

**APPENDIX A****Agreed Upon Procedures****Overview**

For Private Child Placing Agencies (PCPA) and Private Noncustodial Agencies (PNA), an agreed upon procedures engagement is required to be performed by a Certified Public Accountant (CPA). The CPA will attest to perform Agreed Upon Procedures of the private agency's cost report in accordance with Attestation Standards set forth by the AICPA. The agreed upon procedures will be required to be conducted beginning with the cost report period of July 1, 2003 through June 30, 2004 and for each annual cost report thereafter. The cost report will incorporate IV-E costs and where applicable, Mental Health, ODADAS and "Other" agency cost not reimbursable under any of the preceding programs.

While completing the cost report, the following shall apply for private agencies:

1. Agencies may use their discretion to report case management expenditures to various programs so long as the person performing the case management services is certified or licensed in accordance with IV-E, ODMH or ODADAS requirements.
2. ODJFS will grant approval for an eighteen month audit if an agency that is currently on a calendar year (January 1, through December 31) elects to change to a state fiscal year (July 1, through June 30) and elects to have an eighteen month financial statement audit.

While conducting the agreed upon procedures engagement the following shall apply for the CPA:

1. CPAs may use their discretion to create their own working papers (except for Summary of Adjustments).
2. CPAs, at their discretion, may rely on other CPA's working papers that were completed during other engagements. If reliance is placed on previous CPA's working papers, the working papers must:
  - a. Cover the same audit period;
  - b. Be pertinent to specific areas on the "Agreed Upon Procedures" and;
  - c. Provide assurance of the accuracy and validity of the CPA's work.
- c. Where applicable, to ensure compliance with Mental Health and ODADAS, CPAs shall refer to each program's respective compliance and audit guidelines.
- d. In accordance with rule 5101:2-47-26.2 of the Ohio Administrative Code, CPAs, at their discretion, may request a waiver of certain procedures that are not applicable to the specific PCPA or PNA cost report being tested.

## PLANNING

*Audit planning involves developing an overall strategy for the conduct and scope of the audit. The nature, extent and timing of planning vary with the size and complexity of the entity, experience with the entity, and knowledge of the entity's business.*

	Program Step
1.	Before contacting the agency to be audited, review any pertinent information relevant to the audit from prior year audit information, if available.
2.	Review the agency's files including the Permanent file, if any, from prior audits. This includes, but is not limited to, the following:
2a.	Contracts with amendments, if any and lease agreements. (e.g., buildings, vehicles and equipment, placement contracts excluding foster parents, and etc.)
2b.	Financial statements – audited or unaudited.
2c.	From prior years' audit work papers, identify any prior period management comments and/or findings. Note whether they impact the current period.
2d.	Determine the status of any dispute resolutions, rate considerations, management comments, and audit findings.
2e.	Identify all Corrective Action Plans (CAPs).
2f.	Review the related party listing for the existence of any known related parties. Update the related party list as appropriate.
2g.	Review accreditation and licensure documents from state agencies (i.e., ODMH, ODADAS, COA, JCAHO, and CARF).
3.	If reliance is to be placed on other auditors' workpapers, prior to reducing any audit work gain an understanding of their workpapers.
4.	Obtain a chart of accounts including each revenue and expense account. Prepare a schedule listing each account with its description and the location on the cost report(s).  Note: This step may have been completed in the financial statement audit.
5.	Obtain a copy of the minutes of the agency's board and any major committee minutes for the audit period (The major committee minutes are those that impact expenditures reported on the cost report). Read and review all minutes.

6.	<p>Review all minutes for entries affecting agency operations for the period under review. Be alert for indications of matters having relevance to the areas listed below, which shall be cross referenced to the appropriate audit program steps. These include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>• approval of office facilities</li> <li>• capital improvements</li> <li>• purchase service contracts</li> <li>• additions and deletions of property, plant and equipment</li> <li>• transfer of monies</li> <li>• related party transactions</li> <li>• litigation, claims, and assessments</li> <li>• subsequent events</li> <li>• additions to revenue (donations, USDA, grants)</li> <li>• establishing of new funds and accounts</li> <li>• budget amendments</li> <li>• motor vehicle insurance, accident insurance, and liability insurance</li> <li>• workers' compensation</li> <li>• new grant agreements</li> <li>• compensation</li> <li>• contract/lease agreements</li> <li>• health coverage - self/insured</li> <li>• other information deemed significant by the auditor</li> </ul>
7.	<p>Obtain a list of all employees related to board members, executive director, chief officers and a list of related board members and have the agency complete the Related Party Disclosure Schedule for all of their business transactions with the agency for the year. Review the related party transactions for impropriety. (OAC 5101:2-47-26.1)</p>
8.	<p>Obtain a list of board members and an agency table of organization (with credentials, if available) in effect during the audit period.</p>
9.	<p>Where applicable, determine adherence to accrual policies and procedures in accordance with Generally Accepted Accounting Principles and review for consistency between periods.</p>

### **CASH DISBURSEMENTS**

	Program Step
1.	Obtain and document an understanding of the cash disbursement cycle (Cash disbursements excludes payroll and fringe benefits).
2.	Obtain from management a description of all methods of allocation. Obtain a schedule identifying the total cash disbursements, and re-compute total amount associated with the breakdown by program and service. Obtain written explanations from management for variances (disregarding variances due to rounding).
3.	For the expenses reported select 20% or 60 transactions whichever is less. Ensure the sample selected for each program is in proportion to the reported expenses associated with all programs (ODADAS, MH, and Title IV-E).
4.	In addition to the sample selected in step 3, test 20% or 20 transactions, whichever is less, of the checks written to cash. In addition test all checks to the agency director and cash over \$1,000.

5.	<p>Test for the following items, if applicable:</p> <ul style="list-style-type: none"> <li>• Check Number,</li> <li>• Check Date,</li> <li>• Check Amount,</li> <li>• Vendor Name (payee),</li> <li>• Supporting Documentation Amount,</li> <li>• Variance (check amount vs. supporting documentation amount),</li> <li>• Account Name/Account Number (G/L),</li> <li>• Supporting Documentation,</li> <li>• Proper Endorsement (agrees with the payee), if available,</li> <li>• Program and Service on the Cost Report,</li> <li>• Amount by Service and Program,</li> <li>• Expenditure Purpose,</li> <li>• Proper Authorization,</li> <li>• Related Party Transaction,</li> <li>• Compliance with all applicable OMB Circulars, state laws and rules and cost report instructions</li> <li>• Comments</li> </ul> <p><b><u>Note:</u></b></p> <p>Obtain a written explanation from management on any variances or any potential non-compliance.</p> <p>Types of adequate supporting documentation include: vendor invoices, copies of all vehicle and building rental/lease and mortgage agreements, copies of other leases and contracts associated with the expenditures selected, and copies of notes payable associated with expenditures selected.</p> <p>Please note that for debit card and credit card expenditures, the bank and billing statements are not considered adequate documentation. You should obtain the associated receipt (actual or copy).</p>
6.	<p>Review all other revenues (revenues received by the provider agency other than per diem payments for the placement of children). If the <u>direct service expense</u> associated with such revenues is reported on the cost report, the expense must be deducted from total operating expenses in arriving at allowable costs.</p>
7.	<p>Identify USDA revenues. From the detailed general ledger, obtain the total food expense and the total USDA revenue received. Subtract the total USDA revenue figure from the total food expense. Compare the net amount to the food expense listed on the cost report. List any variance(s) and obtain a written explanation from management on the variance(s).</p>

## PAYROLL

	Program Step
1.	Obtain and document an understanding of the payroll cycle.
2.	Tie the total wages reported on the cost reports to the amounts reported on payroll records from the general ledger. Obtain written explanations from management for variances.
2a.	Tie the total agency payroll expense from the general ledger for the audit period to the agency's 941s ( Employers Quarterly Federal Tax Return). Obtain written explanations from management for variances.
2b.	Tie all payroll liability accruals to the payroll register, if applicable. Identify any variances and place on a schedule.
3.	Obtain from management a description of the method of allocation by program and service. Obtain a schedule identifying the total personnel salaries and fringe benefits, and re-compute total amount associated with the breakdown by program and service. Obtain written explanations from management for variances (disregarding variances due to rounding).
4.	<p>Select a month during the audit period and select 50% or ten (10) employees, whichever is less. Ensure the sample selected includes a minimum of two employees from each applicable program (ODADAS, MH, and Title IV-E). For the employees selected, test for the following data (for one pay period):</p> <ul style="list-style-type: none"> <li>• Employee number,</li> <li>• Employee name,</li> <li>• Position title,</li> <li>• Administrative or direct services on cost report,</li> <li>• Department, cost center or account charged,</li> <li>• Amount charged (may be more than one),</li> <li>• Pay rate,</li> <li>• Regular hours worked,</li> <li>• Overtime hours worked,</li> <li>• Gross pay,</li> <li>• Job description,</li> <li>• Credentials/licensure (if applicable).</li> </ul>
5.	For the employees identified in Step 4, perform the following:
5a.	From the personnel files, trace employee number, pay rate, hire date, termination date, department worked, and job description. If no job description is available, obtain a written job description from management.
5b.	Tie hours worked to supporting documents (e.g., time cards, salary schedule, etc.) and job schedules.
5c.	Re-compute gross pay based on supporting documents (e.g., time cards, salary schedule, etc.) and the pay rate listed.

5d.	For all employees terminated, scan subsequent payroll registers. Identify and list payroll activity for terminated employees after the termination date. Obtain written explanations from management for any activity on subsequent payroll registers.
6.	Identify the agency's policy on accrued leave (such as vacation, sick, and personal). Inquire and identify if the agency has adopted and consistently adhered to these policies, if applicable.
7.	<p>Identify the agency's policies for returning agency assets (e.g., phones, credit cards, laptops, keys, and pagers, etc.) upon termination. Inquire and identify if the agency has adopted and consistently adhered to these policies.</p> <p>Select two (2) employees terminated during the audit period. Compare the handling of termination with agency policy and list any variances.</p> <p>Note if there is no policy or documentation for the policy in place.</p>

## **FIXED ASSETS**

	Program Step
1.	Obtain and document an understanding of the purchasing of fixed assets.
2.	Obtain the fixed asset schedule and scan for additions and retirements during the audit period.
3.	<p><b>Additions</b>  Select 20% or 10 additions, whichever is less, from the list obtained in step 2. Ensure a minimum of two additions from each of the applicable programs (ODADAS, MH, and Title IV-E) are selected. Identify the following for each addition, if applicable:</p> <ul style="list-style-type: none"> <li>• Description of asset (include serial #),</li> <li>• Agency Identification #,</li> <li>• Invoice date,</li> <li>• Acquisition date,</li> <li>• Invoice amount,</li> <li>• Amount paid,</li> <li>• Useful life (Verify minimum years used is at least equal to Hospital Rates and Audits),</li> <li>• Depreciation taken,</li> <li>• Program/Service on the cost report(s),</li> <li>• Trace invoice to canceled checks,</li> <li>• Purpose of the asset,</li> <li>• Location of the asset.</li> </ul> <p>Note: Straight line depreciation must be used.</p>
3a.	Review and note invoices and vouchers for all fixed assets additions identified in step 3. Ensure the assets are reported from acquisition month and that depreciation for these items is accurately calculated for a partial year. Obtain a written explanation from management for any assets that can not be located.
3b.	From the fixed asset schedule, select at least 5 additional items from previous years. Identify the physical location of the asset selected and trace the depreciation reported to its location (program/service) on the cost report. Obtain a written explanation from management for any assets that can not be located.
3c.	<p><b>Retirements (any asset no longer in use by agency)</b>  Select 20% or 10 retirements, whichever is less, from the list obtained in step 2. Ensure a minimum of two retirements from each of the applicable programs (ODADAS, MH, and Title IV-E) are selected. Verify the correct amount of depreciation was reported on the cost report.</p>



3d.	<p>Re-compute the total inventory listing by obtaining:</p> $  \begin{array}{r}  \text{Prior year fixed assets} \\  + \text{Additions (purchases, transfers in)} \\  - \text{Retirements (disposals, transfers out)} \\  \hline  \text{Current Fixed Assets}  \end{array}  $ <p>Identify and list any differences and obtain written explanations from management.</p>
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### **COST REPORT RECONCILIATION**

	Program Step
1.	Obtain and document an understanding of the process used in completing the cost report.
2.	Tie the expenses to the cost report and general ledger. The expenses on the trial balance should be tied to the general ledger and cost report on a 100% basis. Note and explain all variances except those variances caused by rounding. Perform additional testing for variances, other than rounding, or explain. Identify variances and obtain an explanation from management.

## CENSUS DAYS

	Program Step
1.	Obtain and document an understanding of the census day cycle.
2.	Obtain a schedule for the audit period listing by month the total child care days found on the agency's summary. Trace accumulated days to the total days shown on the Title IV-E Summary Schedule. Identify any variances.
3.	Randomly select a month and compare the sum of the detail (census days per child) to that of the monthly summary. Identify any variances.
4.	<p>Using the test month above, select a sample of children to test census days (50% or 10, whichever is less). Pull the child's case records and prepare a schedule noting the child's name, admission and discharge dates, and total days the child was in the provider's care for our test month. Ascertain that the child was properly included in total days by tracing the child to daily census records for the test month. Note any variances.</p> <p>(Note: Count either the day of admission or the day of departure as a census day - not both. Days not in placement should be counted as census days if the provider has an agreement with the placing agency and the provider was paid for those days.)</p>
5.	Using the case record of the children from step #4, review the ICCA, provider's billings (invoices) for that month, and the foster parent payments (verify compliance with the active license). Compare the census days to the days on the county payments. Compare the billings to the county payments for those children. Compare the ICCA foster parent maintenance payment to the cash disbursement journal. Identify any variances.
6.	For agencies preparing a residential program schedule, determine that the number of total census bed days reported for the program is equal to or less than the total available bed days. Explain any variances.
7.	For agencies who report expenses to ODADAS and Mental Health refer to their respective audit guidelines.

### **WRAP - UP**

	Program Step
1.	Attach to the agreed upon procedures report the following information: A schedule of proposed adjustments (S-1) with an agency representative's signature, a copy of the cost report and a copy of the agency's management letter from their financial statement audit.
2.	<p>All work papers must be cross referenced to all applicable work papers, audit programs, index, and report.</p> <p>For all written explanations obtained from management, the following information must be included: cross reference to the appropriate audit program and step, the required criteria (objectives), the conditions found, the effect, if any, on the cost report, and management's explanation.</p>