><i>Note: A determination must be made of whether the expense adjustment is Waiver-related and requires a corrected cost report. If this cannot be determined, follow-up with the provider. The provider must identify the portion of the adjustment related to the Waiver.</i></p> <p><i>If prior period adjustments are noted and are greater than 1% of total Waiver expenditures, contact the ODP RFO to determine if the previous year's cost report needs to be adjusted.</i></p> <p><i>If no prior period adjustments are noted in the AFS, this procedure can be marked "NA".</i></p> <p><i>Refer to the reconciliation template in Appendix A for this procedure.</i></p>					

#	Procedure	Yes – Compliant	No – Not Compliant [Action Needed]	No – Not Compliant [NO Action Needed – Not Material]	NA	Comments
Related party transactions/cost allocations						
4	<p>Review the provider's AFS and notes to the AFS. Are all related party transactions disclosed in the AFS also disclosed on Schedule G of the cost report?</p> <p><i>If there are no related party transactions noted in the AFS or cost report, this item should be answered "NA".</i></p> <p><i>If there are related party transactions disclosed in the cost report, but not in the AFS, that fact should be noted in the Comments section.</i></p>					
5	<p>If the AFS contained a separate opinion, notes or supporting schedules related to the cost allocation methodology, was the methodology noted as being reasonable?</p> <p><i>Note: As long as there is not a qualified opinion or finding suggesting that cost allocations are not appropriate, this procedure can be marked as "Yes – Compliant". The lack of a finding or qualified opinion would indicate a reasonable cost allocation approach. Note that the provider must also include a copy of their actual cost allocation plan.</i></p>					

#	Procedure	Yes – Compliant	No – Not Compliant [Action Needed]	No – Not Compliant [NO Action Needed – Not Material]	NA	Comments
A-133 checklist completion						
6	<p>Was the provider subject to a Single Audit or program-specific audit in accordance with OMB Circular A-133 and/or 45 CFR 74.26? If yes, and a Single Audit was submitted, mark “Yes – Compliant”. If yes, and a Single Audit was not submitted, mark “No – Not Compliant [Action Needed]”. Otherwise, this item should be answered “NA”.</p> <p><i>If the provider is subject to the requirements of OMB Circular A-133 and/or 45 CFR 74.26, the Excel-based checklist for reviewing Single Audit reports must be completed as part of the review process. Contact the provider if further information is required.</i></p> <p><i>To determine if a provider is subject to Single Audit requirements, review the Federal funding of the provider. In addition, review the auditor’s opinion. It generally references GAGAS in addition to US GAAS.</i></p>					
7	<p>If this is a provider subject to Single Audit requirements, remember to send a completed copy of the desk review and A-133 completed checklist to Audit Resolution at ra-pwauditresolution@state.pa.us</p> <p><i>Mark as “Yes – Compliant” when this procedure is completed. If this provider is not subject to Single Audit requirements, mark “NA”.</i></p>					

Appendix A – reconciliation template

Cost Report		Audited Financial Statements	Dollar Difference	% Difference	Comments
Expenses		Expenses			
Total Provider - Schedule A, Column A, Line 26					
Revenues		Revenues			
Schedule B, Column A, Line 12					
Prior Period Adjustments (PPA)	Total Waiver Expense	PPA Expense Amount			
Total Waiver - Schedule B, Column B, Line 13					