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Title of Document: Procedures for Implementation of DDSN Audit
Policy for Contracted Service Providers

Date of Issuance: April 5, 2017

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Effective Date: July 21, 2022

(REVISED)

Applicability: Contracted Service Providers

GENERAL PROVISIONS

Contracted Service Providers (QPLs) that receive funding, directly or indirectly, (program contracts, grants, sub-grants or payments from DSN Boards, etc.) originating from South Carolina Department of Disabilities and Special Needs (DDSN) contracts, including billings direct to the South Carolina Department of Health and Human Services (DHHS), in excess of \$250,000 during their fiscal year must engage a Certified Public Accountant (CPA) to perform and report on applying agreed-upon procedures (RoAAP) in compliance with this directive. DDSN is contractually required by DHHS to ensure billings through BRIDGES are properly documented to support units billed.

Additionally, QPLs that **PROVIDE ANY RESIDENTIAL HABILITATION SERVICE** and meet the dollar threshold for a RoAAP above, must also engage a CPA to perform an audit in accordance with generally accepted governmental auditing standards (Generally Accepted Governmental Auditing Standards (GAGAS) or “Yellow Book”) and/or the standards of the Public Company Accounting Oversight Board (PCAOB). The audit requirement is in addition to the requirement to engage a CPA to perform and report on applying agreed-upon procedures (RoAAP) in compliance with this directive. The audit, excluding the RoAAP, is to be performed in accordance with GAGAS or “Yellow Book” by an independent CPA. If the entity expended over the threshold set by OMB Uniform Guidance (currently \$750,000) in federal awards during the fiscal year, then it must obtain an audit in accordance

with the Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards, under 2 C.F.R., Subtitle A, Chapter II, Part 200 (“Uniform Guidance”). Please note that Medicaid funds received are not considered Federal awards.

AUDIT REPORT AND PROCEDURES

1. The financial statements must be prepared in conformity with Generally Accepted Accounting Principles (GAAP). Effective implementation dates for recently issued and adopted accounting pronouncements must be followed. Early implementation of any standard must be approved by DDSN in advance of adoption. Requests for consideration of early implementation must be submitted in writing to the DDSN Chief Financial Officer (CFO) within 30 calendar days subsequent to the fiscal year end in which the implementation is to be applied. A written response will be provided to the requestor within 30 days of receipt of the request.
2. The financial information outlined in this directive for the QPL’s year-end must be included in the audit report. Failure to do so will make the report unacceptable.
3. The auditor must express an opinion on whether the information in the supplementary schedules is fairly stated in all material respects in relation to the financial statements taken as a whole. As with the financial statements, the supplementary schedules must be prepared in conformity with generally accepted accounting principles.
4. DDSN required supplementary financial information:
 - a) **Room and Board Computation** – **ONLY QPLs PROVIDING RESIDENTIAL SERVICES.**

Utilizing DDSN Directive 250-09-DD: Calculation of Room and Board for Non-ICF/IID Programs and Attachment B, prepare a computation of room and board utilizing the final audited trial balance. The auditor is not required to provide any additional assurance related to the contents of specific trial balance accounts comprising the room and board computation.
 - b) **Schedule of Special Grant Revenues and Expenses**

Utilizing Attachment C, prepare a schedule of special grants for all special grants revenues received and/or expended during the fiscal year.
 - c) **Audit Directive Compliance Statement**

The QPL must give a copy of this audit policy to the auditor prior to the start of the audit to ensure that DDSN’s audit requirements are met. The auditor must include a signed statement with the audit report stating that he/she has read and complied with the requirements of the policy. The statement must indicate the revision date of the audit policy that was followed.

REPORT ON APPLYING AGREED-UPON PROCEDURES (RoAAP)

QPLs must contract with an independent CPA to apply and report on applying agreed-upon procedures for the procedures listed below.

A sample template of the required RoAAP can be found in Attachment A of this Directive. **CPAs must follow this template.** The template will be provided in Word format if requested.

The CPA must follow AU-C 530 “Audit Sampling” in its sampling selection process and determination of the population and sample sizes required. DDSN was not prescriptive in selecting audit sampling, but will closely scrutinize the results for reasonableness. Attachment A contains a chart to tease out specific number of Medicaid bills tested to permit both aggregating RoAAP data statewide to assess risk and crystalize CPA’s level of effort in sampling.

The procedures below are required to be completed by and the results reported on by the CPA.

1. Test the QPL’s control and procedures for Medicaid billings – ALL QPLs.

a) **Background Information**

People may receive services provided either by the QPL or a third party vendor under the Medicaid program. Services must be authorized by the Case Manager and documented in the person’s support plan. The QPL or the third party vendor receives payments for the Medicaid billable services rendered to the persons from either DDSN or the SC Department of Health and Human Services (DHHS). Medicaid billable programs include, but are not limited to, all residential habilitation programs; Intermediate Care Facilities for Individuals with Intellectual Disabilities (ICF/IID), Community Residential Care Facilities (CRCF), Community Training Home-II (CTH-II), Community Training Home-I (CTH-I), Community Integrated Residential Services (CIRS), Supervised Living Model-II (SLP-II), Supervised Living Model-I (SLP I), Specialized Family Homes (SFH), Adult Day Programs, Supported Employment, Home and Community Based Waiver Services (enhanced board and direct billed services), Head and Spinal Cord Injury Services Waiver (enhanced board and direct billed services), Community Supports Waiver Services (enhanced board and direct billed services), Case Management, and Early Intervention. The CPA should reference DDSN standards and Chapter 10 of the Finance Manual located on DDSN’s website for guidance related to these services and DDSN’s billing and reporting procedures.

b) **Procedures**

i) The CPA must gain an understanding of the Medicaid billing process and controls over Medicaid billable services (including enhanced board and direct billed services). In order to gain an accurate understanding of this process, the CPA should consult with the program staff and supervisors, as these employees are directly responsible for Medicaid compliance and should be familiar with the Medicaid billing process. The CPA must perform sufficient work to determine if the QPL’s policies and procedures are adequate to provide reasonable assurance that Medicaid billable services are properly supported.

- ii) The auditor must select a representative sample from all persons from each Medicaid billable service area for which the QPL or a third-party vendor is receiving payments for Medicaid billable services through DDSN or DHHS. For the sample selected, the CPA must perform sufficient work to determine the following:
 - Tests determine that the supporting documentation provides reasonable assurance that billings are supported by complete and accurate information.
 - Gain an understanding of the monitorship (review of service notes, phone contacts with family members and/or employers, visits to family members' homes and/or persons' job sites, etc.) procedures established by the QPL to monitor each program. Test monitorship is being provided and documented by supervisory staff on an on-going basis so as to provide reasonable assurance to the QPL that the billable services are being provided to the persons and/or families as indicated by the documentation on file.

2. **ONLY QPLs PROVIDING RESIDENTIAL SERVICES:** The auditor must select a representative sample in each provider residential Habilitation programs (ICF/ID, CRCF, CTH-I, CTH-II, CIRS, SLP-I and SLP-II). Test the provider's management of the personal funds and personal property for compliance with DDSN Directive 200-12-DD: Management of Funds for Individuals Participating in Community Residential Programs and 604-01-DD: Individual Clothing and Personal Property.

a) Background information

CPAs should familiarize themselves with the following directives: DDSN Directives 200-12-DD: Management of Funds for Individuals Participating in Community Residential Programs and 604-01-DD: Individual Clothing and Personal Property, outline regulations related to DSN Board management of personal funds and property. Procedures may vary by residential program and will also vary based on whether funds are retained in individual checking accounts, savings accounts, burial accounts, Achieving a Better Life Experience (ABLE) accounts, or collective accounts. Care must be taken to gain an understanding of the unique characteristics of each and to ensure procedures are developed accordingly. Additionally, CPAs must understand eligibility, regulations, and resource limits established by Medicaid. Eligibility will vary by coverage group.

b) Procedures

The CPA must perform sufficient work to determine if the QPL's policies and procedures are adequate to safeguard the persons' personal funds and property and are

in compliance with DDSN Directives. The CPA must select a representative sample of accounts from each residential program and transactions to ensure proper coverage.

- i) Determine that persons' personal funds are not borrowed, loaned, or co-mingled by the QPL or any other person or entity for any purpose; or, combined or co-mingled in any way with the QPL's operating funds.
- ii) Determine that persons' accounts are established in the person's name and social security number, and that they indicate the accounts are for the benefit of the person (fiduciary relationship).
- iii) Determine that copies of bank signature cards are maintained and updated timely for changes.
- iv) Determine that bank reconciliations are being performed and documented within 20 business days of receipt of the bank statements by a staff member who is not a co-signer on the account.
- v) Determine, through a random sample of 10% of all purchases that receipts are on hand to support purchases made from the person's personal funds.
- vi) Determine that the amount paid by the person is properly charged to their personal funds. Consider if amounts should have been paid by the Waiver program, from residential program funds, or if items/services purchased are appropriate for the person expending the funds.
- vii) For any item purchased that is required to be inventoried, verify that the persons' personal property record is properly updated. Procedures used by the Provider should be reviewed to ensure they are adequate to ensure the item is properly marked in accordance with the directive. Actual observation of the items is not required, but may be deemed necessary by the CPA to test the procedures used by the Provider.
- viii) Determine if checks written to the person cause those to exceed their cash on hand limit. Gift cards are also considered cash and must be included in the cash on hand limit. Funds written payable to the person and cashed are considered cash on hand until expended and should be considered in conjunction with other cash held by the person and/or by program staff.
- ix) Determine that actual counts of the persons' cash held by residential staff, and agreement of the counts to the records, are completed monthly by someone who does not have authority to receive or disburse cash. The count and agreement to the records must be documented. The CPA is only expected to test the procedures used by the Provider.
- x) Evaluate controls over cash to ensure that the provider has adequate controls to identify and safeguard cash held by the provider and cash held by the person.

- xi) Determine that the persons' total countable resources do not Exceed the established limits mandated by Medicaid (generally: \$2,000).
- xii) Determine that the QPL has a process in which to identify those with recurring excess resources and a plan is established to eliminate risk of loss of benefits – for example, participation in the ABLÉ Program, participation in a special needs trust (individual or pooled), spend down of resources, establishment of burial savings accounts, and establishment of prepaid burial arrangements.
- xiii) For collective accounts, the CPA must determine that the account is being managed in accordance with the Social Security Organizational Representative Payee guide that can be found on the Social Security Administration's website.

If the auditor becomes aware of a misappropriation involving the QPL or persons' funds and/or any falsification of Medicaid billable services, then the auditor must promptly report this information to management, with a follow-up to DDSN Internal Audit. Consideration should be given as to deficiencies in internal controls and whether there are any questioned costs to report.

3. Determine if the QPL is paying ALL direct care staff the established minimum hourly wage in accordance with the DDSN contract.

a) Background Information

DDSN is appropriated funds from the State to establish a minimum pay rate for direct care staff. These funds are passed to QPL through an increase in rates and contract amounts. Direct support professionals are defined as persons that are in a regular shift rotation and are directly involved in the care of persons in residential or day program settings. Supervisors, House Managers, and other similar positions would qualify if they meet the criteria above. Job classifications vary by service provider and the same job classification at different service providers may or may not involve the same level of hands-on care. As a result, DDSN did not take a prescriptive approach. Each QPL will have the responsibility of determining which employees qualify based on their unique circumstances. The minimum pay rate for direct support professionals will be \$13 per hour. QPLs are permitted to pay new hires a rate less than \$13 for staff training hours and for any on the job training hours where the direct support professional is not permitted to work alone. If a staff is able and has been cleared to work alone, but does not work alone due to staffing patterns in the home, then they must be paid \$13 per hour. In no case should a new hire direct support professional make less than \$13 per hour for a period to exceed 90 calendar days.

a) Procedures

The auditor must determine that the QPL is paying ALL direct care staff the established minimum hourly wage in accordance with DDSN requirements, for all hours worked.

- i) The CPA must test the minimum pay rate used by the Provider. A variety of testing procedures may be used. One such procedure could be selecting two (2) randomly selected pay periods to test proper application of the pay rate.

- ii) For all years with a direct care staff pay increase raising DDSN's minimum hourly wage, the timing of the pay rate increase must be determined to ensure the increase was paid on the first pay date in July. Retroactivity of the pay rate is permitted, but the CPA must perform sufficient work to ensure it was completed properly. If there was a retroactive payment to the employee, then the CPA is only expected to verify the process used appears to be completed correctly to ensure compliance.
- iii) If direct care staff are paid less than \$13 per hour, verify they meet the requirements above which permits a lower rate be paid for a period not to exceed 90 days or there is a written exception approved by DDSN.

4. **APPLICABLE ONLY TO QPLs PROVIDING RESIDENTIAL SERVICES**

Determine that the QPL has adopted a room and board policy. Test that they have properly and timely implemented the DDSN approved room and board, in accordance with their policy.

a) Background information

QPLs are required to adopt a fee for services policy in accordance with DDSN Directive 250-09-DD: Calculation of Room and Board for Non-ICF/IID Programs. Additionally, they are to obtain DDSN approval at least annually on the room and board fee to be charged to persons in residential programs.

b) Procedures

- i) The auditor must determine that the QPL has established a room and board policy for persons' fees and such policy has been reviewed and approved by the Board of Directors, if the QPL has a Board of Directors. In the absence of the Board of Directors, room and board must be approved by someone in authority (Owner/CEO).
- ii) The CPA must obtain the DDSN approved room and board rates utilized during the reporting period.
- iii) The CPA should familiarize themselves with the policy and the approved rates.
- iv) The CPA must test actual charges made to persons to ensure that they comply with the policy. This would include consideration of the timing of the application of rate changes and verification that these charges do not exceed the approved room and board rates.
- v) The CPA must test move-ins and move-outs that occur within any given month to ensure that room and board charges were properly applied and the proper proration of the room and board was appropriately charged. Any miscalculations must be communicated by the CPA.

AUDIT REPORT AND RoAAP REPORT DUE DATES AND EXTENSIONS

The RoAAP and audit report, if required, are to be filed with DDSN within 90 calendar days of the year-end audited. If this due date falls on a weekend, or any due date, then the due date is the next workday.

A request for an extension of time to file the RoAAP and audit reports must be submitted to DDSN Internal Audit by the QPL in writing on the **QPL's letterhead and signed by the Executive Director/CEO/President and must be approved by DDSN Internal Audit. The request for an extension must be received by DDSN Internal Audit at least 15 calendar days prior to the due date of the report.** Such requests will only be approved in extreme circumstances that are beyond the control of the QPL or the auditor or when approval would be to the benefit of DDSN.

If the audit and RoAAP reports are not received within five (5) business days of the due date, including approved extensions, then a financial sanction of \$100 per calendar day will be assessed on each report until each of the reports are received by DDSN or up to a maximum of \$2,500 per report has been assessed. The total amount of the fees assessed will be invoiced. If a QPL incurs a financial sanction in consecutive years for not meeting a reporting deadline subject to a financial sanction for the same report, then the fee for the missed deadline(s) for the second year will be doubled.

AMENDMENTS TO AUDIT REPORTS

Where additional explanations or corrections are necessary after a report has been filed, supplements must be prepared by the audit firm and distributed as noted in the "Distribution" section below.

CORRECTIVE ACTION PLANS (CAP) AND EXTENSIONS

When the auditor's report, separate letter to management (if issued), and/or the RoAAP identify material weaknesses, deficiencies (significant or not), findings or questioned costs, the QPL must submit a CAP to address and resolve the problem(s) identified by the auditor/CPA, or submit a statement of reasons why no corrective action is necessary. The CAP should be prepared on contracted service provider's letterhead and signed by the Executive Director/CEO/President. The CAP must be submitted to DDSN Internal Audit within 20 business days after issuance of the audit report and/or RoAAP. If the CAP is not received within 20 business days of the due date, then a financial sanction of \$100 per calendar day will be assessed until the CAP is received by DDSN or up to a maximum of \$2,500 per CAP has been assessed. The total amount of the financial sanction will be invoiced. Any invoices not paid within 60 days will be subject to additional collection efforts including, but not limited to, deductions from future contract payments. Invoices not able to be resolved after such efforts will be reviewed by the State Director and/or the DDSN Commission for potential additional action. It is recommended that the CAP be submitted with or included as part of the audit report and/or RoAAP when issued. The CAP should include the specific dates when deficiencies will be corrected. Copies of documents that clarify the resolution of deficiencies must be included with the CAP, such as found missing receipts, relevant Service Error Correction Forms, and logs.

A request for an extension of time to file a CAP must be submitted to DDSN Internal Audit by the QPL in writing on letterhead and signed by the Executive Director/CEO/President, and must be

approved by DDSN Internal Audit. The request for an extension must be filed 15 business days prior to the due date for the CAP. Such requests will only be approved in extreme circumstances that are beyond the control of the contracted service provider, the auditor, or when approval would be to the benefit of DDSN.

ADDRESSEE

Any reports issued in accordance with this directive are to be addressed to the governing boards or to management if the entity does not have a Board of Directors.

DISTRIBUTION

The RoAAP report, audit report, management letters, and/or internal control reports shall be filed as follows:

1. Executive Director/CEO/President of the QPL.
2. Chairperson of the QPL's governing board (if applicable).
3. Hard copy of audit reports to:

DDSN Director of Cost Analysis
3440 Harden Street Extension
Columbia, SC 29203
4. Electronic pdf copy of audit reports and RoAAPs to financial.reports@ddsn.sc.gov.

The audit firm must present the final audit report, any management letter comments, the RoAAP, and all deficiencies noted, at a scheduled meeting of the QPL's Board of Directors, if applicable. If this is not done prior to the due date for submitting the documents to DDSN, the auditor must ensure that management is aware of the contents of the final report, management letter comments, the RoAAP, and deficiencies noted.

DISCLOSURE OF THREATS TO INDEPENDENCE

When the audit reports are filed with DDSN, QPLs must also submit a statement on letterhead and signed by the Executive Director/CEO/President disclosing all identified threats to independence. The letter must outline the type and extent of all attestation, consulting, bookkeeping, and/or other services performed under contract or agreement with the audit firm. Examples that must be considered include, but not limited to maintenance of the depreciation schedule, preparation of the financial statements, income tax preparation and advisory services, management advisory services, third-party administrator services, preparation of the Schedule of Expenditures of Federal Awards (SEFA), completion of the Federal Audit Clearinghouse Data Collection Form, individual or aggregate, material adjustments made, payroll services, bookkeeping services, budget preparation, and software selection/implementation.

Reference must be made to the Government Auditing Standards 2018 Revision for those services that present threats to independence. The QPL is responsible for being aware of independence threats and ensuring they are addressed by the auditor to ensure they remain independent.

INSPECTION/ACCEPTANCE

Final inspection and acceptance of audit documents shall be the responsibility of DDSN Internal Audit.

AUDIT QUALITY

To verify that the responsibility of quality audits is accomplished, DDSN Internal Audit will work with other DDSN staff, as well as other state agencies, to:

1. Ensure that audit reports of QPLs are received, reviewed and distributed to appropriate DDSN officials.
2. Ensure that if significant inadequacies relating to the professional performance of the audit are disclosed, the QPL will be advised and the auditor will be required to take corrective action. If corrective action is not taken, DDSN shall notify the QPL and other state agencies of the facts. Major inadequacies or repetitive substandard performance of auditors shall be referred to the appropriate professional bodies.
3. Ensure that satisfactory audit coverage is provided in a timely manner in accordance with DDSN audit requirements.
4. Maintain a follow-up system on audit findings and investigative matters.

The SC Board of Accountancy may review all or a sample of QPL audit reports for compliance with professional standards.

Audit firms that receive a peer review report with results other than 'pass' must timely notify the QPL client and DDSN Internal Audit of the peer review results.

WORKING PAPERS

Working papers are to be retained by the audit firm for six (6) years following the end of the year audited. Retention of working papers beyond six (6) years is required for audits of QPLs where questioned costs and/or practices have not been resolved with DDSN.

Working papers must be available upon request, at no additional cost, for examination by DDSN representatives or its designee, as well as successor auditors, who may perform audits of the QPL.

CONTRACTS

While QPLs are not required to obtain bids for audit services, DDSN believes that obtaining such bids is a good practice. Therefore, DDSN encourages contracted service providers to obtain bids for audit

services. Additionally, in-charge auditor rotation, as well as, audit engagement team member rotation is highly recommended.

OUT-OF-STATE (CPA FIRM) REGISTRATION

CPAs and firms that operate out-of-state must comply with the requirements of the SC Board of Accountancy regarding “mobility” guidelines and/or out-of-state firm registration. Please contact the SC Board of Accountancy for more information. DDSN may verify with the SC Board of Accountancy that mobility guidelines and/or out-of-state firm registration requirements are being met.

CONFIRMATIONS - DDSN PAYMENTS

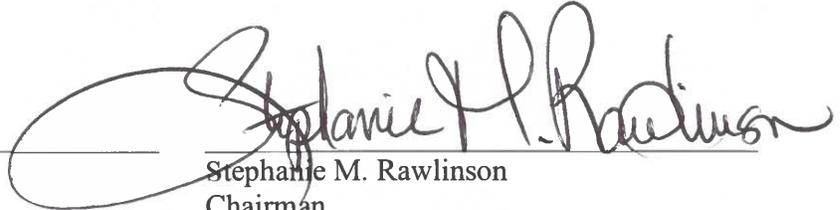
The independent auditor’s confirmation of DDSN payments made to a QPL is to be secured from DDSN’s Director of Finance. Requests for confirmations must be emailed to confirmations@ddsn.sc.gov. If electronic responses are desired, then please indicate such in the request along with the email address or other method of remitting the information. The auditor must reconcile DDSN payments per the confirmation with revenue per the QPL’s books. Any questions regarding confirmations should be emailed to confirmations@ddsn.sc.gov.

AMENDMENTS TO AUDIT POLICY

This document is subject to alteration or change as needed. Any changes will be made at the discretion of DDSN.



Barry D. Malphrus
Vice-Chairman



Stephanie M. Rawlinson
Chairman

To access the following attachments, please see the agency website page “Current Directives” at:
<https://ddsn.sc.gov/providers/ddsn-directives-standards-and-manuals/current-directives>

- Attachment A: Sample - Independent Accountant’s Report on Applying Agreed-Upon Procedures
- Attachment B: Sample – Supplementary Room and Board Calculation
- Attachment C: Sample – Supplementary Schedule of Special Grants