

AUDITS MONITORING AND COMPLIANCE

OVERVIEW

AUDIT BACKGROUND, PURPOSE & POLICY

Background

The Maternal, Child and Adolescent Health/Office of Family Planning (MCAH/OFP) Branch in conjunction with the State Department of Audits and Investigations conducts audits and on-site reviews as well as requiring independent audits to be performed. These audits are required in order to monitor the administration of MCAH programs to ensure full compliance and adherence to all State and Federal regulations, as well as policies and procedures to comply with program funding requirements.

Purpose

This section provides information on the state and federal annual requirements for MCAH On-Site Reviews and Technical Assistance Audits, A & I Audits and Single Agency Audits pertaining to Maternal, Child and Adolescent Health (MCAH) Allocation and Grant Agreements.

Contents of Order

The contents of this Section are:

| TOPIC | See Page |
|--|----------|
| AUDIT BACKGROUND, PURPOSE AND POLICY | 1-2 |
| MCAH AUDITS ON-SITE REVIEWS AND TECHNICAL ASSISTANCE | 2-3 |
| (DHS) MCAH AUDITS AND INVESTIGATIONS DIVISION (A & I) (A & I) AUDIT ENTRANCE PROCESS (A & I) AUDIT EXIT PROCESS (A & I) FINAL REPORT AND APPEAL PROCESS | 3-6 |
| SINGLE AGENCY FINANCIAL AND COMPLIANCE AUDITS REQUIREMENTS FOR NON-PROFIT ENTITIES (CBO GRANTS ONLY) | 6-12 |
| AUDIT FILE REQUIREMENTS | 12-13 |
| AUDIT FILE RETENTION | 13-14 |

AUDITS MONITORING AND COMPLIANCE

AUDIT BACKGROUND, PURPOSE & POLICY

Policy

- Authorized State and/or Federal representatives have the right to monitor, audit and/or conduct on-site reviews of Agency's and/or subcontractors within reasonable times of business operation for compliance with the provisions of the MCAH Agreement and Program Budget, applicable State and Federal law, and regulations.
 - Audits and/or on-site reviews will be based on criteria and procedures established by the MCAH Branch, State and Federal government and will be in the form of regulations, statutes, policy letters, program policies and procedures, MCAH Agreement and Program Budget language, and any other official publication or correspondence of the State and Federal government.
 - Authorized State and/or Federal representatives may conduct annual (or more frequent) on-site financial, administrative and program audits and reviews of the Agency.
-

MCAH On-Site Reviews And Technical Assistance

Purpose

- On-site Technical Assistance Reviews are requested by MCAH and agencies on a case-by-case basis. These are based on length of time since last audit, as well as concerns with compliance regarding MCAH policies, and the availability of audit resources (auditors).

AUDITS MONITORING AND COMPLIANCE

MCAH On-Site Reviews And Technical Assistance

Policy

- MCAH Contract Managers and/or Program Consultants are required to go out and conduct on-site reviews and technical assistance at a minimum of every three years. The scope of the review may be program, fiscal or both.
 - These reviews are generally to identify potential audit problems before they are discovered in an audit.
 - These types of reviews can be requested by MCAH or the agency to help ensure the agency is properly prepared for an audit. An agency can also request in writing technical assistance with program or fiscal areas of concern.
-

(DHS) MCAH A & I Audits

Purpose

- MCAH request annual audit reviews of all agency allocations and grants. These audits are conducted by A & I and are to review program performance based on the SOW and verify fiscal financial status of the agency and accuracy of agency billings to the State and Federal government.
-

Policy

- Federal regulations require federally funded agency's to be audited at a minimum every three years.
-

Requirements

- A & I sends a request to MCAH around July or August to establish the annual audit production list of agencies to be audited for the upcoming fiscal year. Agency selections are normally chosen based on length of time since last audit, specific need for agency to be audited and the availability of audit resources (auditors).
- These audits are normally conducted in the spring of the following year.

AUDITS MONITORING AND COMPLIANCE

(DHS) MCAH A & I AUDITS

Requirements (Continued)

- The audit review includes the following activities:
 - Entrance conference
 - On-site review
 - Exit conference
 - Audit Report
 - Corrective action plan, if applicable
 - Monitoring corrective action plan, if applicable
 - Closure
-

Procedures

Audit Entrance Process

- Once the audit production list is established, it is then forwarded to A & I. The DHS audit coordinator will review and assigned the agencies to the various DHS A & I field offices around the state based on the agency location and zip code.
- The auditor assigned to conduct the audit at the local field office will make contact with the contract manager and the agency to discuss date for scheduling entrance conference to go over the audit entrance process.
- A & I will send a letter to MCAH and the agency confirming the audit entrance date, time and location and request copies of agency's MCAH central files for scheduled audit.
- Sometime before the audit begins, the MCAH Contract Manager and Program Consultant will brief the A & I auditor on how the MCAH programs function and how Federal Financial Participation (FFP) is associated with the invoicing and budgeting.

AUDITS MONITORING AND COMPLIANCE

(DHS) MCAH A & I AUDITS

Procedures (Continued)

Audit Entrance Process

- A & I conducts the Audit entrance conference and will discuss the following specifics during the audit meeting:
 - How the audit will be conducted
 - Review of A & I letter specifying the records that should be available
 - Space for the auditor to work
 - Length of time the auditor will be at the agency
 - MCAH may or may not attend, however MCAH will be in touch with the auditor during the audit period.
 - Auditing and/or on-site review activities will be conducted during normal business hours.
 - The Agency or subcontractor must provide all reasonable facilities, accommodations and assistance to State and/or Federal representatives for their safety and convenience in the inspection, review and monitoring of program operations.
-

Audit Exit Process

- The Exit Conference is to discuss the audit review and go over any findings if applicable. MCAH staff will generally attend, especially if there is the possibility of any fiscal findings.
 - If there are fiscal findings, the agency will be given time (usually 2-4 weeks) to provide documentation to A & I in order to rectify the findings before the draft audit report is written.
 - If there are no findings, the auditor will write the draft audit report.
- A draft of the audit report is sent to MCAH for review and approval (usually 30-day timeline) before being finalized and issued by A & I.

AUDITS MONITORING AND COMPLIANCE

(DHS) MCAH A & I AUDITS

Procedures (Continued)

A & I's Final Report and Appeal Process

NOTE: Once the final report is issued, report is mailed to the agency and MCAH.

- If an Agency does not agree with the audit for any reason, they have the right to an appeal.
 - Within 60 days of the publication of the final audit report. The appeal can be submitted in writing to the Division Chief of Primary Care and Family Health.
 - The Division Chief in turn will review and route the appeal to the MCAH Branch Chief. The Branch Chief, along with the appropriate MCAH staff will review and make recommendations on approval or disapproval of the Agency's appeal. The Agency will be notified in writing by the MCAH Branch of the appeal decision.
-

SINGLE AGENCY FINANCIAL AND COMPLIANCE AUDITS

Policy

- All Non-Profit CBO agencies that have a grant agreement with MCAH program are required to conduct an annual financial and compliance audit. These audits are conducted to review the program performance based on the SOW, verify fiscal financial status of the agency and accuracy of agency billings to the State and Federal government.

AUDITS MONITORING AND COMPLIANCE

SINGLE AGENCY FINANCIAL AND COMPLIANCE AUDITS

Policy (Continued)

NOTE: If you are a governmental agency such as a county, city or school district, your audits are submitted to State Controllers Office (SCO) for review. A copy of your audit report must be provided to your MCAH Program and Contract Managers for their records.

In accordance with the Health and Safety code 98-502 and OMB Circular A-133, it is stipulated between the Department and the Agency that:

- The cost of the single audit will be charged to the federal assistance program providing funds for this agreement on a "Fair Share" basis. The amount chargeable to federal assistance programs for the cost of the single audit is calculated based on the ratio of federal expenditures to total expenditures of the Agency. The State's share of the single agency audit cost under the MCAH Allocation Plan and Budget is based upon the ratio of federal funds received under this MCAH Allocation SOW and Budget to total federal funds received by the Agency each fiscal year.
- The Agency must include a clause in any contract or other agreement the Agency enters into with the audit firm doing the single audit to provide access by the State or Federal Government to the working papers of the independent auditor who prepares the single audit for the Agency.
- Federal or State auditors/staff will have "expanded scope auditing" authority to conduct specific program audits and/or on-site reviews during the same period in which a single agency audit is being performed, but the audit report has not been issued.
- The federal or State auditors/staff will review and have access to the current audit work being conducted and will not apply any testing or review procedures which have not been satisfied by previous audit work that has been completed.

AUDITS MONITORING AND COMPLIANCE

SINGLE AGENCY FINANCIAL AND COMPLIANCE AUDITS

Policy (Continued)

- The term "expanded scope auditing" is applied and defined in the U.S. General Accounting Office (GAO) issued Standards for Audit of Governmental Organizations, Programs, Activities and Functions, better known as the "yellow book."
-

Single Agency Financial and Compliance Audit Requirements for Nonprofit Entities (CBO Grant's only) Exhibit D (F)

The definitions used in this provision are contained in Section 38040 of the Health and Safety Code, which by this reference is made a part hereof.

- Direct service contract means a contract for services contained in local assistance or subvention programs or both (see Health and Safety [H&S Code section 38020). Direct service contracts shall not include contracts, grants, or subventions to other governmental agencies or units of government nor contracts with regional centers or area agencies on aging (H&S Code section 38030).
- The Contractor, as indicated below, agrees to obtain one of the following audits:
 - C (1) If the Contractor is a nonprofit organization (as defined in H&S Code section 38040) and receives \$25,000 or more from any State agency under a direct service contract; the Contractor agrees to obtain an annual single, organization wide, financial and compliance audit.

AUDITS MONITORING AND COMPLIANCE

Single Agency Financial and Compliance Audit Requirements for Nonprofit Entities (CBO Grant's only) Exhibit D (F)

(Continued)

- Said audit shall be conducted according to Generally Accepted Auditing Standards. This audit does not fulfill the audit requirements of paragraph c (3). The audit shall be completed by the 15th day of the fifth month following the end of the Contractor's fiscal year, **and/or**

- C (2) If the Contractor is a non-profit organization (as defined in H&S Code section 38040) and receives less than \$25,000 per year from any State agency under a direct service contract, the Contractor agrees to obtain a biennial single, organization wide financial and compliance audit, unless there is evidence of fraud or other violation of state law in connection with this agreement. This audit does not fulfill the audit requirements of paragraph c (3). The audit shall be completed by the 15th day of the fifth month following the end of the Contractor's fiscal year, **and/or**

- C (3) If the Contractor is a State or Local Government entity or Non-profit organization (as defined by the Federal Office of Management and Budget [OMB] Circular A-133) and expends \$300,000 or more in Federal awards, the Contractor agrees to obtain an annual single, organization wide, financial and compliance audit according to the requirements specified in **OMB Circular A-133 entitled "Audits of States, Local Governments, and Non-Profit Organizations". The \$300,000 threshold identified in this paragraph will increase to \$500,000 for federal fiscal years ending after December 31, 2003.** An audit conducted pursuant to this provision will fulfill the audit requirements outlined in Paragraphs above. The audit shall be completed by the end of the ninth month following the end of the audit period. The requirements of this provision apply if:
 - ❖ The Contractor is a recipient expending Federal awards received directly from Federal awarding agencies, or

AUDITS MONITORING AND COMPLIANCE

Single Agency Financial and Compliance Audit Requirements for Nonprofit Entities (CBO Grant's only) Exhibit D (F)

(Continued)

- ❖ The Contractor is a sub-recipient expending Federal awards received from a pass-through entity such as the State, County or community based organization.
- If the Contractor submits to DHS a report of an audit other than an OMB A-133 audit, the Contractor must also submit a certification indicating the Contractor has not expended \$300,000 or more in federal funds for the year covered by the audit report. *The \$300,000 threshold identified in this paragraph will increase to \$500,000 for federal fiscal years ending after December 31, 2003.*
- Three copies of the audit report shall be delivered to the DHS program funding this agreement. The audit report must identify the Contractor's legal name and the number assigned to this agreement.
- The audit report shall be due within 30 days after the completion of the audit. Upon receipt of said audit report, the DHS Division Audit Coordinator will forward a copy of the audit report to DHS' Audits and Investigations Unit and provide a copy to your Program and Contract Manager.

Three copies of the audit report shall be delivered to the following address:

Audit Coordinator
Department of Health Services
Maternal, Child, and Adolescent Health/
Office of Family Planning Branch
1615 Capitol Avenue, MS #8305
P.O. Box 997420
Sacramento, CA. 94234-7420

AUDITS MONITORING AND COMPLIANCE

**Single Agency
Financial and
Compliance Audit
Requirements for
Nonprofit Entities
(CBO Grant's only)
Exhibit D (F)**

(Continued)

- The cost of the audits described herein may be included in the funding for this agreement up to the proportionate amount this agreement represents of the Contractor's total revenue. The DHS program funding this agreement must provide advance written approval of the specific amount allowed for said audit expenses.
- The State or its authorized designee, including the Bureau of State Audits, is responsible for conducting agreement performance audits, which are not financial and compliance audits. Performance audits are defined by Generally Accepted Government Auditing Standards.
- Nothing in this agreement limits the State's responsibility or authority to enforce State law or regulations, procedures, or reporting requirements arising thereto.
- Nothing in this provision limits the authority of the State to make audits of this agreement, provided however, that if independent audits arranged for by the Contractor meet Generally Accepted Governmental Auditing Standards, the State shall rely on those audits and any additional audit work and shall build upon the work already done.
- The State may, at its option, direct its own auditors to perform either of the audits described above. The Contractor will be given advance written notification, if the State chooses to exercise its option to perform said audits.
- The Contractor shall include a clause in any agreement the Contractor enters into with the audit firm doing the single organization wide audit to provide access by the State or Federal Government to the working papers of the independent auditor who prepares the single organization wide audit for the Contractor.

AUDITS MONITORING AND COMPLIANCE

Single Agency Financial and Compliance Audit Requirements for Nonprofit Entities (CBO Grant's only) Exhibit D (F)

(Continued)

- Federal or State auditors shall have "expanded scope auditing" authority to conduct specific program audits during the same period in which a single organization wide audit is being performed, but the audit report has not been issued. The federal or state auditors shall review and have access to the current audit work being conducted and will not apply any testing or review procedures which have not been satisfied by previous audit work that has been completed.
-

AUDIT FILE REQUIREMENTS

Policy

- The Agency and/or subcontractors audit files must be kept readily available for inspection by MCAH staff and/or State and Federal auditors. Audit file documents and information shall include, but are not limited to:
 - Books, records, documents and other evidence, accounting procedures and practices, sufficient to reflect properly all direct and indirect costs by funding source of whatever nature claimed to have been incurred in the performance of this MCAH Agreement and Budget, as well as, matched funding costs and expenses.
- All files must be kept in a central location. If this is not possible, keep records in as few locations as possible. Program and Administrative Management must know where they are kept. Audit trails must comply with Government Auditing Standards that includes full documentation of costs charged or allocated (via approved cost allocation methodology)

AUDITS MONITORING AND COMPLIANCE

AUDIT FILE REQUIREMENTS

Requirements

- The following information listed below must be kept in the audit files including all agreement documents:
 - Policy and Procedures Manual and associated Policy and Information Letters.
 - Initial fiscal year budget and all subsequent revisions
 - Scope of Work (SOW), duty statements, organization charts, position classifications.
 - Copies of all changes that occur to any of the documents above during the year, including MCAH approvals of those changes.
 - Federal Financial Participation (FFP) time studies (with secondary documentation).
 - Copies of FFP calculation reports.
 - Invoices and any back-up documentation to support billed costs.
 - Cost allocation documentation.
 - Supplemental invoice (if applicable).
-

AUDIT FILE RETENTION INFORMATION

Policy

- The Agency's records are subject, at all reasonable times, to inspection, audit and/or on-site review and reproduction. The Agency will preserve and make available all records (including FFP time studies and supporting documentation).
-

Requirements

- All of the agency records must be kept for a period of three years from the date of final payment under this MCAH Allocation Plan and Budget, or;
 - for a period of three years from the date of final judgment if the MCAH Allocation Plan and Budget is completely or partially terminated, or;

AUDITS MONITORING AND COMPLIANCE

AUDIT FILE RETENTION

Requirements (Continued)

- until the completion of the action and resolution of all issues (whichever is later) if any litigation, claim, negotiation, audit and/or on-site review, or other action involving the records has been started before the expiration of the three-year period, or MCAH Audits the period of time stated in any applicable statute, or;
- for the period of time stated in any other clause of this MCAH Allocation Plan and Budget.