HOW TO RECEIVE A PAINLESS AUDIT

National Center for Health in Public Housing
2012 Health Care for Residents of Public Housing
National Training Conference

Presented by:
Gil Bernhard, CPA, Co-Director, Healthcare Industry Practice

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AGENDA

- Audit Requirements and Overview
- Pre-Audit Activities
- Planning
  - Schedule of Expenditures of Federal Awards ("SEFA")
  - Federal Compliance
- Fieldwork
- Financial Statement Reporting
- Post-Audit Activities
- New Developments
- Summary
OVERALL AUDIT OBJECTIVES

- **P**ainless – The audit should be a smooth process with limited interruption of your staff

- **E**fficient – Performing all required audit steps without loss of down time and with information being asked for once

- **T**imely – Audit should be completed well in advance of the statutory deadline and meet your internal timeframe
AUDIT REQUIREMENTS AND OVERVIEW

- Most Federal grantees and organizations that receive Federal funds as a pass-through will require an audit if
  - Over $500,000 of Federal expenditures, the audit will be conducted under OMB Circular A-133 regulations
  - Program specific audit option
  - Federal expenditures are calculated on the accrual basis of accounting
- Audit is due to the Federal Audit Clearinghouse no later than 30 days after the issuance of the audit or 9 months after year-end. **No extensions are allowed.**
- Audit is required to be uploaded to the electronic handbook upon issuance and is due no later than 9 months after year end.
AUDIT REQUIREMENTS AND OVERVIEW (con’t)

- At all times there should be open communication
- Make sure the audit is planned and executed according to your expectations and agreed upon timeframe with your auditor
- Be ready for fieldwork with all documents requested
- Prepare the financial statements, if possible
PRE-AUDIT ACTIVITIES

- Select the proper accounting firm
  - Firm should be a licensed CPA firm
  - Firm should meet the requirements to perform yellow book audits
  - Firm should have extensive experience in OMB A-133
  - Firm should understand the health center industry (very important)
  - Firm should be a member of the AICPA Governmental Audit Quality Center

- The selected firm should do both the financial statement audit and the OMB A-133 audit
  - Should be done simultaneously
  - Achieves efficiency
  - Amount of grants and major Federal programs does have a direct reflection on the amount of time to complete the audit

- Interview firm candidates and ensure you understand their audit strategy (engaging the auditor should be a board responsibility)
PRE-AUDIT ACTIVITIES (con’t)

- Familiarize yourself with all of the OMB regulations and program requirements that the auditors will be referencing and testing
  - A-122 (Compliance) – www.whitehouse.gov/omb/circulars_a122
  - A-133 and compliance – supplement www.whitehouse.gov/omb/circulars/a133

- Engagement Letter – sets forth your understanding with the audit firm. Have this signed well in advance of the start of the audit and ensure fee structure meets your expectations.

- Arrangement Letter – Sets forth the schedules the auditors will want you to prepare and other information they require. Have this information ready the first day of fieldwork or send to them earlier.

- Good idea to meet with your auditors prior to closing the books and records to agree to timeframes, clarify any questions, and keep an open line of communication.
Most arrangement letters or “PBC” letters will include, but are not limited to:

- **Cash**
  - Bank reconciliations including bank statements and cancelled checks
  - Authorized signatories

- **Accounts Receivable**
  - Listing of patient receivables by payor source and also by patient
  - Listing of subsequent cash receipts by payor
  - Analysis of allowance for doubtful accounts and bad debt

- **Fixed Assets**
  - Schedule showing beginning balance, additions, and deletions (for assets and accumulated depreciation)
  - Schedule of disposal of assets
PRE-AUDIT ACTIVITIES (con’t)

- Fixed Assets (con’t)
  - Assets acquired with Federal dollars
  - Most recent physical inventory count
- Investments
  - Reconciliation of investments
  - Investment statements
  - Analysis of gains and losses including unrealized gains and losses
- Accounts Payable and Accrued Expenses
  - Detailed listing of vendor aging listing all invoices
  - Listing of all invoices paid subsequent to year end
  - Analysis of accrued expenses not included in accounts payable
  - Access to all invoices not recorded in the accounting system
PRE-AUDIT ACTIVITIES (con’t)

- Accrued Salaries and Wages
  - Reconciliation of accrued wages to the general ledger
  - Access to payroll registers during the fiscal year and the immediate payrolls subsequent to year end
- Refundable Advances
  - Schedule of all monies received in advance of grant period
  - Copy of associated grant award/notice of grant award
- Debt
  - Schedule of all debt reconciling to the general ledger
  - Copy of the current amortization schedule detailing interest and principal payments
  - Schedule of compliance with all debt covenants
- Net Assets
  - Analysis of net assets by type (unrestricted, temporarily restricted and permanently restricted)
  - Analysis of net assets released from restrictions
PRE-AUDIT ACTIVITIES (con’t)

- Other items
  - Visits by payor source
  - Cash collections by payor source
  - Notice of grant awards for all programs
  - Federal Financial Reports
  - Copies of all state and local contracts
  - By-laws
  - Lease agreements
  - Compensation agreements/employment contracts
  - Board of Directors listing
  - Loan and/or other debt agreements
  - Audits by regulatory agencies (i.e. Medicaid, grantor, etc.)
PLANNING

- Auditors are required to gain an understanding of your internal controls and document them. This can be accomplished by:
  - Providing write-ups of your policies and procedures as they relate to all important cycles (new audits)
  - Updating for any changes in your policies and procedures (continuing audits)
  - The auditors will ask to test how the internal controls function. Assist them with the process by providing information requested and have someone knowledgeable available to answer questions timely.
- Confirmation procedures – all audits will require confirmation procedures. You will need to prepare them and it saves time and money if you facilitate in the process of obtaining the signed responses, responses are suppose to be independent.
PLANNING (con’t)

- Planning meetings
  - Auditor and finance staff
  - Auditor and management
  - Auditor and corporate compliance officer
    - Corporate compliance programs required in New York State
    - All other states if not required now will be Federally mandated in 2014
  - Auditor and audit committee or equivalent
PLANNING: SEFA

- To make the audit move along more smoothly, prepare the SEFA for your auditors as soon as possible and ensure it is complete and accurate
  - The SEFA that is prepared should show the following components:
    - Federal awarding agency
    - Pass-through agency (if applicable)
    - Name of award as per Federal program
    - CFDA #
    - Length of the award
    - Total award amount
    - Total expenditure amount
PLANNING: SEFA (con’t)

- Group like-kind CFDA numbers and Clusters together on the schedule
- Ensure that non-monetary amounts are on the SEFA (i.e. WIC food instruments, vaccines that are sub-grants and not vendor vaccinating provider relationship)
- Separately designate all American Recovery and Reinvestment Act (ARRA) money on the SEFA
- Tie the expenditures to the general ledger and cross reference to the appropriate general ledger account number.
The compliance supplement provides guidance for more than 150 Federal programs by CFDA number. It also provides narrative description of each program and contains information to help the auditor understand the purpose of the program and how it operates.

A cluster of programs is a group of closely related programs that share common compliance requirements and are considered one program for audit purposes. Clusters of programs are identified in Part 5 of the Compliance Supplement.

www.whitehouse.gov/sites/default/files/omb/circulars/a133_compliance/2011/pt5
PLANNING: SEFA (con’t)

- Compliance supplement is updated each year normally in March for the June 30 year-ends and forward.
- Each year the compliance supplement adds new programs and updates numerous other programs (possibly deletes programs)
- To ensure a smooth audit, make sure you, as the auditee, refers to the compliance supplement for all large Federal programs to understand what the auditor will be looking at

Note: Matrix of which of the 14 compliance requirements is applicable for a given Federal program
PLANNING: Federal Compliance

- Each Federal program may have up to 14 compliance requirements that could be applicable. Auditors will choose those that are material each year to test. The 14 types are:
  - Activities Allowed or Unallowed
  - Allowable Costs/Cost Principles
  - Cash Management
  - Davis-Bacon Act
  - Eligibility
  - Equipment and Real Property Management
  - Matching, Level of Effort, Earmarking
  - Period of Availability
  - Procurement and Suspension and Debarment
  - Program Income
  - Real Property Acquisition/Relocation Assistance
  - Reporting
  - Subrecipient Monitoring
  - Special Test and Provisions
FIELDWORK

Tips for successful fieldwork:

- Avoid the auditor’s coming and going due to lack of records
- Have all records waiting for the auditors
- Ensure availability of all finance staff and other pertinent staff
- Most audit firms are paperless so send files electronically (Excel, Word, PDF, etc.)
- Know which Federal programs the auditor has selected as major
- Don’t let the auditors leave until the fieldwork is completed 😊
FINANCIAL STATEMENT REPORTING

- The reporting consists of the following:
  - Financial statements and internal control reports
  - Data collection form
  - Communication from the auditing firm to management and the Board or audit committee

- How can you make this go easier?
  - Review and agree with the auditor the adjusting journal entries
  - If the auditor assists with the preparation of the financial statements, review the financial statements with the auditor upon completion and in plenty of time prior to the meeting with Board or audit committee.
  - Completion of audit communication
    - Management representation letter
    - Auditor communication to management
FIELDWORK: Federal Compliance

- For the 330 grant program, generally, the following compliance requirements will be tested by the auditors. It is essential for the auditee to understand what will be tested and why. The most common areas tested are:
  - Activities Allowed or Unallowed
  - Allowable Costs/Cost Principles
  - Cash Management
  - Eligibility
  - Period of Availability
  - Equipment and Real Property Management
  - Procurement and Suspension and Debarment
  - Program Income
  - Reporting
  - Special tests and provisions (i.e. UDS and governance requirements)
POST-AUDIT ACTIVITIES

- Understand the key terms and definitions an auditor may frequently use when talking with you or your board:
  - Current ratio
  - Days in patient services receivable
  - Days in accounts payable
  - Days in reserve
  - Days in cash
  - Days in working capital
  - Debt to equity
  - Net patient revenue per visit vs. total cost per visit
NEW DEVELOPMENTS

- Topic 954 – Healthcare Entities
  - Accounting for Charity Care (effective 12/31/11)
  - Financial statement disclosure – Patient Receivable and Revenue (effective 12/31/12)

- Proposed Lease Accounting

- SAS 119, Supplementary Information in Relation to the Financial Statements Taken as a Whole
  - Added management representation letter disclosure
  - Updated opinion
  - Updated communication to those charged with governance
SUMMARY

- A painless audit is facilitated by:
  - Understanding the audit plan and objective
  - Coordination with the auditor
  - Being prepared
  - Having strong and updated policies and procedures
  - Ensuring your auditor is knowledgeable about Health Centers and the compliance requirements
  - Communicating with your audit team throughout the process
THANK YOU FOR ATTENDING

For additional information or if you have any questions, please contact:

Gil Bernhard, CPA
Co-Director, J.H. Cohn Healthcare Industry Practice
646-254-7479

gbernhard@jhcohn.com