

<b>COMMUNITY MENTAL HEALTH PARTNERSHIP OF SOUTHEASTERN MICHIGAN</b>		<b><i>Policy and Procedure</i></b>	
<b>Department</b> Finance	<b># of Pages: 6</b>		
<b>Policy Name</b>  FINANCIAL AUDITS OF CONTRACTORS	<b>Type of Policy:</b>  <input type="checkbox"/> WCHO <input checked="" type="checkbox"/> Regional <input type="checkbox"/> Network		
<b>Policy Number</b>	<b>Effective Date</b>	<b>Revision Date</b>	<b>Approval Date</b>  9/19/06
<b>Administrative/Board of Directors Sign Off</b>			
<b>Administrative Signature:</b>		<b>Date:</b>	
<b>Board of Directors Signature:</b>		<b>Date:</b>	

**I. PURPOSE**

To establish guidelines and standards regarding the financial audit obligations outlined in Provider Contracts, and to provide guidelines for exempting a contractual provider from the independent auditor requirements.

**II. APPLICATION**

All contractual providers of Community Mental Health Partnership of Southeastern Michigan (CMHPSM) and its Affiliates.

**III. DEFINITIONS**

Annual Audit: An audit of the Contractor’s financial records performed annually by an independent auditor or audit firm. An annual audit shall include a separate section of all activities funded under the terms of the contract.

Contractual Providers: Any agency or organization that provides direct support services to consumers within CMHPSM, with the exclusion of hospitals. Also referred to as “Contractor.”

Affiliate: Affiliates of CMHPSM include WCHO, CSTS, Lenawee CMH, Monroe CMH and Livingston CMH.

Financial Compilation: A compilation of the Contractor’s financial records presented in the format of financial statements regarding Assets, Liabilities, Revenue and Expenses. A Financial Compilation does not need to be conducted by an independent auditor or audit firm; however, it must be attested to by the Contractor’s Executive Director and Financial Officer.

Program Audit: An audit of the Contractor's financial records that relate to the services provided on behalf of an Affiliate provided by an independent auditor or audit firm. A program audit shall report on the Contractor's adherence to the terms of the contract between the Contractor and the Affiliate, including the accuracy of expenses and revenue reported.

#### **IV. POLICY**

Each Contractor of CMHPSM is required to submit an annual audit performed by an independent auditor or accounting firm. The annual audit must conform to Generally Accepted Auditing Standards (GAAS) and all applicable federal and state laws and regulations regarding accounting practices and standards. Each Contractor shall submit to the Affiliate the agency's Plan of Correction to address audit exceptions, comments, and/or recommendations, and submit progress reports periodically. A Contractor may be permitted to waive the annual audit requirement if they meet the criteria for exemption and return an "Annual Audit Waiver Request" form to the Affiliate. Each Contractor may be required to submit to the Affiliate a program audit or financial compilation in lieu of or in addition to the annual audit.

The contractor must meet one of the following three criteria in order to be granted an Audit Waiver:

- A. Contractor provides services to 6 (six) or less Affiliate consumers per year.
- B. Contractor receives \$30,000 or less annually from entire CMHPSM to provide services to consumers.
- C. Contractor employs ten (10) or less employees or full-time equivalents (FTE).

If an Audit Waiver is approved, a Financial Compilation will be required.

#### **V. EXHIBITS**

- A. ARTICLE XII "Financial Audit" (Contract language used with all non-hospital Contractors)

#### **VI. REFERENCES**

- A. Generally Accepted Accounting Principles (GAAP)  
<http://www.fasab.gov/accepted.html>
- B. Generally Accepted Auditing Standards (GAAS)
- C. OMB Circular A-87 "Cost Principles for State, Local and Indian Tribal Governments" <http://www.whitehouse.gov/OMB/circulars/a087/a087-all.html>
- D. OMB Circular A-133 "Audits of States, Local Governments and Non-Profit Organizations"
- E. <http://www.whitehouse.gov/omb/circulars/a133/a133.html>

## VII. PROCEDURES

<u>WHO</u>	<u>DOES WHAT</u>
Contracting Agency	<ol style="list-style-type: none"><li>1. Establishes and maintains appropriate accounting policies and procedures.</li><li>2. Maintains financial statements that are free of material misstatements, are in accordance with generally accepted accounting principles, and conform to relevant OMB Circulars relevant to the agency's type of organization (e.g., Cost Principles for Non-Profit Organizations).</li><li>3. Completes and submits an Annual Audit Waiver Request to Affiliate if applicable. A new Audit Waiver Request must be submitted for each contract cycle. Contractor has until the end of the 3<sup>rd</sup> quarter to submit the Audit Waiver Request to Affiliate.</li><li>4. Engages the services of an independent auditor or audit firm unless granted an Annual Audit Waiver.</li><li>5. Assures timely completion of all audits.</li><li>6. Submits Annual Audit or Financial Compilation to Affiliate on or before 90 days after the close of the Contractor's fiscal year.</li><li>7. May submit in writing to the Affiliate up to two 30-day requests for extensions of the submission date. Request(s) shall include an explanation of extenuating circumstances for delay. "The audit is not yet completed" is not considered an extenuating circumstance.</li></ol>
Affiliate Designee	<ol style="list-style-type: none"><li>1. Approves or denies Annual Audit Waiver Request as part of the contracting process.</li><li>2. Reviews Annual Audits or Financial Compilations.</li><li>3. If an audit includes audit exceptions and/or auditor comments, requires Contractor to submit a Financial Plan of Correction within thirty (30) days of the issuance of the audit.</li><li>4. If a Financial Compilation indicates a financial concern, requires Contractor to submit a Financial Plan of Correction within thirty (30) days of the submission of the Financial Compilation.</li><li>5. If an audit or compilation is not submitted on or before the due date or the approved extended due date, assesses financial penalty as follows:<ol style="list-style-type: none"><li>a) 15 days late: Reminder Notice</li><li>b) 30 days late: Temporary withholding of \$150. If audit is received within next 30 days, \$150 will be released. If Provider's contract has terminated, a second reminder will be sent.</li><li>c) 60 days late: Permanent withholding of the \$150. In addition, \$150 per month will be withheld for each month, or</li></ol></li></ol>

**WHO**

**DOES WHAT**

any partial month, thereafter until audit is submitted to Affiliate. If Contractor serves multiple Affiliates/Counties, the late fee will be assessed on a regional rather than Affiliate basis.

- d) May approve up to two (2) 30-day extensions of the audit submission date if there are extenuating circumstances.

Contracting Agency

1. Submit to Affiliate a Financial Plan of Correction for any audit exceptions, comments, and/or recommendations noted by the independent auditor or audit firm within thirty (30) days of issuance of the audit.
2. Submit status reports and products or other evidence of corrections as required under the Plan of Correction.
3. Failure to submit, comply with, or attain outcomes of a required Financial Plan of Correction may be cause for contract sanctions, up to and including contract termination.
4. Affiliate may require the addition of concerns or issues in the Plan of Correction.

Affiliate Designee

1. If approved, verifies Contractor eligibility for Annual Audit Waiver at the end of contract cycle.
2. Notifies local Board of any Contractor that has a Plan of Correction.
3. Reviews Plan of Correction submitted by Contractor. May add additional requirements.
4. Makes recommendation about the feasibility of maintaining a Provider on the Network Panel regarding financial status.
5. Sends to Contractor regular invoices indicating amount withheld due to late audit submission.
6. Sends to Contractor written notification when a required Financial Plan of Correction has been successfully met.

## EXHIBIT A

### APPENDIX A: ARTICLE XII. FINANCIAL AUDIT

A. **Annual Financial Audit:** Unless an “Annual Audit Waiver” is granted, CONTRACTOR shall obtain, within ninety (90) days of the close of its fiscal year, an annual financial audit that includes but is not limited to the following areas of compliance:

- Generally accepted accounting principles.
- Fiscal solvency illustrated in CONTRACTOR’s balance sheet and income statement.
- Adherence to the terms of this Contract including documentation of claims submitted to CMHSP.
- Applicable federal and state laws and MDCH Guidelines relative to this Contract.

The Financial Audit must include a list of revenues and expenses by fundor. Failure to submit this audit may result in the imposition of a financial penalty. Licensed Independent Practitioners are exempt from this audit requirement.

B. **Corrective Action:** Any audit finding shall be addressed in a corrective action plan. A plan of corrective action shall be submitted to CMHSP within thirty (30) days of the issuance of the audit. The CONTRACTOR shall submit status reports and/or finished products as required under the Plan of Correction. The corrective action shall be completed no later than six (6) months after the date of the audit.

C. **Annual Program Audits:** The CONTRACTOR may be required to provide an annual program audit relating to contracted services, which shall include but is not limited to the following areas of compliance:

- Generally accepted accounting principles.
- Adherence to the terms of this Contract including accuracy of expenses and revenue reported.
- Applicable federal, state and local laws, ordinances, codes, rules and regulations.

D. **Financial Compilation:** The CONTRACTOR will be required to provide an annual financial compilation in lieu of an annual financial audit or annual program audit when an Audit Waiver has been approved. The CMHSP also reserves the right to request copies of CONTRACTOR’s 990’s.

If an annual program audit or financial compilation is required, the audit or compilation must be submitted to CMHSP within ninety (90) days of the close of CONTRACTOR’s fiscal year or the termination of this Contract, whichever occurs first. Failure to provide this audit may result in the imposition of a financial penalty.

E. **Annual Audit Waiver:** CONTRACTOR may request the annual audit requirement be waived if one or more of the following conditions are met. CONTRACTOR must submit the Audit Waiver Application provided by CMHSPM. Meeting the criteria does not guarantee a waiver will be granted; final authority to grant the audit waiver lies with CMHSPM.

- CONTRACTOR provides services to six (6) or less CMHPSM consumers annually.
- CONTRACTOR receives \$30,000 or less annually for the entire CMHPSM to provide services to consumers.
- CONTRACTOR employs ten (10) or less employees or full-time equivalents (FTE).

If an Annual Audit is waived, a Financial Compilation will be required.