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Reference Number: 275-06-DD

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

Date of Issuance: April 5, 2017  
Effective Date: April 5, 2017  
Last Review Date: March 19, 2020  
Date of Last Revision: March 19, 2020

Applicability: Contracted Service Providers **(REVISED)**

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## **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) [AUP] 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 an AUP above, must also engage a CPA to perform an audit in accordance with 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) [AUP] in compliance with this directive.

The audit, but not the RoAAP, is to be performed in accordance with GAGAS or “Yellow Book” by an independent CPA. If the entity expended \$750,000 or more in federal awards during the fiscal year 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.

DDSN requires that all audit firms attend one mandatory two (2) hour training session per year. The representative from the audit firm must be at least a senior level staff, but preferably an in-charge on the audit engagement. Training will be offered at least two (2) times annually and will be offered via Skype. Notification of training sessions will be provided to all QPLs who will then coordinate with their auditor.

### **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 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 QPLs 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/ID 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 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 will need to contract with an independent CPA to apply and report on applying agreed-upon procedures for the procedures listed below. During the initial year-end covered by this Directive, March 2020 and later, the QPL can make a one-time election to use a different agreed-upon procedures (AUP) testing period other than its year it uses for financial and tax reporting purposes. The election to use other than its traditional year-end must be approved by the CFO of DDSN. A written request to utilize a different reporting period must be submitted in writing, on letterhead, and signed by the Executive Director/CEO/President. The election to change your reporting period must be submitted by July 31, 2020, and must outline the anticipated initial period of testing not to exceed 18 months. For example, the QPL may desire to complete its AUP using a different year-end than its financial and tax reporting year-end. This initial period of testing would cover the first day of the current year-end and end on the date chosen by the QPL, not to exceed 18 total months. Thereafter, the QPL will use the rolling 12 month period covering the ending date from the initial reporting period selected. For example, if the QPL uses a calendar year for financial and tax reporting, it may desire to use the year ended March 31st instead. The QPL would submit a request to use the March 31st ending date with an initial reporting period of January 1, 2020 to March 31, 2021. From the initial date forward, the AUP would be performed for the 12 months covering April 1st to March 31st.

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 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 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 (ICF/ID, CRCF, CTH-II, CTH-I, SLP, 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 how Medicaid is billed. 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 must be performed to determine that the 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 that 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. Test the QPL's management of persons' personal funds for compliance with DDSN Directives - **ONLY QPLs PROVIDING RESIDENTIAL SERVICES**

a) Background information

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 QPL management of person personal funds and property. CPAs must familiarize themselves with these directives. Additionally, CPAs must understand Medicaid eligibility

regulations and resource limits established and vary by eligibility coverage group. Management of person funds 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 Better Life Experiences (ABLE) accounts, or collective accounts. Care should be taken to gain an understanding of the unique characteristics of each and to ensure procedures are developed accordingly.

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 and transactions to ensure proper coverage.

- i) Determine that persons' personal funds are not borrowed, loaned, or co-mingled by the QPL or another 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 that the accounts are for the benefit of the person (fiduciary relationship).
- iii) Determine that bank signature cards are updated timely for changes in personnel and that a copy of the signature card is maintained.
- 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 representative sample of all purchases, that receipts are on hand to support purchases made from the person's personal funds.
- vi) Determine that 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 proper 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 or to "cash" cause them to exceed their cash on hand limit. Funds written payable to the person and

cash are considered cash on hand until expended and should be considered in conjunction with other cash held by the person 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) Determine that the persons' total countable resources do not exceed the established limits mandated by Medicaid (generally: \$2,000).
- xi) Determine that the QPL has a process established to identify those with recurring excess resources and have established a plan to eliminate risk of loss of benefits – for example, participation in the Achieving a Better Life Experience (ABLE) program, participation in a special needs trust (individual or pooled), spend down of resources, establishment of burial savings accounts, establishment of prepaid burial arrangements, etc.
- xii) 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 QPL or persons' funds and/or any falsification of Medicaid billable services, then the auditor must promptly report that information to the QPL 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 - **ONLY QPLs PROVIDING RESIDENTIAL SERVICES**

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 to/is 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.

b) 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) pay periods to test proper application of the pay rate.
- ii) 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, then verify that they meet the requirements above that permit a lower rate be paid for a period not to exceed 90 days or that there is a written exception approved by DDSN.

4. 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 - **ONLY QPLs PROVIDING RESIDENTIAL SERVICES**

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 of 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 has been reviewed and approved by the Board of Directors, if the QPL has a Board of Directors.

- 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 review actual charges made to persons to ensure that they comply with the policy, including consideration of timing of application of rate changes, and do not exceed the approved room and board rates.
- v) The CPA must sample move-ins and move-outs and ensure that room and board charges were properly applied. The CPA is testing the proper proration of the room and board charge.

### **AUDIT REPORT DUE DATE AND EXTENSION**

The audit report is to be filed with DDSN within 120 calendar days of the year-end audited. If the due date falls on a weekend or holiday, then the due date is the following workday.

A request for an extension of time to file the audit report 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 report is not received within five (5) business days of the due date, including approved extensions, then a contract reduction of \$100 per calendar day will be assessed until the reports are received by DDSN or a maximum of \$2,500 has been assessed. The total amount of the contract reduction will be deducted from a subsequent QPL payment.

### **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 for all copies 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, significant deficiencies, deficiencies, findings or questioned costs, the QPL must submit a CAP to address and resolve the problem 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 contract reduction of \$100 per day will be assessed until the CAP is received by

DDSN or a maximum of \$2,500 has been assessed. The total amount of the contract reductions will be deducted from a subsequent payment. 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, including found missing receipts, relevant Service Error Correction Forms, logs, etc.

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 or its 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 audit reports, management letters, and 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 to:

DDSN Internal Audit  
3440 Harden Street Extension (29203)  
P.O. Box 4706  
Columbia, SC 29240

DDSN Director of Cost Analysis  
3440 Harden Street Extension 929203)  
P.O. Box 4706  
Columbia, SC 29240

4. Electronic pdf copy to [financial.reports@ddsn.sc.gov](mailto:financial.reports@ddsn.sc.gov).

RoAAP report original copies 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 to:

DDSN Internal Audit  
3440 Harden Street Extension (29203)  
P.O. Box 4706  
Columbia, SC 29240

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: 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 SEFA, completion of the Federal Audit Clearinghouse Data Collection Form, individual or aggregate, material adjustments made, payroll services, bookkeeping services, budget preparation, etc.

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.

Failure to meet these audit requirements may result in further withholding of subsequent payments and/or suspension of funding.

### **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. Major inadequacies or repetitive substandard performance of auditors shall be referred to the appropriate professional bodies. Audit firms may also be suspended from future audit engagements until remedial action is taken satisfactory to DDSN.

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 of 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, for examination by representatives of DDSN or its designee as well as successor auditors who may perform audits of the QPL. Availability of working papers must be provided at no additional cost to the representatives of DDSN, or the successor auditor.

The auditor may be required to provide copies of any specific portions of working papers requested by DDSN personnel.

### **CONTRACTS**

While QPLs are not required to obtain bids for audit services, DDSN believes that obtaining such bids is a good practice. DDSN, therefore, 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](mailto: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

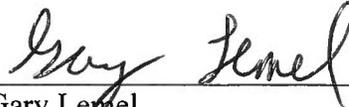
must reconcile DDSN payments per the confirmation with revenue per the QPL's books. Questions concerning confirmations should be addressed to DDSN's Accounting Manager at (803) 898-9682 or by email at [confirmations@ddsn.sc.gov](mailto:confirmations@ddsn.sc.gov).

### **AMENDMENTS TO AUDIT POLICY**

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



Robin Blackwood  
Vice-Chairman



Gary Lemel  
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>***

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|---------------|---|
| 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                           |