

THE CITY OF NEW YORK
DEPARTMENT OF HEALTH AND MENTAL HYGIENE

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Commissioner

AUDIT GUIDE
DELEGATE AGENCIES

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DEPARTMENT OF HEALTH AND MENTAL HYGIENE
AUDIT GUIDE**

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SECTION A

ADMINISTRATION AND OVERVIEW

I. PURPOSE AND EFFECTIVE DATE OF AUDIT GUIDE

.01 The purpose of the City of New York, Department of Health and Mental Hygiene (DOHMH) Delegate Agencies and Hospitals Audit Guide is to implement audit requirements to be utilized by independent auditors in preparing for and performing audits of delegate agencies, hospitals and community-based organizations (Agency) which have contracts with DOHMH. The Audit Guide is intended to be a reference source for the independent auditor. The Audit Guide is comprised of the following sections:

- Section A - Administration and Overview
- Section B - Summary of Applicable Literature
- Section C - General Auditing Standards and Requirements
- Section D - Specific Auditing Requirements

.02 This Audit Guide supersedes any previous audit guides issued by the DOHMH.

.03 This Audit Guide is not a complete manual of procedures nor should it supplant the auditor's judgment of the audit work required in a particular situation. Because of the complexity of the regulations that govern them, the procedures contained in this Audit Guide cannot cover all circumstances or conditions that would be encountered in an audit of every agency. The auditor should use professional judgment to tailor their procedures to meet the conditions of the particular engagement so that the audit objectives may be achieved.

.04 The provisions of this Audit Guide are effective upon publication and shall apply to audits of agencies under audit.

II. AUDIT REPORT DELIVERY

.01 All **draft** reports must be submitted to DOHMH via mail or E-mail. Reports submitted via facsimile (FAX) will not be accepted and will be considered as not received. Audit report should include the lead spreadsheets for detailed transaction testing.

.02 Six (6) copies (5 bound and 1 unbound), with covers, of the completed final audit report are due to DOHMH, after the auditor's receipt of the Finalization Letter and completion of audit testing. A copy of the final report must also be submitted via email in a PDF

format only. Reports submitted via E-mail or FAX will not be accepted and will be considered as not received.

.03 The copies of the reports are to be delivered to:

The City of New York
Department of Health and Mental Hygiene, Audit Services
42-09 28th Street CN 69
Long Island City, New York 11101

III. REPORT DELIVERY EXTENSIONS

.01 If the auditor believes that an extension of the deadline for submission of the report is necessary, a request must be in writing and be specific in nature. The reasons for the request and the expected delivery date must be stated.

.02 The request for extension should be received by DOHMH as soon as the auditor becomes aware of the need for an extension and at least 5 business days prior to the date the report is due.

IV. CONTACT FOR ASSISTANCE

In preparing for or conducting an audit, the independent auditor may have questions concerning the implementation of the requirements of this Audit Guide. These questions should be directed to Audit Services.

V. AUDITOR INDEPENDENCE REQUIREMENTS

.01 In all matters relating to the audit work, the audit firm and the individual auditors, should be free from personal and external impairments to independence and should maintain an independent attitude and appearance.

.02 No person may audit any organization in which the auditor, audit firm member or any member of his or her immediate family, is a member of the Board of Directors, is an officer or employee or has any other direct or indirect interest in the organization or program to be audited.

.03 No auditor or firm of auditors that has been engaged to audit an organization or program or any member of his or her immediate family may engage in any business transactions or serve as a member of the Board of Directors or serve as an officer or employee of the organization or program during the period of audit performance.

VI. CPE AND EXTERNAL QUALITY CONTROL REVIEW

.01 Audits performed in accordance with DOHMH Audit Guide are to conform to the requirements established in **Generally Accepted Government Auditing Standards (GAGAS)**. Those standards in part require the auditor and the audit firm to adhere to continuing professional education and peer review requirements. In addition:

- The auditor should be proficient in the appropriate accounting principles and standards and in government auditing.
- The public accountants engaged to conduct audits should be: (a) certified public accountants or persons working for a certified public accounting firm or (b) public accountants licensed on or before December 31, 1970, or persons working for a public accounting firm licensed on or before December 31, 1970, and (c) listed on the New York City Office of the Comptroller's most recent list of pre-qualified CPAs.

.02 Generally Accepted Government Auditing Standards

- The first general standard for auditing requires that the staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required. To meet that standard, the auditor(s) are required to participate in a program of continuing education and training. Every two years, auditors performing audits in accordance with GAGAS should complete at least eighty credit hours that contribute directly to their professional proficiency. At least twenty of these hours should be completed in each year of the two-year period and at least twenty-four hours should be in topics directly related to the government environment and governmental auditing. During engagement planning, auditors and audit organizations should ensure that appropriate members of the audit team have met the CPE requirement.
- The fourth general standard for auditing requires that the audit organization conducting government audits (which would encompass DOHMH audits) should have an appropriate internal quality control system in place and participate in an external quality review program. To meet that standard, the audit firm should have in place an internal quality-control system and participate in an external quality-review program. An external quality review is to be conducted once every three years.

.03 Auditors or audit firms which do not meet **Generally Accepted**

Government Auditing Standards, such as continuing professional education or external quality control review, need to disclose to DOHMH in the auditor's reports those audit standards not met.

VII. STANDARD OF FIELDWORK

.01 Generally Accepted Government Auditing Standards

- The third general standard requires that due professional care should be used in conducting the audit and in preparing related reports. This standard requires auditors to work with due professional care. Due Professional care imposes a responsibility upon each auditor within the audit organization to observe Generally Accepted Government Auditing Standards.

VIII. AUDITOR REFERRAL - INADEQUATE WORK

.01 Where a review of the audit report or the working papers, as performed by any representatives of DOHMH and/or City of New York, discloses an inadequacy, the audit firm will be contacted. Where such inadequacies are deemed significant and the associated working papers are deemed substandard, the City of New York may proceed with further action against the particular auditor and/or audit firm.

.02 In those instances where the audit was performed by a certified public accountant and the work was determined to be substandard by the City of New York, the matter may be submitted to the City of New York, Comptroller's Office and/or the New York State Education Department, Office of the Professions, Professional Licensing Services and the New York State Society of Certified Public Accountants.

IX. AUDITOR INVOICING TO DOHMH

.01 When billing DOHMH for audit work completed, the independent auditor must submit a separate invoice for each PIN number. Each invoice should only contain billings applicable to audit work completed for the respective lot and must specify the following:

- PIN number
- Type of work performed
- Name of the agency and contract number.
- DOHMH billing ID number
- Agreement period
- Billing period
- Contract period
- Billing information/summary:
 - a. Name of auditor

- b. Staffing category
- c. Actual hours expended
- d. Contracted hourly rate
- e. Total amount invoiced to DOHMH (not to exceed proposal maximum)

.02 Each invoice to DOHMH must include the certification specified below and signed and dated by an authorized individual of the accounting firm (partner/principal/officer).

I certify that a payment in the amount of \$_____ is due and payable to _____ and is being claimed

(Name of CPA Firm)

under provisions of Agreement with the City of New York acting by and through the Department of Health and Mental Hygiene: That no part of the amount claimed in the attached voucher has been previously included in a claim to the City of New York.

Signature
(Print name of above signature)

Date

.03 The management/supervisory personnel (partner or manager) indicated on the auditor's invoice must agree with the names of the individuals whose resumes were submitted to DOHMH in the auditor's proposal. Any additions to that proposal will require a resume to be submitted to DOHMH for approval prior to the processing of an invoice for payment.

X. AUDITOR PROGRESS REPORTS TO DEPARTMENT OF HEALTH AND MENTAL HYGIENE

.01 A list of sample selected for detailed testing must be submitted to Audit Services at the time the list is submitted to the Delegate Agency. Testing results should be submitted in advance of draft audit report.

.02 A status report must be submitted by each auditor/firm to DOHMH on the 15th and 31st of each month, beginning two weeks after the start of the audit with DOHMH. This status report is required to have the following information on each audit and each Delegate Agency:

- Name of accounting firm
- As of date
- PIN #
- Agency name
- Contract Number

- Date of Entrance Conference and Fieldwork started
- Draft Report due date
- DOHMH approved report extension due date
- Percentage of work completed as of date of status report
- Exit conference date
- Date draft report submitted to DOHMH (projected)
- Date draft report submitted to DOHMH (actual)
- Status/Issues
- Actual date final report submitted to DOHMH

.03 The above status report must cover a period ending on the 15th and 31st of each month, and is to be submitted to DOHMH no later than 3:00 p.m. on the following Wednesday. This report may be transmitted to DOHMH via E-mail or Fax. An original version must be sent via mail.

SECTION B

SUMMARY OF APPLICABLE LITERATURE

I. GENERAL INFORMATION

.01 In performing a DOHMH contract audit, the Statements on Auditing Standards (SAS's) are applicable. Therefore, the auditor should perform the audit, at a minimum, in accordance with generally accepted auditing standards. However, in audits for the City of New York, DOHMH, there are numerous other official publications of which the auditor must be knowledgeable, and the auditor must perform the audit in accordance with the provisions of these additional regulations. The AICPA recognized these additional standards and/or procedures and concluded in the following Ethics Ruling 501-3: Failure to follow standards and/or procedures or other requirements in governmental audit

"Engagements for audits of government grants, government units or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules and regulations, in addition to generally accepted auditing standards. If a member has accepted such an engagement and undertakes an obligation to follow specified government audit standards, guides, procedures, statutes, rules and regulations, in addition to generally accepted auditing standards, he is obligated to follow such requirements. Failure to do so is an act discreditable to the profession in violation of Rule 501, unless the member discloses in his report the fact that such requirements were not followed and the reasons therefore."

.02 Failure to follow the standards and/or procedures contained in the publications listed in Parts II and III of this Section of the Audit Guide, without disclosure in the auditor's report, will be a violation of Ethics Rule 501. In addition, reference in the auditor's report that the audit was conducted in accordance with the provisions of the City of New York, DOHMH Audit Guide incorporates the applicable provisions of the publications cited in Parts II and III, as well as the other applicable pronouncements promulgated by the Financial Accounting Standards Board (FASB) and the AICPA.

.03 The auditor should obtain and become familiar with the following publications prior to auditing the programs of the delegate agencies. The following is a summary of each publication. This summary is provided for informational purposes only.

The auditor should refer to the actual publication for guidance.

II. AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)

The following are AICPA'S authoritative guidance. The CPA firm is expected to apply the relevant guidance:

Statements on Auditing Standards (SAS)

Issued by the Auditing Standards Board and represents generally accepted auditing standards. "Rule 202 of the AICPA's Code of Professional Ethics requires adherence to generally accepted auditing standards, recognizes Statements on Auditing Standards as interpretations of those standards, and requires that members be prepared to justify departures." In addition, the following Statements on Auditing Standards are critical in the performance of a DOHMH audit and must be understood and utilized by the auditor:

.01 SAS No.54 - Illegal Acts by Clients

This Statement prescribes the nature and extent of the consideration an independent auditor should give to the possibility of illegal acts by a client in an audit of financial statements in accordance with generally accepted auditing standards. The Statement also provides guidance on the auditor's responsibilities when a possible illegal act is detected.

.02 SAS No. 62 - Special Reports

This statement applies to auditor's reports issued in connection with the following:

- a. Financial statements that are prepared in conformity with a comprehensive basis of accounting other than generally accepted accounting principles.
- b. Specified elements, accounts, or items of a financial statement.
- c. Compliance with aspects of contractual agreements or regulatory requirements related to audited financial statements.

- d. Financial presentations to comply with contractual agreements or regulatory provisions.
- e. Financial information presented in prescribed forms or schedules that require a prescribed form of auditor's report.

.03 SAS No. 70 - Service Organizations Superseded by SSAE 16

SAS 70 "Reports on the Processing of Transaction by Service Organizations" has been replaced by Statement on Standards for Attestation Engagements (SSAE) 16, "Reporting on Controls at a Service Organization" and addresses examination engagements undertaken by a service auditor to report on controls at organizations that provide services to user entities when those controls are likely to be relevant to user entities' internal control over financial reporting.

.04 SAS No. 99 Supersedes SAS No. 82 - Consideration of Fraud in a Financial Statement Audit

Required the auditor to identify and access risks of material misstatement due to fraud and to design the audit to provide reasonable assurance of detecting fraud that result in financial statement to be materially misstated.

This statement provides guidance to auditors in fulfilling that responsibility, as it relates to fraud, in an audit of financial statements conducted in accordance with generally accepted auditing standards. Specifically, this statement:

- A. Describes fraud and its characteristics.
- B. Requires the auditor to specifically assess the risk of material misstatement due to fraud and provides categories of fraud risk factors to be considered in the auditor's assessment.
- C. Provides guidance on how the auditor responds to the results of the assessment.
- D. Provides guidance on the evaluation of audit test results as they relate to the risk of material misstatement due to fraud.

E. Describes related documentation requirements.

F. Provides guidance regarding the auditor's communication about fraud to management, the audit committee, and others.

.05 SAS No. 106 – Audit Evidence (Established the Basic Rules for Accumulating and Evaluating Audit Evidence) Unconditional Requirements

- The auditor must not be satisfied with evidence that is not persuasive.
- The auditor must apply risk-assessment procedures to provide a basis for assessing risk at the financial and relevant assertion levels.
- The audit must supplement risk-assessment procedures with further audit procedures, substantive procedures and if relevant and necessary test of controls.
- The auditor should determine how to resolve inconsistencies in evidence received from different sources.
- The auditor should consider the reliability of the information used as audit evidence (for examples, copies, facsimiles, or other electronic documents) including consideration on controls over its preparation and maintenance where relevant.

.06 SAS No. 107 Amends SAS No. 47 – Audit Risk and Materiality in Conducting an Audit

This statement requires auditors to consider audit risk, determine and document materiality for the financial statements as a whole, as well as tolerable misstatement when planning the audit.

- The auditor must both consider audit risk and determine a materiality level for the financial statements taken as a whole in performing risk assessment procedures, identifying risks of material misstatement, determining the nature, timing, and extent of further audit procedures, and evaluating the financial statement.
- Perform the audit to obtain reasonable assurance of

detecting misstatements that could be material to the financial statements.

- Determine the implications on the auditor's report of a refusal by management to correct material misstatement.
- Determine the implications on the auditor's report if the auditor concludes that the financial statements are materiality misstated or is unable to conclude whether they are materiality misstated.

.07 SAS No. 108 - Planning and Supervision

This statement addressed planning the audit, including topics such as establishing an overall audit strategy, developing the audit plan, determining the extent of involvement of professional and specialized skills, supervision of assistant, communication with management and those charged with governance and consideration in internal audits. This SAS also requires the auditor to apply certain preliminary procedures to consider any events that might adversely affect the ability to plan and perform the audit or that present an unacceptable level of audit risks such as:

- Procedures addressing continuance of the client relationship and the specific audit engagement.
- Evaluation of the auditor's compliance with ethical requirements, including independence.
- The auditor must plan the audit to be responsive to the assessment of the risks of material misstatement based on the understanding of the entity and its environment, including its internal control.
- The auditor must develop an audit plan documenting the procedures to be used to reduce audit risk to an acceptable level.
- Establish an overall strategy for the audit and document any revision to it.
- Consider whether specialized skills are needed for the audit and if so, seek the assistance of a professional with the needed skills.

- Communicate with the staff regarding specific aspects of the engagement.
- Supervise the engagement, including reviewing the work of assistants and being aware of methods of resolving differences of opinion among staffs, etc.

.08 SAS No. 109 Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement (Redrafted)

This SAS is effective for audits of financial statements for periods beginning on or after December 15, 2010.

This statement requires the auditor to perform risk assessment procedures as a basis for the identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and relevant assertion levels through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement. The risk assessment procedures should include the following:

- a. Inquiries of management and others within the entity who, in the auditor's judgment, may have information that is likely to assist in identifying risks of material misstatement due to fraud or error.
- b. Analytical procedures.
- c. Observation and inspection.

.09 SAS No. 110 Performing Audit Procedures in Response to Assisted Risks and Evaluating the Audit Evidence Obtained.

This SAS is effective for audits of financial statements for periods beginning on or after December 15, 2010.

The auditor is required to design and perform further audit procedures whose nature, timing and extent are clearly linked and responsive to the assessed risks of material misstatement at the relevant assertion level. In designing further audit procedures, the auditor must consider:

a. The reasons for the assessed risk of material misstatement at the relevant assertion level for each class of transactions, account balance, and disclosure, including

- The likelihood of material misstatement due to the particular characteristics of the relevant class of transactions, account balance, or disclosure (the inherent risk),
- Whether the risk assessment takes account of relevant controls (the control risk) thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (that is, the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing, and extent of substantive procedures), and
- Obtain more persuasive audit evidence the higher the auditor's assessment of risk.

.10 SAS No. 111 - Amendment to Auditing Standards No. 39 Sampling

This statement incorporates guidance from SAS No. 99, Consideration of Fraud in a Financial Statement Audit, and SAS No. 110 Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence obtained, and expands guidance involving the auditor's judgment in establishing tolerable misstatements and applying sampling to tests of controls in SAS No. 39. In addition, SAS No. 107 - Audit Risk and Materiality in Conducting the Audit includes guidance formerly included in the appendix to SAS No. 39 requires the auditor who does audit sampling to:

- Consider specific characteristics and risk in planning the sample.
- Select sample in such a way that all members of the population have a chance of selection.
- Project the sample results to the population from which it was drawn.
- Evaluate the sample results and compare them with tolerable misstatement (for test of details) or tolerable rate (for tests of controls).
- Consider any qualitative aspects of misstatements or deviations detected.

.11 SAS No. 117 - Compliance Audits This SAS has been amended to reflect numerous changes in the government auditing environment, including amendments to the Single Audit Act, revisions to the OMB Circular A-133 and the July 2007 revision of Government Auditing Standards. Therefore, the auditor should determine and consider the federal audit requirements applicable to the engagement, including the issuance of additional reports.

SAS 117 is applicable when an auditor is engaged, or required by law or regulation, to perform a compliance audit in accordance with generally accepted auditing standards, the standards for financial audits under *Government Auditing Standards*, and a governmental audit requirement that requires an auditor to express an opinion on compliance.

.12 All future pronouncements that will be issued by the AICPA that are applicable to auditing (as they relate to DOHMH programs) are to be adhered to by the auditor.

III. GENERAL ACCOUNTING OFFICE (GAO)

.01 Generally Accepted Government Auditing Standards (GAGAS) (July 2007 Revision superseded 2003 revision)

The standards for audit of governmental organizations, programs, activities, and functions, the "Yellow Book", provides standards for financial and performance audits of government organizations, programs, activities, and functions, and of government funds received by contractors, not-for-profit organizations, and other non-government organizations. The standards incorporate the AICPA Statements on Auditing Standards for field work and reporting on financial audits and prescribe additional standards to meet the needs of government audit report users. The standards pertain to the auditor's professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.

.02 Interpretation of Continuing Education and Training Requirements

This interpretation guides audit organizations and individual auditors on implementing the CPE requirements by answering the most frequently asked questions from the audit community.

.03 Assessing Compliance With Applicable Laws and Regulations

The guide is designed to assist the auditor in implementing the requirement for detecting noncompliance. The guide provides a general overview of compliance testing, discusses how audit assignment objectives influence compliance testing, and explains how to identify applicable laws and regulations. It also explains how to perform a vulnerability assessment, compliance testing and reporting requirements for performance audits, and the requirements for financial audits.

IV. The City of New York Department of Health and Mental Hygiene

.01 Delegate Agency Audit Guide

The City of New York Department of Health and Mental Hygiene - Delegate Agency Audit Guide is a reference document. The purpose of this guide is to assist auditors in properly carrying out their duties and fulfilling their responsibilities. The audit guide provides an overview of the practices of delegate agencies and hospitals and describes the policies, procedures, forms and other tools which are required for effective operations.

SECTION C

GENERAL AUDITING STANDARDS AND REQUIREMENTS

I. INTRODUCTION

.01 This section contains the general auditing standards and requirements for all audits to be performed in accordance with this Audit Guide. (The auditing requirements for a DOHMH agency audit are specified in Section D of this Audit Guide).

.02 The auditor must determine applicability and justify exclusion of an item. The working papers should clearly document adherence with all audit requirements in this Section and the specific requirements contained in Section D.

Objectives of the Audit

.03 The objective of each audit is to determine and report whether:

- Financial reports prepared by the agency present fairly the financial position of the agency;
- The system of internal control structure was adequate to safeguard DOHMH assets;
- The agency has adequate procedures and controls to ensure compliance with Federal, State and City laws and, DOHMH Administrative Directives #94-3 (Contract Policies) and #91-1 (Adoption of Criteria for Department Approval of High Level Contract Agency Officials);
- The claims reported to DOHMH were documented, supported by books of original entry and allowable in accordance with the contract terms and conditions;
- Levels of service were supported by documentation and accurately reported to DOHMH; and
- The indirect cost rate claimed by the contract agency, as applicable to DOHMH funded programs, is adequately documented supported and provides for a

fair and proper basis for indirect costs.

- To verify the Agencies have the required books and records in order to ensure that claims submitted are correct and complete.
- To verify that revenue is maximized and reported in accordance with the contractual requirements.
- To verify that adequate internal controls are in place to provide reasonable assurance as to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with the contractual requirements.

II. WORKING PAPERS

.01 Auditing firms are expected to comply with the requirements of Auditing Standards(Interim) AU Section 339 "Audit Documentation". The working papers should be prepared and maintained by the auditor. The form and content of the working papers depends on the circumstances of the particular engagement. The information contained therein constitutes the supporting documentation of the auditor's work and of the conclusions reached. The working papers are the property of the auditor; however, the working papers are subject to review by DOHMH and the City of New York, and any other party designated by the Department.

.02 In addition to the requirements of AU Section 339, the working paper supplementary standards described in Section 7.76 (Audit Documentation), of the Generally Accepted Government Auditing Standards (GAO Yellow Book) stipulate that working papers should contain:

- The objective, scope, and methodology, including any sampling criteria used;
- Documentation of the work performed to support significant conclusions and judgments, including descriptions of transactions and records examined that would enable an experienced auditor to examine the same transactions and records; and
- Evidence of supervisory reviews of the work performed.

.03 The auditor should develop an audit program utilizing the auditing requirements covered in this Section and those procedures specified in Section D of this Audit Guide. In addition, during the course of the audit, the auditor should be aware the audit program may require modification due to unexpected results of testing of the internal control structure, substantially changed facts, or unanticipated activities of the organization.

.04 The auditor is required to retain all original working papers and associated reports for a **minimum of six years from the date of the auditor's report**, unless the auditor is notified in writing by DOHMH to extend the retention period.

III. **AUDIT PLANNING**

.01 Generally accepted auditing standards require that audit engagements be adequately planned. The AICPA has issued **SAS No. 47 - "Audit Risk and Materiality in Conducting an Audit" superseded by SAS No. 107**, which should also be considered (**AICPA Statement on Auditing Standards** AU Sections 311 and 312). The auditor should also be aware of **Generally Accepted Government Auditing Standards** as they apply to planning an audit.

.02 In accordance with **Generally Accepted Government Auditing Standards**, the auditor should consider materiality and/or significance in planning the audit, selecting the methodology, designing audit tests and procedures as well as in deciding whether a matter requires disclosure in an audit report.

.03 The following highlight some planning considerations that would be particularly important in performing a Delegate Agency audit:

- Evaluate factors affecting the scope of testing;
- Consider anticipated reliance on internal control structure;
- Establish the type of audit tests to be performed (audit approach).

.04 The planning process continues throughout the audit. Early planning is useful in establishing the probable level and type of effort necessary to conduct the engagement. When planning the audit, fieldwork standards should take into consideration of

Generally Accepted Government Auditing Standards (GAO Yellow Book) requirements, as follows:

- The work is to be properly planned, and auditors should consider materiality, among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures.
- The additional planning standard for agency audits is that auditors should follow up on known material findings and recommendations from previous audits that could affect the current audit. They should do this to determine whether the auditee has taken timely and appropriate corrective actions. Auditors should report the status of uncorrected material findings and recommendations from prior audits that affect the financial statement audit.

.05 As part of the planning process, the auditor is to take into consideration that performing a study and evaluation of internal control is part of the audit. The auditor's working papers must include documentation as to his/her understanding of the agency's internal control structure. To assist the auditor, certain questions are included in Section D of this **Audit Guide** identifying specific functions which the auditor is expected to cover. These are in addition to those aspects which are normally covered during a financial statement audit. The matters covered in these questions relate to expressed or implied conditions and desired management practices. It is recognized that all questions may not be applicable under all circumstances. The questions are not intended to supplant the auditor's judgment, nor do they relieve the auditor of the responsibility for being familiar with the general and specific contract conditions and any other DOHMH requirements. The questions have been worded to obtain "yes" answers for satisfactory conditions for which no additional action is necessary. Negative answers may indicate an adverse condition which should be examined during the course of the audit. All negative answers must be explained by the auditor. If the auditor determines that the adverse condition is such as to materially affect the system, the audit should comment on the condition in the Internal Control Structure Section of the audit report. Not applicable (N/A) answers indicate the agency is not bound by the provision of the question.

IV. TESTING OF COMPLIANCE WITH LAWS AND REGULATIONS

.01 In performing an audit in a non-governmental setting, the term "compliance testing" usually refers to testing for compliance with internal control procedures. Though such tests are also appropriate in a DOHMH audit, references to compliance testing also include tests performed to determine whether the agency is complying with the provisions of laws, regulations, and the DOHMH contract.

.02 In determining the nature, timing and extent of the audit steps and procedures to test for compliance, the auditor should assess the risk of noncompliance with laws and regulations occurring and having a direct and material effect on the financial statements. The auditor should assess the risk that the agency did not comply with those laws and regulations and the risk that the agency's control structure to ensure compliance with laws and regulations might not prevent or detect that noncompliance.

.03 **Generally Accepted Government Auditing Standards**, regarding compliance, require that in planning and conducting tests of compliance, auditors should:

- Design the audit to provide reasonable assurance of detecting irregularities that are material to the financial statements.
- Design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts.
- Be aware of the possibility that indirect illegal acts may have occurred.
- Design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. If specific information comes to the auditor's attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that noncompliance has occurred.

.04 Auditors should, as part of the audit, review contracts and perform audit procedures to ascertain that the specific quantified program objectives (units of service) have been achieved. They should also examine the internal controls over the data gathered by the contract agency relative to units of service to ensure that required reports submitted to DOHMH are supported by the adequate supporting documentation, and are fairly presented. Audit working papers should reflect the scope and actual testing performed of such audit.

V. AUDIT SAMPLING

.01 The Independent auditors shall perform a financial and compliance examination to ensure that Agencies have financial accountability and have complied with legal and contractual requirements and limitations affecting the expenditure of funds.

- a. Use a statistical sampling methodology to select a minimum sample size of at least twenty-five percent (25%) of the Personal Services (PS dollars claimed to DOHMH) and verify that payroll and related fringe benefit costs charged to the contract were applicable.
- b. Use a statistical sampling method to select a minimum sample size of at least twenty-five percent (25%) of the Other Than Personal Services (OTPS) expenses claimed to DOHMH.

.02 Sampling is a process used by auditors to draw inferences about large populations by examining or reviewing a limited number of elements in the population. The sampling process includes the determination of the sample size, the method to be used in selecting the sample, and the evaluation of the test results. The final phase of the sampling process is used to draw conclusions about the entire population from which the sample was selected.

.03 Statistical sampling is a scientific method of calculating sample size, selecting the sample and evaluating test results. It enables the auditor to determine mathematically the degree of uncertainty that results from the examination of only a part of the population.

.04 Where sampling is utilized in testing of transactions relating to a DOHMH agency audit, the auditor should be following the requirements of Statement on Auditing Standards (SAS) No. 111 - Amendment to Statement on Auditing Standards No. 39: Audit Sampling. This SAS provides the auditor guidance in planning of

sampling, sampling risk, sample selection and evaluation of sample results. While the use of statistical sampling is encouraged, it should not be used blindly. Statistical sampling should not be stretched to include instances where application of statistical sampling may not be warranted because: (a) the size of the population is too small, (b) all records are not available or records are inadequate, or (c) other reasons that would make its use impractical.

.05 When statistical sampling is impractical the auditor should employ non-statistical sampling. However, it is important that there shall be no confusion with a statistical test, and the working papers should indicate reasons why statistical sampling could not be employed. However, approval should be obtained from DOHMH to use non-statistical sampling.

.06 In all circumstances, audit working papers should describe conclusions reached, exceptions, unusual situations and the resolution of questions or problems resulting from the performance of the indicated tests or procedures.

VI. QUESTIONING OF COSTS

.01 When testing individual costs, the auditor may determine that a particular cost does not agree with DOHMH's contract and/or NYS regulations.

.02 Generally, the criteria for classifying a cost as questioned relate to the following:

- Unallowable Costs. Certain costs are specifically unallowable under the general and special award conditions or agency instructions.
- Undocumented Costs. These costs are charged to the contract, for example, to demonstrate their relationship to the contract or the amounts involved, but they lack adequate, detailed documentation.
- Unapproved Costs. These costs are not provided for in the approved contract budget, or they require DOHMH's approval due to the contract provisions or applicable cost principles, but no evidence of such approval can be found.
- Unreasonable Costs. These are costs incurred that

may not be consistent with the actions that a prudent person would take in the circumstances.

.03 Examples of costs that are specifically identified as unallowable by DOHMH under the contract agreement (Per Administrative Directive #94-3) usually include, but are not limited to:

- Principal component of mortgage payments on obligations incurred in the acquisition of real property.
- Debt service payments, principal and interest, except as may be provided by law.
- Most capital expenses. An expense is generally considered to be a capital expense, rather than an operating expense, if it is for the purchase of an asset that exceeds \$15,000, and has a useful life of at least 5 years. If a provider is unsure whether a particular expense may be allowable, prior written Department approval should be sought.
- Penalties (e.g. parking tickets, late filing fees).
- Board of Directors' expenses, except as may be approved by the Department.
- Fund raising expenses, unless expenses are offset by fund raising income.
- Related party transactions (e.g. rental payments to related holding corporations), unless it is determined by the Department that no conflict of interest exists.
- Entertainment expenses.
- Severance pay, except as allowed per union agreements and written agency personnel policies, and must be reasonable, based on industry standards.
- Payments to reserve accounts, except for pension and self-insurance, providing that amounts are reasonable and within normal charges for these expenses.
- Pre-contract expenses (e.g. incorporation fees,

engineering reports).

- Staff commutation expenses between home and work station.

VII. DISCLOSURE OF POSSIBLE IRREGULARITIES AND ILLEGAL ACTS

.01 **Generally Accepted Government Auditing Standards**, Chapter 4 (Irregularities and Illegal Acts) states that in determining compliance with laws and regulations:

- The auditor should design the audit to provide reasonable assurance of detecting irregularities that are material to the financial statements.
- Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts.
- Auditors should be aware of the possibility that indirect illegal acts may have occurred. If specific information comes to the auditor's attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.

.02 In fulfilling the above requirements relating to errors, irregularities and illegal acts, the auditor should follow the guidance contained in **SAS No.99 "Consideration of Fraud in a Financial Statement Audit"**.

.03 Illegal acts and irregularities include such matters as conflicts of interest, falsification of records or reports and misappropriation of funds or other assets. Generally Accepted Government Auditing Standards indicate that while illegal acts or indications of such acts need not be included in the required audit reports, they may be covered in a separate written report.

.04 Chapter 5 of **Generally Accepted Government Auditing Standards** requires the following relating to reporting of irregularities or illegal acts:

- When auditors conclude, based on evidence obtained, that an irregularity or illegal act either has

occurred or is likely to have occurred, they should report relevant information. Auditors need not report information about an irregularity or illegal act that is clearly inconsequential. Thus, auditors should present in a report the same irregularities and illegal acts that they report to audit committees under AICPA standards.

- GAGAS require auditors to report irregularities or illegal acts directly to parties outside the auditee in two circumstances, as discussed below. These requirements are in addition to any legal requirements for direct reporting of irregularities or illegal acts. Auditors should meet these requirements even if they have resigned or been dismissed from the audit.
 - a. The auditee may be required by law or regulation to report certain irregularities or illegal acts to specified external parties (for example, to a City Inspector General or a State Attorney General). If auditors have communicated such irregularities or illegal acts to the auditee, and it fails to report them, then the auditors should communicate their awareness of that failure to the auditee's governing body. If the auditee does not make the required report as soon as practicable after the auditor's communication with its governing body, then the auditors should report the irregularities or illegal acts directly to the external party specified in the law or regulation.
 - b. Management is responsible for taking timely and appropriate steps to remedy irregularities or illegal acts that auditors report to it. When an irregularity or illegal act involving assistance received directly or indirectly from a governmental agency, auditors may have a duty to report it directly if management fails to take remedial steps. If auditors conclude that such failure is likely to cause them to depart from the standard report on the financial statements or resign from the audit, then they should communicate their conclusion to the auditee's governing body. If the

auditee does not report the irregularity or illegal act as soon as practicable to the entity that it provides the government with assistance, the auditors should report the irregularity or illegal act directly to that entity.

.05 When the auditor becomes aware of potential acts or irregularities, he/she should inform Audit Services immediately.

VIII. FOLLOW-UP ON PRIOR AUDIT REPORT FINDINGS

.01 In accordance with Generally Accepted Government Auditing Standards (Chapter 4, paragraph 4.10) the auditor is to follow up on findings and recommendations from the previous audit. They should do this to determine whether the agency has taken timely and appropriate corrective actions. Auditors should report the current status of findings and recommendations from the prior audit.

IX. REPORTING ON SUBSEQUENT EVENTS

.01 The auditor should consider these SAS's, SAS No. 1, Section 560, SAS No. 12, SAS No. 98, and SAS No. 113 when they perform the following steps during the course of field work and make disclosure in the notes to Statement of Contract Status:

- a. Confirm with DOHMH as to whether any funds are due from the delegate agency to DOHMH.
- b. Review agency documentation as well as any other related source documents, to verify the status of outstanding funds due to DOHMH.
- c. Interview agency's personnel to verify that they are paid on a current basis.
- d. Interview management as to personnel vacancies and the length of time each position was vacant.
- e. Inquire of management as to what audit period was covered in the agency's most recent annual certified financial statements.
- f. Review the Agency's most recent annual certified financial statements. Disclose the opinion, any related party transactions and their nature, and any material

findings in the notes.

g. Verify and disclose in the notes that the agency is current in its filing of its tax returns.

X. WRITTEN REPRESENTATIONS FROM MANAGEMENT Superseded by SAS No. 85 - Management Representations

.01 The auditor is required by SAS No. 19, **Client Representations**, to obtain a representation letter from the contract agency's management. The representation letter provides written evidence that the auditor has made certain inquiries from management; ordinarily it documents oral responses given to the auditor, thus reducing the possibility of errors or misunderstandings.

.02 Such a written representation, however, does not relieve the auditor of responsibility for properly planning and performing the audit. Information may be unintentionally overlooked or intentionally withheld from the auditor. Accordingly, the auditor must still perform all the usual tests to corroborate the accuracy and reliability of representations made by management.

.03 When obtaining a letter of representation on an audit in accordance with the provisions of this Audit Guide, the auditor should consider the following additional representations:

- Management has complied, in all material respects, with the requirements in connection with the DOHMH contract agreement except as disclosed to the auditor.
- Management has identified and disclosed to the auditor all known noncompliance with DOHMH requirements that could have a material effect on the financial statements.
- Management has allocated expenses, administrative costs, and/or indirect costs on a reasonable basis.
- Management has disclosed whether, subsequent to the date of the audit, there were any changes in the internal control structure or other factors that might significantly affect the internal control structure, including any corrective action taken by management with regard to reportable conditions (including material weaknesses), have occurred.

.04 The representation letter should be addressed to the auditor and should be dated as of the date of the auditor's report.

Representation letters should ordinarily be signed by both the chief executive and chief financial officers.

.05 Management's refusal to furnish written representations constitutes a limitation on the scope of the audit sufficient to preclude an unqualified opinion. Furthermore, the auditor should consider the effects of management's refusal on their ability to rely on other management representations.

XI. EXIT CONFERENCE

.01 An exit conference should be held with agency senior management (i.e. Executive Director, Program Director, Chief Financial Officer) and DOHMH upon completion of the audit. **If the audit report contains findings, an Exit Conference is mandatory.** In addition, a summary must be included in the audit report, indicating the individuals present at the conference and the agency's response to the audit findings. Discussing the audit report only with the bookkeeper at the exit conference is not allowed by DOHMH, unless the contract agency's management requests that the exit conference be held only with the bookkeeper. This must be disclosed in the exit conference section of the audit report. **The auditing firm must be represented by at least a manager or a partner. The partner or manager must conduct and attend the entire exit conference.** The purpose of the conference is to meet with the agency personnel and discuss the results of the audit. **Phone exit conferences are prohibited.** However, if management of the program waives an on-site conference they must indicate this in writing and this must be disclosed in the exit conference section of the audit report. The auditor has the responsibility to ensure that the agency is aware of all findings, including questioned costs, prior to the exit conference. This requirement is to be satisfied by providing a draft of the audit report to the agency at least three working days prior to the exit conference. CPA firms would coordinate the date and time of the exit conference with DOHMH and the agency.

XII. SUPPLEMENTAL INFORMATION

- a. The reviewing of documents for audit planning and/or fieldwork purposes must be done at the agency's location, unless DOHMH deems otherwise.
- b. CPA firms would make copies of all agency documentation to be used for audit planning and fieldwork purposes.

- c. If the contractor(s) becomes aware of irregularities during the delegate agencies' audit, the contractor(s) would promptly notify DOHMH Audit Services, in writing, within forty-eight (48) hours of the discovery date. Irregularities include, but are not limited to such matters as conflicts of interest, falsification of records or reports, and possible fraud or misappropriation of funds or other assets.
- d. The contractor would issue the audit reports in the format specified by DOHMH.
- e. A draft copy of the audit report must be submitted to both DOHMH and the agency for review prior to the Exit Conference. The draft report would be submitted electronically to DOHMH in a Microsoft Word Format.
- f. Draft reports would be due within 30 days after the date of audit assignment.
- g. All draft audit reports would be reviewed and evaluated by DOHMH for legibility, grammatical correctness, and conformity with the prescribed audit report format.
- h. Auditors would correct, revise or adjust any report DOHMH deems necessary, without additional cost or expense to DOHMH, within 30 days of notification. Acceptance of all reports shall be a prerequisite to final payment under the audit contract.
- i. Contractors would conduct formal Entrance Conferences at the agency location, prior to commencement of fieldwork.
- j. Telephone exit conferences are strictly prohibited, unless a request for a telephone conference has been made in writing to DOHMH by the agency and has been approved by DOHMH.
- k. The contractor would obtain a management letter from the agency and inform Audit Services of any currently known problem which may necessitate an extension of the deadline for submitting the audit report.
- l. The contractor would submit the audit final report to DOHMH electronically in a PDF format. In addition, the contractor will deliver to DOHMH [3 bound] copies, with covers, of the final audit report, relative to the

delegate agency contract(s) assigned by DOHMH. The reports and all other related materials should be delivered during regular business hours, to the attention of the **Audit Services/DA Audits, The City of New York Department of Health and Mental Hygiene, 42-09 28th Street CN 69, Long Island City, New York 11101.**

- m. The contractor, upon request by DOHMH, would make all audit reports and work papers available for review.

SECTION D

SPECIFIC AUDITING REQUIREMENTS

01. The audit procedures detailed in this section are the minimum required auditing procedures for performing DOHMH audits for Delegate Agencies and Hospitals.

02. The auditor is required to prepare an audit program utilizing the audit procedures detailed in this section. In addition, the auditor should be aware of additional conditions which warrant inclusion in the audit program.

I. PRELIMINARY WORK

Objective

The objective of this section is to obtain appropriate background information on the agency to be audited, in order to provide a framework of reference as to the individual steps to be performed during the audit.

General Information

- 1. Agency: _____
- 2. Agency Address: _____

- 3. Telephone Number: _____
- 4. Agency Accounting Year End: _____
- 5. Principal Officials of Agency: _____

Name	Title
_____	_____
_____	_____

6. Books of Account Maintained by the Agency:
 - a.
 - b.
 - c.
 - d.
 - e.
 - f.

7. Accounting system is maintained on a:

Cash Basis [] Accrual Basis []

8. The accounting records are maintained:

Manually [] Mechanically [] Computerized []

Combination of the Preceding []

9. Name and title of officer in charge or accounting records:

10. Describe the Segregation of duties for the following activities:
 - a. Contract documents (including contract modifications):

Location

Custodian

Filing Sequence
 - b. Agency accounting records:

Location

Custodian

c. Trial balances:

Location

Custodian

d. Bank reconciliations:

Location

Custodian

e. Canceled payroll checks:

Location

Custodian

Filing Sequence

f. Canceled checks other than payroll:

Location

Custodian

g. Blank checks:

Location

Custodian

h. Voided checks:

Location

Custodian

Filing Sequence

- i. Payroll registers:
 - Location
 - Custodian
 - Filing Sequence
- j. Employee cumulative earnings records:
 - Location
 - Custodian
 - Filing Sequence
- k. Employee personnel files:
 - Location
 - Custodian
 - Filing Sequence
- l. Employee W-4's:
 - Location
 - Custodian
 - Filing Sequence
- m. Employee time and attendance records:
 - Location
 - Custodian
 - Filing Sequence
- n. Employee leave records:

Location

Custodian

Filing Sequence

- o. Property and equipment records:

Location

Custodian

- p. Invoices and vouchers supporting non-payroll disbursements:

Location

Custodian

Filing Sequence

- q. Tax Returns (Payroll) 990, 941, etc.:

Location

Custodian

Filing Sequence

Audit Procedures

1. Review DOHMH Delegate Agencies and Hospitals Audit Guide.
2. Obtain a copy of contract between DOHMH and the agency. The contract documents are comprised of the following:
 - a. The contract, including any special conditions to the contract and any numbered amendments thereto;
 - b. The budget, which indicates the amounts by categories of expense and service cost centers, on which DOHMH has based its support; and

- c. All applicable DOHMH documents and conditions referenced to in the contract document.
3. Obtain copies all agency invoices and service reports submitted to DOHMH for the audit period, including any annual reports.
4. Schedule an audit entrance conference with the agency, and record the results of the conference, including a list of personnel present and a summary of the items discussed.
5. Perform a study and evaluation of the agency's system of internal controls.
6. Review the Board of Directors' minutes for the fiscal year being audited and all later minutes up to the ending date of the fieldwork to verify authorizations for actions taken by the agency, and to verify that the Board is actively participating in the management of the program.
7. Obtain copies of agency monitoring reports and adjustment/disallowance letter, if applicable, and determine agency's response or plan of action to correct deficiencies cited.

II. FINANCIAL MANAGEMENT

Objectives

To determine if:

1. Financial management controls are adequate to safeguard DOHMH funds.
2. The accounting system is adequate to ensure that payments received are for services actually rendered.
3. Financial reports accurately and properly reflect all services billed and payments received.
4. Expenditures are within budgetary limitations.

A. Financial Management - Books of Account:

1. Verify that the contract agency maintains a financial management system designed to:

- a. Provide accurate, current and complete disclosure of the financial results of the DOHMH contract program.
 - b. Provide effective control over and accountability for all program funds, property, and other assets.
 - c. Provide for the comparison of actual costs with budgeted amounts for each contract.
 - d. Include procedures for determining the reasonableness, accountability and allocability of costs in accordance with the provisions of DOHMH contract requirements promulgated by the City of New York, applicable Federal cost principles, and the terms and conditions of each contract.
2. Verify that adequate physical safeguards maintained over accounting records.
 3. Confirm that whether written procedures (or accounting manuals) is maintained, updated and covers:
 - a. Books of account (journals and ledgers)
 - b. Recording of transactions.
 4. Inquire whether all responsible employees required to take annual vacations during which their duties are performed by other employees.
 5. Inquire the following regarding general ledger:
 - a. Is the general ledger maintained?
 - b. Is the general ledger kept up to date and balanced at least monthly?
 - c. Are the books of account either computerized or written up in ink?
 - d. Are the books of account reasonably free from errors and alterations?
 - e. Are entries in the books of account supported by books of original entry or journal entry?
 - f. Are entries in the books of account supported by documents which gave rise to the transactions?
11. Are journal entries:
 - a. Satisfactorily explained?
 - b. Supported by adequate documentation?
 - c. Prepared or approved by a responsible officer?
 12. Are appropriate financial reports submitted to DOHMH as required?

13. Are the amounts on the financial reports submitted to DOHMH in agreement with the books of account and/or supporting working papers?
14. Are all employees involved in record keeping, custody of assets, or in some other position of trust adequately bonded?

B. Financial Management - Cash:

1. Are each day's receipts deposited in the bank intact and without delay?
2. Does the person who makes deposit have:
 - a. No responsibility for posting cash receipts?
 - b. No responsibility for reconciling bank accounts?
3. Are duplicate deposit slips used and retained?
4. Are funds maintained in a bank with FDIC coverage and are balances exceeding FDIC coverage collaterally secured?
5. Are funds received from DOHMH adequately accounted for by the contract agency?
6. Accounting for and use of checks:
 - a. Are all disbursements, except from petty cash, made by check?
 - b. Are all checks pre-numbered?
 - c. Is the drawing of checks payable to cash prohibited?
 - d. Is the supply of unused checks adequately safeguarded to prevent unauthorized access?
 - e. Are undelivered checks adequately:
 1. Safeguarded from unauthorized use
 2. Accounted for?
 - f. Are voided checks:
 1. Properly defaced?
 2. Held available for subsequent inspection?
 3. Properly accounted for?
 - g. Are persons who sign checks or control the use of facsimile signature plates independent of those

responsible for the accounting records and entries?

- h. If a signature plate (mechanical check signer) is used, are controls in effect adequate to safeguard misuse?
 - i. If a signature plate is used:
 - 1. Check protector used?
 - 2. Control book over the number of signature impressions in use?
 - j. Are vouchers or other supporting documents presented along with the checks submitted for signature?
 - k. Are vouchers and supporting papers canceled with a "paid" stamp or other mark so as to prevent duplication of payment?
 - l. Are checks mailed directly after being signed, without the employees responsible for their preparation having further access to them?
7. Are bank accounts reconciled promptly each month by persons who have no cash receipt or disbursements responsibility?

Audit Procedures

1. Obtain or prepare a trial balance which relates to the contract being audited.
2. Compare the total expenditures, as determined above, for the contract being audited to the total expenditures per the contractor invoice and service report as of the audit ending date. The auditor should obtain an explanation and any appropriate documentation from the contract agency for any contract where the expenditures per the contractor invoice and service report do not agree with the total expenditures per the books of account. (Actual expenditures per books of account less than the contractor invoice and service report amount reported will result in an auditor's adjustment by cost category of the costs reported).
3. Review the costs by category and determine that each category was approved in the contract budget by DOHMH.
4. Obtain or prepare a listing of DOHMH cash received by the contract agency relating to DOHMH contract being audited.
5. Obtain a listing of payments from DOHMH and reconcile to DOHMH payments recorded by agency.

6. Obtain bank reconciliation and determine propriety as of the audit date. In reviewing the bank reconciliation, the auditor must ascertain whether there are any checks outstanding six months or longer. Obtain or prepare a listing of such checks which includes the payee, check number, check date, type of expense and amount. The auditor should determine if the outstanding checks require an adjustment to cash (The adjustment would be to a debit to cash and a credit to the appropriate expense). If no determination can be made as to the need for such an adjustment to cash, then the auditor must question these costs and make the appropriate internal control structure finding. Please note, agencies are not required to maintain a separate bank account for DOHMH funds.
7. Cash receipts pertaining to the program (received from DOHMH) should be tested to determine that receipts have been:
 - a. Properly recorded in the books of account.
 - b. Deposited in the appropriate contract agency's bank account.
8. Confirm in writing the balance in all bank accounts used during the year.
9. Determine the adequacy of controls exercised over petty cash. Based upon the materiality of the petty cash fund, perform procedures to determine the propriety of the fund.
10. Identify any security deposits paid with DOHMH funds, determine propriety and confirm if deemed material.
11. Any other material asset accounts should be reviewed and/or analyzed as to their propriety.
12. Perform a cash disbursements cut-off.
13. Determine amount of any necessary payroll accruals as of the audit date.
14. Prepare a detailed listing of all unpaid items as of audit date (for inclusion in the audit report).
 - a. Identify any unpaid balance not liquidated. The City of New York requires that amounts be liquidated within 75 days after the balance sheet date. Violation of the 75 day rule requires disclosure in the Auditor's Report on Compliance.
 - b. Any unpaid items as of the audit date should be summarized, and any necessary adjusting journal entry made.

15. Determine propriety of any payroll taxes payable.
 - a. Determine if payroll tax returns (941's, state withholding and unemployment insurance and city withholding) were filed timely and payments were made in accordance with the taxing authorities regulations.
 - b. Determine if the contract agency has any delinquent outstanding liabilities relating to payroll taxes.
 - c. All deficiencies/delinquencies must be disclosed in the Auditor's Report on Compliance including any penalties or interest resulting from the delinquency.
 - d. Determine if contract agency has filed all required Federal and State tax returns on a timely basis.
16. Any other material liability accounts should be reviewed and/or analyzed as to their propriety.

III. AUDIT OF COSTS - GENERAL REQUIREMENTS

Objectives

The general objectives for review of costs charged to a DOHMH contract are to:

1. Determine that the costs charged to DOHMH conform to DOHMH cost principles.
2. Review financial operations and report any non-compliance with applicable contract provisions or DOHMH regulations and/or instructions; and based upon the audit, provide recommendations for improvement.
3. Determine whether costs reported as being incurred under the contract are allowable and report any exception.

Specifically, when performing an audit of costs being claimed for a DOHMH program, the auditor must be aware of the following requirements:

1. Are the costs necessary and reasonable for the proper administration of the program?
2. Do the costs conform to any limitations or exclusions in the contract agreement?
3. Were the costs properly recorded and supported by appropriate documentation?

4. Were the costs in accordance with DOHMH regulations and contract provisions?
5. Were costs subject to allocation allocated equitably between DOHMH service cost centers programs and other non-DOHMH funded activities?
6. Were costs administered, accounted for, and allowable in accordance with the requirements in the DOHMH contract?

IV. PAYROLL AND FRINGE BENEFITS

Objectives

To determine whether total payroll and benefit costs charged to the contract are applicable, allocable and reasonable, and employee pay rates and benefits are in accordance with the DOHMH contract budget.

Payroll costs charged to DOHMH contracts will be tested to determine that (i) time charges were supported; and (ii) fringe benefits claimed represent actual allowable costs.

Fringe benefits items generally include:

- FICA (Employer's Share)
- Unemployment Insurance
- Health Insurance
- Retirement Benefits (Pension)
- Life Insurance
- Workmen's Compensation
- Disability Insurance

Control Survey

1. Are the persons who perform the following payroll functions independent of each other?
 - a. Approve hours worked
 - b. Prepare the payroll
 - c. Distribute the pay
 - d. Maintain custody of unclaimed wages
2. Are actions involving hiring, dismissal or change in pay rate approved by contract agency officers who are independent of the payroll function?
3. Does the contract agency have written personnel policies which cover:

- a. Paid holidays?
 - b. Vacation pay?
 - c. Sick leave?
 - d. Time off?
 - e. Nepotism?
 - f. Conflict of interest?
 - g. Discrimination?
4. Are adequate personnel records maintained for employees?
 5. Are time and attendance records used in the preparation of payroll for all employees?
 6. Are time and attendance records signed/approved by the:
 - a. Employee?
 - b. Employee's immediate supervisor?
 7. Are payrolls approved prior to payment by an authorized individual who is independent of the payroll preparation process?
 8. Are all employees paid by check?
 9. For payrolls disbursed by check, are the checks drawn and signed by employees who do not:
 - a. Prepare the payroll?
 - b. Have custody of cash funds?
 - c. Keep accounting records?
 10. Is proper control and handling maintained over back-pay and unclaimed wages?
 11. Are unclaimed wages properly segregated?
 12. Are signed authorizations on file for all non-statutory deductions being made from employee's wages?
 13. Are cumulative leave records maintained for:
 - a. Annual leave?
 - b. Sick leave?
 14. Does the payroll system provide for earnings records showing total earnings, deductions, and net pay for each employee?
 15. Are rates of pay for employees in agreement with those specified in the contract with DOHMH?

16. If an outside organization furnishes the payroll service:
 - a. Are the controls between the contract agency and the payroll service adequate?
 - b. Are cancelled checks available for review?
 - c. If payroll checks are maintained by the payroll service does the payroll service provide the contract agency with a list of outstanding checks?

17. Does the contract agency follow-up on any non-deliverable Form W-2's at the end of the year?

Audit Procedures

1. Conduct a surprise observation of a paycheck distribution, and a comparison of employees at work with those signed-in (floor check).

2. Compare Personal Service (PS) budget categories with actual salaries paid to ascertain that amounts charged to the contracts do not exceed appropriate budget ceilings, established in the contracts.

3. Selectively trace amounts posted in the general ledger to the payroll register or other supporting documents.

4. Select a representative number of payroll items and determine for each individual whose pay is tested that:
 - a. The salary rate for DOHMH funded personnel does not exceed the pay rate specified in the contract budget.

 - b. Job position of employee is in accordance with the contract budget.

 - c. Payroll deductions are in accordance with applicable tax rates and other appropriate supporting documents, such as, W-4's, etc.

 - d. The hours recorded are based upon time sheets prepared by individual employees and approved by authorized supervisors.

 - e. Payroll amounts were properly computed.

 - f. Salary or wages charged to DOHMH program which were less than 100% of an individuals' time were allocated correctly.

 - g. Payee and net amount per cancelled payroll check agrees with payroll register.

overdue), are correctly recorded in the agency's books and records.

- h. Determine whether the fringe benefit costs charged:
 - 1. Are allowable under applicable costs principles.
 - 2. Are not for items which would not normally be considered fringe benefits.
 - 3. Are for items which do not duplicate indirect labor charges such as annual leave, sick leave, or holiday pay.
 - 4. Are properly supported by appropriate documentation.
- i. Test that payroll deductions were remitted on a timely basis to appropriate Federal, state or local authorities.
- j. Perform a test of employee annual and sick leave records to determine adherence to the Agency's personnel policies.
- k. Verify that any pension expense claimed to DOHMH was authorized by the Board of Directors and pension payments were appropriately put into a pension fund. Verify that the agency filed all required tax forms related to pension plans (i.e., Form 5000 (Schedule P) - Annual Return of Fiduciary of Employee Benefit Trust.)

V. CONSULTANTS

Objectives

To determine whether appropriate controls were exercised to ensure that the services were necessary and obtained at a reasonable price.

Control Survey

- 1. Do contracts for services of consultants:
 - a. Clearly state work to be performed?
 - b. Specify reports required?
 - c. Specify rates of pay?
- 2. Are consultants required to submit a record or proof of work performance and accomplishment?
- 3. Does the agency have procedures for evaluating work performed by consultants?

Audit Procedures

The auditor should obtain or prepare a detailed listing of consultants (name, services provided, method of payment, and amount paid) and selectively review consultant services costs claimed under the contract to determine that the following minimum standards for documentation were met:

1. Evidence that the services of the consultant are needed and the need cannot be met by personnel budgeted in the contract.
2. Suggested audit steps for examining consultant services costs are:
 - a. Trace amounts posted to the general ledger for consulting services to the supporting documentation.
 - b. Select a representative sample of consultant service agreements, if any, and determine that there is evidence the consultant services were:
 - o Actually provided; and
 - o Appropriate to the DOHMH contract and/or were received timely to benefit the DOHMH program.
 - c. Determine that consulting costs are specified in the contract budget and are allowable. Determine that the individuals receiving funds meet the criteria for independent contractor tax status.

VI. ACCOUNTS PAYABLE

Verify that accounts payable, including delinquent taxes at the end of the fiscal period (especially those long overdue), are correctly recorded in the agency's books and records.

VII. RENT EXPENSES

Objectives

To determine whether such costs were (i) supported by a lease agreement and (ii) allowable per the DOHMH contract budget.

Audit Procedures

1. Determine if rent is paid on a current basis.

2. Determine what items are allowable in accordance with the DOHMH contract.
3. Obtain or prepare a schedule of expenditures charged to DOHMH and determine their propriety.
4. Verify that the agency incurred actual expenses claimed.
5. Determine if rent expense is based on a lease agreement and determine that the allocation plan on the budget schedule is reasonable.
6. Verify that rent expense is for only the period between July 1 and June 30 of the fiscal year being audited.
7. Determine if rent has been paid as stipulated in the lease agreement.
8. Obtain copy of all leases and determine adherence to DOHMH regulations.
 - a. Review the lease noting date, parties, premises rented, option to renew, rental provisions, lease period, sub-lease privileges, deposits, special provisions as to payment by lessee for taxes, insurance and property maintenance, and disposition of leasehold improvements.
9. Review the agency's account entries and cash receipts for possible sub-lease arrangement.
10. Obtain or prepare information on lease commitments and arrangements.

VIII. EQUIPMENT/RENOVATIONS, SUPPLIES AND MATERIALS

Objectives

To determine whether such items were (i) purchased under the contract; (ii) used on the sponsored project; and (iii) obtained on a competitive basis where required. In addition, to determine the contract agency's compliance with all applicable procurement standards contained in the DOHMH contract.

Control Survey

1. Does the contract agency have in place a procurement system which meets the requirements of DOHMH?

2. Does the agency have controls which comply with the DOHMH contract, Section 3.06, (Contract Property), namely?
 - a. Conduct an annual physical inventory of all items purchased under the Agreement and predecessor agreements.
 - b. Did the agency submit an inventory listing to the Department within 30 days after the end of the fiscal year? The listing should include, but not be limited to the following:
 - Vendor?
 - Description of equipment purchased?
 - Acquisition date?
 - Acquisition cost?
 - Location of equipment/Ultimate disposition data?
 - Useful life?
 - c. Are controls in effect to ensure that all new purchases of equipment are entered into the property record system?
3. Are purchase orders used for the purchase of goods and services?
4. Is documentation for purchase transactions sufficiently complete to assure that goods or services received correspond with orders placed and expenditures made?
5. Do procurement actions follow a procedure to assure the avoidance of purchasing unnecessary or duplicative items?
6. Are solicitation for good and services based upon a clear and accurate description of the technical requirements for the material, product or service to be procured?
7. Are the type of procuring instruments appropriate for the particular procurement and for promoting the best interest of the program involved?
8. Is a system for contract administration maintained to ensure contractor conformity with terms, conditions and specifications of the contract, and adequate and timely follow-up of all purchases?

Audit Procedures

1. Verify that contract providers maintained an inventory listing of all equipment items purchased under the contract having a

value of \$500 or more and having a useful life in excess of one year. Records should include the vendor, date of acquisition, cost, description, useful life, location and date of disposition of each equipment item. All equipment items purchased under the contract must be labeled, identifying the Department as the owner or co-owner. [Administrative Directive 5]

Note:

Auditors must review a copy of the current inventory listing application to this contract and prior agreement with the Department. After reviewing it, the auditors should disclose any findings in the audit report. Perform a physical inventory observation.

2. For selected items, the auditor should determine:
 - a. Procurement was made in accordance with contract agency's normal procedures, along with the requirements of DOHMH, and that appropriate supporting documentation was maintained.
 - b. Contract providers must utilize competitive bidding when making purchases of good/services in excess of \$1,500. Services include client transportation. Competitive bidding requires at least three written bids for purchases from any one vendor in excess of \$1,500.
 - c. Contract providers obtained prior written Department approval of all equipment purchases of \$2,000 or more resulting from budget modifications. State approval for equipment purchases is no longer required in Mental Health contracts. State approval for equipment purchases in Mental Retardation and Alcoholism contracts is only required in purchases of \$5,000 or more.
 - d. Contract providers received all equipment purchased under the contract by June 30th. Receipt by June 30th is required in order for it to be reimbursable in the fiscal year ending that June 30th.
 - e. Items charged to the program were used for the program.
 - f. Schedule all equipment purchases and determine their propriety.
 - g. Determine that the equipment/renovations charged to the DOHMH program agree with those items listed in the DOHMH contract.

- h. From the property records, select a sample of equipment items purchased under the contract and verify their physical existence and location.
3. Verify that the agency incurred actual expenses claimed.
4. Ensure that equipment purchased does not exceed the amounts specified in the modified budget.
5. Ascertain that any funds generated from the retirement of contract equipment were reported as applied revenue to the contract.

IX. TRAVEL EXPENSES

Objectives

To determine (i) that the contract agency has established and applied travel policies; and (ii) that costs for travel are applicable, allowable and allocable to the program.

Control Survey

1. Does the contract agency have written travel policies?
2. Are travel vouchers reviewed and approved by an authorized official of the contract agency?

Audit Procedures

The auditor should obtain and review the organization's travel policies. In addition, the auditor should test travel charges to determine:

1. Travel costs are allowable and consistent with the approved budget and with the DOHMH travel policy. Travel costs are allowable where such travel provides direct benefits to the contract program. Travel costs usually include the costs of transportation, lodging, meals, and incidental expenses incurred by personnel, while on official business. Costs of transportation by patients/clients, including public transportation, are also allowable. Generally, travel is designated as staff or client travel. Contract providers must utilize competitive bidding for client transportation in excess of \$1,500. [Administrative Directive 94-3]. Contract providers must obtain prior written Department and State approval of all out-of-State travel.

2. Travel expenses are supported by appropriate travel documents (i.e., expense reports, receipts, etc.), and are properly approved by an appropriate official.
3. Verify that the agency incurred actual expense claimed.
4. Ensure that amounts claimed for staff travel and client travel do not exceed respective budget amounts.
5. Ascertain that travel occurred no later than June 30th of the year being audited.
6. Determine whether expense reports indicate that the travel costs charged were related to the program and necessary for the performance of the program.
7. Reimbursements for travel were limited to travel authorized under the organization's approved travel policy, but not in excess of the limitations set by any special provisions of the contract, if applicable.

X. AUDIT COSTS

Objectives

To determine whether AUDIT costs were (i) supported by appropriate documentation and (ii) allowable per the DOHMH contract budget.

Audit Procedures

1. Confirm audit costs administered, accounted for and allowable in accordance with the requirements in the DOHMH contract.
2. Verify that audit costs were properly recorded and supported by appropriate documentation.
3. Perform tests to verify that DOHMH costs are kept separate from other program costs.
4. Confirm agency did not charge A 133 audit cost to DOHMH if no federal funding has been received from DOHMH.
5. If federal funding has been received from DOHMH, confirm agency only charged proportionate share of the audit costs to DOHMH contract.

XI. INDIRECT COSTS

Objectives

To determine if indirect costs are (1) provided for in the contract, (2) reasonable, allocable and allowable, (3) equitably

distributed to cost objectives, and comply with the DOHMH Indirect Costs Guidelines.

Control Survey

1. Is there an approved indirect cost allocation plan?
2. Are methods of computing indirect costs and charging direct costs clearly defined (Such as based on Full Time Employee (FTE), Square footage etc)?
3. Are indirect costs allocated consistently among cost objectives?

Audit Procedures

Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective or not readily assignable to the cost objective specifically benefiting without effort disproportionate to the results achieved. Indirect costs can be allocated on an individual line-item basis or collected in an expense pool and allocated in total, utilizing a base on which to allocate the indirect expenses. In order to achieve equitable cost allocation, a plan must be established to define which costs are to be charged direct and which are to be treated as common or indirect. In addition, the auditor must review the amounts and methods in which indirect costs are charged to the contract agency. If an indirect cost allocation plan is used by the contract agency, it is not acceptable for the auditor to disclaim an opinion on the financial statements for not attempting to audit the indirect costs; the auditor must perform the procedures enumerated below to satisfy themselves as to the total costs accumulated in the pool as well as to the reasonableness of the indirect costs charged to the DOHMH contract under audit.

1. Review DOHMH contract for the year involved and obtain maximum indirect cost rate percentage and basis.
2. Check mathematical computation of indirect costs charged.
3. When indirect costs are charged through a cost allocation plan, the auditor should ensure the following by reviewing the plan:
 - a. Its costs are consistent and logical.
 - b. The indirect expense allocation base is one that will equitably distribute costs to projects on the basis of benefits derived.

- c. The indirect cost pool does not include any costs which have been incurred for the same purpose, in like circumstances, as costs which are treated as a direct charge on any projects.
 - d. All costs are properly identifiable.
 - e. Indirect costs are allocable and allowable, in conformity with the guidelines of the contract agreement and were incurred in the period being audited.
 - f. Costs are treated consistently as either direct or indirect costs and are not duplicated between the two classifications.
 - g. Indirect costs are reasonable and distributed on a basis that takes into account the proportion of good and/or services received by the applicable cost objective and, as such, is up to date.
 - h. Indirect costs are applied consistently under generally accepted accounting principles and can be reconciled to the books and records and financial statements' and
 - i. The same indirect cost amounts were not charged to different contracts.
- 4. Determine by selective examination of transactions whether indirect costs charged are allowable.
 - 5. Regardless of the method used to allocate indirect costs, the amount specified in the budget is the maximum amount allowable under the contract and should be properly supported. Indirect costs charged to programs in excess of the supportable amounts should be questioned, even if the total amount charged to the program is less than or equal to the maximum indirect cost rate per the contract. In other words, the indirect cost rate or amount specified in the contract is the maximum allowed, not a guaranteed minimum.
 - 6. Determine any indirect costs which are to be questioned based upon any direct costs questioned which are part of the direct costs base used in computing indirect costs.

XII. REVENUES/EXPENSES

Objectives

To determine if revenues/expenses are properly segregated, documented and accounted for by the agency.

Audit Procedures

1. Determine if agency is reporting revenues on an accrual basis.
2. Perform all necessary audit tests to ensure that all applicable income received or earned by the agency is reported correctly on the monthly and quarterly claims, and in accordance with contractual requirements.
3. Where possible, confirm revenue amounts with appropriate governmental units. If confirmation cannot be obtained, the Department can provide information in some cases, concerning Medicaid payments and Chapter 620 income.
4. On a test basis, review attendance logs with patient charts and compare against billings and reimbursements received. The purpose of this test is to ensure that the agency is maximizing revenue collection. Review and test the adequacy of the delegate agency's procedures used to identify and follow-up uncollected revenues. The procedures should include the following:
 - a. Examine the agency's intake procedures to ascertain that the agency maintains a system which results in the maximization of contract revenue.
 - b. On a random basis, select and examine patient files to determine the adequacy of Agencies' procedures to evaluate patient eligibility for Medicaid and other revenue sources.
 - c. Examine the agency's intake documents to ascertain that the agency is adhering to its sliding fee scales.
 - d. Ascertain that the agency routinely updates intake information.
 - e. Ascertain that the delegate agency maintains a system which allows it to correct third-party billing denials on a timely basis.
5. If income is allocated to the contract, verify that the method used on monthly claims is in accordance with the current budget schedule or modification and is properly calculated.
6. Review the income reported as applicable to the contract, to determine if allocation and reporting procedures are sufficient to accurately reflect the income earned by contract

services.

7. Applicable revenue earned can exceed budgeted amount.
8. As part of the audit report, a note regarding applicable revenues is required. This note must show the following:
 - a. Total applicable revenues
 - b. Percentage applicable to the contract
 - c. Total amount applicable to the contract
 - d. Actual amount applied to claims
 - e. Difference (under reported/over reported)
9. If the Department's payments to the agency are being deposited in an interest-bearing account, verify that interest income is being reported to the Department.
10. If the agency is a Comprehensive Outpatient Program Service Provider (COPS), COPS revenues pertain to the Department regardless of which program with the agency provided the services. All COPS provides in each program type identified by the State as eligible for reimbursement will be subject to COPS program audits.

NOTE: Providers have the option of submitting the first 11 monthly claims for first 3 quarterly expenditure reports on a cash or accrual basis. The final claim, however, must be submitted on an accrual basis that take into account all year-end unpaid expenses and earned income.

XIII. LEVELS OF SERVICE REPORTING

- a. Test the information contained on the monthly report of expenditures (claims) and report of program performance (Levels of Services-LOS) to determine that agency data gathering systems are appropriate and accurate.
- b. Compare and test monthly levels of service reports submitted to DOHMH with the actual levels of service recorded in the agency's records to determine that information reported to DOHMH is valid and complete.

XIV. AGENCY CONTRIBUTION

Objective

To determine if agency has appropriate funding to meet the agreed-upon agency contribution amount.

Audit Procedure

Where the Agency's contribution appears in the contract, the auditor, in a footnote to statements and schedules must indicate if the Agency has sufficient private funds to cover the actual Agency's contribution noted in the fourth column of the Statement of Contract Status in the audit report. Form 600 of the contract identifies the type of contribution anticipated by the Agency.

XV. COMPLIANCE AUDITS

Objective

To perform a compliance examination to ensure that, for the tested operations and records, the delegate Agency/Hospital has complied with the contractual requirements and limitations as contained in the delegate Agency/Hospital contract agreement.

With regard to reporting service statistics, as well as expense and revenue data, the following are applicable compliance matters contained in the delegate Agency/Hospital contract agreement:

Reports to be Submitted

The following reports are to be submitted by the delegate Agency/Hospital to the Department:

1. Thirty (30) days after the end of each month for the previous month:

- A. Claim for Payment of Contract Expenses (Form-23)
- B. Schedule of Fees and Other Income (Form-23R)

2. Level of Service Reports (Per Annex C of the Agency's Contract.

A. Mental Health Contracts

To be submitted by the Agency to the Department no later than the twentieth (20th) days of each month, the following reports for the previous month:

- Monthly Local Services Report Form LS3-1,1a, 2, 3, or 4, as appropriate.
- Intensive Case Management Monthly

Reporting form.

- Quarterly client Roster (CSS, Supported Housing, New York/New York and HUD funded programs).
- Any additional statistical or supportive informative requested.

B. Alcoholism Contracts

To be submitted by the Agency to the State Department and the Department no later than the fifteenth (15th) day of each month, the following reports for the previous month:

1. Monthly Local Services Unit Report Form LS-2C (DAA) (non-treatment programs)
2. Monthly PRU Service Delivery Report Form PAS-48 (treatment programs).

C. Mental Retardation/Developmental Disabilities Contracts

To be submitted by the Agency to the Department no later than the fifteenth (15th) day of each month, the following report for the previous month:

1. Monthly Local Services Unit Report Form LS-2C (NR)

D. Supported Work Programs for Mentally Retarded/Developmentally Disabled Clients

To be submitted by the Agency to the Department no later than the fifteenth (15th) day of each month, the following reports for the previous month:

1. Supported Work Monthly Statistical Report Form LS2SE.
2. Supported Employment Program Quarterly Narrative (SUB-2); also to the appropriate State Department DDSO.

Audit Procedures

1. General

On a test basis, determine whether these reports were accurately prepared. Auditors are expected to examine internal controls relative to these reporting requirements to make certain that the reports are accurate.

2. Levels of Service (LOS)

a. Background

The annual levels of service commitment for individual program units in the Agency contract are set forth on Form DOHMH #600. Annex D of the Agency's contract defines adequate Levels of Service performance as being at least 85 percent of the contractual annual commitment in the aggregate and for individual program units.

b. Procedures

Levels of Service (LOS) compliance verification entails the testing of internal control over Agency data gathering systems to ensure that the information contained on the monthly LOS report is appropriate and accurate.

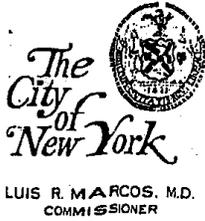
Auditor may select one month for each individual program unit. For the selected month, review the Agency's records against the monthly LOS report, any variances should be disclosed and explained in the report.

Note: The final determination as to the status of variance, if any, and whether the number of visits reported is within the 85 percent limitation, shall be made by the Department.

Confidentiality and Privilege (Section 5.05 of Agency Contract)

All examinations should be conducted in accordance with generally accepted standards of patient confidentiality and privilege and shall be performed on a No Name basis, on the Agency's premises, and in the presence of an Agency representative.

LAST PAGE



LUIS R. MARCOS, M.D.
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TO: All Voluntary Agencies/Hospitals

FROM: Luis R. Marcos, M.D. *L.R.M.*

DATE: August 10, 1994

SUBJECT: Administrative Directive 94-3
Contract Policies

The attached Administrative Directive 94-3 supersedes Administrative Directive 88-1, issued on January 20, 1988. Administrative Directive 88-1 has been revised as part of the Department's continuing effort to streamline and simplify the contracting process.

Administrative Directive 94-3 sets forth the current contract policies applicable to all voluntary agencies/hospitals in contract with the Department.

Administrative Directive 94-3 contains a number of significant changes from Administrative Directive 88-1, including the following:

1. 1f - Fundraising expenses may be reimbursable, if offset by fundraising income.
2. 1g - Related party transactions may now be reimbursable, if it is determined by the Department that no conflict of interest exists.
3. 1i - Severance pay is no longer automatically limited to 6 weeks, but may be reimbursable for a longer period based on union agreements and agency personnel policies, assuming that severance costs are reasonable, based on industry standards.

- 4. 1j - Payments to reserve accounts for pension and self-insurance are now reimbursable.
- 5. 2a - (Item 2a in Administrative Directive 88-1) - The requirement for prior written Department approval of high level contract agency officials has been eliminated from this Directive, and is replaced by Administrative Directive 93-1, issued on January 22, 1993.
- 6. 2a - (Item 2a in Administrative Directive 94-3) - Approval for expenses related to travel is only required for travel outside New York State.
- 7. 2b - State approval for equipment purchases is no longer required in Mental Health contracts. The threshold for State approval for equipment purchases in Mental Retardation and Alcoholism contracts has been increased from \$1,500 to \$5,000.
- 8. 3a - The requirement for competitive bidding for goods/services has been increased from \$500 to \$1,500.
- 9. 3c - The requirement to include equipment items in an inventory listing has been increased from \$100 to \$500.
- 10. 4a - Expenses/revenues must now be reported to the Department on an accrual basis, instead of on a modified cash/cash basis. This is in conformance with the State-mandated Consolidated Fiscal Report (CFR). Technical assistance regarding the transition in reporting will be available as needed.
- 11. 5b - The requirement that contract employees must work only during the provider's regular business hours has been eliminated.
- 12. 7a - Items 4, 6 and 7 have been moved from 7a to 7b. Contract providers will no longer be required to routinely submit the following items to the Department, but will only do so upon request: sliding fee scales, certificates of insurance and articles of incorporation.
- 13. 8 - (Item 8 in Administrative Directive 88-1) - General contractor



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ADMINISTRATIVE DIRECTIVE 94-3

CONTRACT POLICIES

1. EXPENSES NOT REIMBURSABLE

- a. Principal component of mortgage payments on obligations incurred in the acquisition of real property.
- b. Debt Service payments, principal and interest, except as may be provided by law.
- c. Most capital expenses. An expense is generally considered to be a capital expense, rather than an operating expense, if it is for the purchase of an asset that exceeds \$15,000, and has a useful life of at least 5 years. If a provider is unsure whether a particular expense may be allowable, prior written Department approval should be sought.
- d. Penalties (e.g. parking tickets, late filing fees).
- e. Board of Directors' expenses except as may be approved by the Department.
- f. Fundraising expenses, unless expenses are offset by fundraising income.
- g. Related party transactions (e.g. rental payments to related holding corporations), unless it is determined by the Department that no conflict of interest exists.
- h. Entertainment expenses.
- i. Severance pay, except as allowed per union agreements and written agency personnel policies, and must be reasonable, based on industry standards.
- j. Payments to reserve accounts, except for pension and self-insurance, providing that amounts are reasonable and within normal charges for these expenses.

- k. Pre-contract expenses (e.g. incorporation fees, engineering reports).
- l. Staff commutation expenses between home and work station.

2. REQUIRED PRIOR WRITTEN APPROVALS

- a. Contract providers must obtain prior written Department and State approval of all expenses related to travel outside New York State.
- b. Contract providers must obtain prior written State approval of all equipment purchases of \$5,000 or more in either Alcoholism or Mental Retardation contracts. No State approval is required for equipment purchases in Mental Health contracts. Prior written Department approval for equipment purchases not included in the original budget will be governed by the Department's revised budget modification procedure, dated October 1, 1993.
- c. Prior written Department approval must be obtained for any contract employee to participate, on a regular basis, in non-contract activities during the contract work period of said employee. Non-contract activities include, but are not limited to, continuing education programs and teaching.

3. GOODS/SERVICES PURCHASED UNDER CONTRACT

- a. Contract providers must utilize competitive bidding when making purchases of goods/services in excess of \$1,500. Services include client transportation. Competitive bidding requires at least three written bids for purchases from any one vendor in excess of \$1,500.
- b. Contract providers must receive all goods/services purchased under the contract by June 30th in order that they be reimbursable in the fiscal year ending that June 30th.
- c. Contract providers must maintain an inventory listing of all equipment items purchased under contract having a cost of \$500 or more and having a useful life in excess of one year. Records should include identification of the vendor, date of acquisition, cost, description, estimated useful life, location, and manner and date of

disposition of each equipment item. Equipment items purchased under contract, which are replaced and/or upgraded, must be disposed of or salvaged in accordance with appropriate salvage procedures. All equipment items purchased under contract must be labeled and agency records must indicate that the Department has an equitable interest in said equipment items.

4. REPORTING/ACCOUNTING REQUIREMENTS

- a. Contract providers' expenses/revenues must be reported to the Department on an accrual basis.
- b. Contract providers must report to the Department all retroactive revenue and expense adjustments.
- c. Interest earned by the contract provider from a) funds received through the Department for contract services and b) funds generated by the provision of contract services (including but not limited to self-pay, medicare, medicaid, VESID payments and other governmental grants/contracts) must be reported to the Department as income in the monthly expenditure reports.
- d. Contract providers must maintain adequate accounting systems. Such systems must include reasonable and auditable expense/revenue allocation methods. Expense/revenue allocation methodologies must be consistent with the relationship between contract expenses and applicable income and total program expenses and income, and must be consistent with the CFR methodology. These formulas must be included in the approved contract budget.
- e. The Department will, at its discretion, assess interest charges on delinquent liabilities due to the Department.

5. TIME RECORDS

- a. Written time records must be maintained for all employees under contract, including management staff. Such individual time records must be approved by an authorized voluntary agency official.

6. INSURANCE REQUIREMENTS

- a. Contract providers must obtain a fidelity bond covering the activities of each person who receives, handles or disburses contract monies or who collects funds from recipients of contract services.
- b. Contract providers must maintain adequate insurance for contract property and must apply insurance payments for stolen/damaged property against replacement costs and/or contract applicable income, when property is not replaced.
- c. Contract providers must maintain adequate general liability and malpractice insurance.

7. REQUIRED DOCUMENTS

- a. Contract providers must submit to the Department copies of the following documents on an annual basis, except where otherwise provided:
 - (1) Current list of Board of Directors, including home and/or business address.
 - (2) Most recent certified financial statements.
 - (3) Stepdowns supporting contract charges (if any).
 - (4) Board of Directors resolution authorizing signators for contract and related documents.
- b. Upon request, contract providers must submit to the Department copies of the following documents:
 - (1) Contracts with other government agencies that relate to contract services.
 - (2) Program and fiscal audits performed by other government agencies that relate to contract services.

- (3) Minutes of Board of Directors' meetings.
- (4) Collective bargaining agreements covering contract employees.
- (5) Leases and sub-leases.
- (6) Certificates of Insurance (property; general liability and malpractice; and fidelity bonds) showing coverage as it relates to contract services.
- (7) Articles of Incorporation - This will be submitted once and whenever amended.
- (8) Sliding fee scale.