



Fiscal Compliance Update – Assessing Your Controls

the binkleykanavy group
CERTIFIED PUBLIC ACCOUNTANTS

Introductions and CPA Continuing Education Credits

- Introductions
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- CPE Sign-In Sheet

Agenda

- Objectives
- Fiscal Compliance Controls
- Common Provider Fiscal Compliance Issues
- Control Questions
- Closing Comments

Objectives

- Enable you to benchmark how you manage and control common provider fiscal compliance issues
- Provide control suggestions

Overall Control Approaches

- Proactive and preventive
- Reactionary and detective



Fiscal Compliance Controls

What is an internal control?

- “Internal control is a process...to provide...assurance...relating to...compliance.”
(2013 *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission)
- Internal control components include:
 - Communications
 - Risk assessments
 - Preventive and detective activities
 - Monitoring
- Purposes of fiscal compliance controls

Common Provider Fiscal Compliance Issues

- Cost Allocations
- Related Party Transactions
- Performance of Invoiced Services
- Real Estate, Motor Vehicles, and Other Fixed Assets

Common Provider Fiscal Compliance Issues

Cost Allocations

- Costs for supportive or indirect activities
- Joint or shared costs
- 5% to over 20% of total funding

Common Provider Fiscal Compliance Issues

Cost Allocations

- Examples of issues encountered by BKG:
 - Allocations based on:
 - Revenues or contracted amounts
 - Budgets
 - Inconsistent or undocumented methods, etc.
- Why were they issues?
 - Not a fair and equitable distribution of costs
 - Not allocated in direct relation to the benefits accruing to the programs or services

(References: Attachment A of OMB Circular No. A-122 and 55 Pa. Code § 4300.94)

Common Provider Fiscal Compliance Issues

Cost Allocation Controls

- Preventive and detective controls:
 - ✓ Systematic on-site fiscal monitoring
 - ✓ Expanded budget templates
 - ✓ Disclosure requirements in provider contracts and assessments of cost allocation plans

Common Provider Fiscal Compliance Issues

Provider Solutions

- BKG examples:
 - ✓ Development and modeling of acceptable simplified and multi-step allocation alternatives and implementation guidance
(Reference: Attachment A of OMB Circular No. A-122)
 - ✓ Structural changes to how costs were aggregated, services were tracked, and program budgets and financial results were reported

Common Provider Fiscal Compliance Issues

Related Party Transactions

- Exchanges of your funds between a provider and an individual or entity that directly or indirectly controls the provider
- Examples of issues encountered by BKG:
 - Purchases from family members without competitive bidding
 - Interest-free loans to affiliates
 - Excessive space and vehicle lease payments to owners

Common Provider Fiscal Compliance Issues

Related Party Transactions

- Why were they issues?
 - Invoiced costs exceeded market prices
 - Rental charges exceeded published rates available to the general public
 - Uncertainty regarding the necessity of the costs and their benefit to county programs or consumers

(References: 55 Pa. Code § 4300.13, .28, .87, .144 and .145)

Common Provider Fiscal Compliance Issues

Related Party Transaction Controls

- Preventive or detective controls:
 - ✓ Comprehensive audit report package reviews
 - ✓ Systematic on-site fiscal monitoring
 - ✓ Inclusion of related party definitions and disclosure requirements in provider contracts
 - ✓ Completion of fiscal compliance self-assessments

Common Provider Fiscal Compliance Issues

Provider Solutions and Outcomes

- BKG solutions and provider outcomes:
 - ✓ Development of competitive bidding policies and purchasing approval authorities
 - ✓ Repayments and establishment of separate bank accounts
 - ✓ Contract terminations, consumer relocations and asset title transfers

Common Provider Fiscal Compliance Issues

Questions?



Common Provider Fiscal Compliance Issues

Performance of Invoiced Services

- BKG encountered issues:
 - Various instances of missing or incomplete documentation (e.g. consumer assessments, encounter forms, case notes, etc.) evidencing the actual delivery of services to consumers
- Why were they issues?
 - It could not be determined if:
 - Invoiced costs were necessary for the operation of the program and the provision of services
 - Other contracted obligations were violated

(Reference: 55 Pa. Code § 4300.28)

Common Provider Fiscal Compliance Issues

Controls Over the Performance of Invoiced Services

- Detective Control:
 - ✓ Systematic on-site fiscal monitoring

Common Provider Fiscal Compliance Issues

Provider Solutions

- BKG solutions:
 - Recommendations and/or development of:
 - ✓ Standardized case file review processes and checklists
 - ✓ Electronic case file storage and tracking of the custody of case files
 - ✓ Time records and certifications
(Reference: Attachment B of OMB Circular No. A-122)
 - ✓ Eliminating communication gaps between direct service and fiscal staff

Common Provider Fiscal Compliance Issues

Real Estate, Motor Vehicles and Other Fixed Assets

- Examples of issues encountered by BKG:
 - Sales of fixed assets without county approval
 - Use of fixed-asset sales proceeds to offset ineligible or other funding source costs
 - No consideration of available lease or purchase alternatives
 - Lack of fixed-asset tracking and periodic physical observations

Common Provider Fiscal Compliance Issues

Real Estate, Motor Vehicles and Other Fixed Assets

- Why were they issues?
 - Unauthorized sales of county-owned assets
 - Improper application of sales proceeds
 - Best economic alternative may not have been selected
 - Possible loss of and lack of accountability for county-titled fixed assets

(References: 55 Pa. Code § 4300.87 and .102 - .107)

Common Provider Fiscal Compliance Issues

Real Estate, Motor Vehicles and Other Fixed-Asset Controls

- Preventive or detective controls:
 - Inclusion of explicit asset ownership rights and reporting requirements in provider contracts and budget templates
 - Systematic on-site fiscal monitoring

Common Provider Fiscal Compliance Issues

Provider Solutions

- BKG solutions:
 - Recommendations regarding or development of:
 - ✓ Free online lease/buy calculators sponsored by the AICPA
 - ✓ Use of existing financial application modules and asset tracking systems
 - ✓ Purchasing and fixed-asset practices

Common Provider Fiscal Compliance Issues

Questions?



Control Questions

Example Provider Contract Questions

- Do you comprehensively assess and revise your provider contracts?
- Are key terms sufficiently defined to prevent issues due to misunderstandings?
 - Who or what is a “related party”?
 - What is “control” over a provider and when does it exist?
 - How “necessary” is gauged?
 - Other undefined key compliance concepts

Control Questions

Example Provider Contract Questions

- Does your contract require periodic provider disclosure of:
 - Real estate and fixed assets that your agency has an interest in or title to?
 - Sales of those assets?
 - Staff productivity?
 - Other recurring compliance issues?

Control Questions

Example Provider Contract Questions

- Are your audit thresholds too high or low?
- Do you periodically train providers on their fiscal compliance obligations?

Control Questions

Provider Contracts

- Step to assess provider contracts:
 - Track recurring audit or monitoring findings and invoicing errors
 - Challenge the clarity of and transparency provided by your contract
 - Draft any necessary contract revisions and have a legal review performed
 - Communicate and educate providers

Control Questions

Example Provider Budget Questions

- Do you identify ineligible costs in provider budgets?
- Do your reporting templates cause fiscal compliance issues to be addressed before you receive them?
 - Personnel cost against MCR or PAP limits?
 - Shared salary and wages?
 - Fixed-asset replacements and resulting sales?
 - Other significant costs?

Control Questions

Example Provider Budget Questions

- Do your reporting templates:
 - Cause your providers to evaluate and report on their fiscal compliance through completion of a self-assessment?
 - Reveal possible non-fiscal issues (e.g. programs being understaffed, staff shifts not being filled, etc.) by requiring the causes of significant deviations to be explained?

Control Questions

Provider Budgets

- Step to assess your budget templates:
 - Confirm your contractual rights
 - Identify and track recurring audit or monitoring findings
 - Stratify budgeted amounts by line item across providers to identify significant costs
 - Revise budget templates
 - Consider adding a compliance self-assessment checklist
 - Communicate and educate providers

Control Questions

Provider Budget Excerpt

Employee Name	Class Title	Class Code	Weekly Hours	Budgeted				Maximum Rates/Amounts				Difference	
				From Salary/Wage Summary		Fringe Benefit Percentage	Annual Compensation	Hourly Rate	Annual Salary	Fringe Benefit Rate	Annual Compensation	Hourly Rate	Annual Compensation
				Hourly Rate	Annual Salary								
Crosby, S.	Administrative Assistant I	P1030	37.50	\$ 26.00	\$ 50,700	48.75%	\$ 75,416	\$ 26.19	\$ 51,228	43.10%	\$ 73,307	\$ (0.19)	\$ 2,109
Malkin, E.	Administrative Assistant II	P1031	37.50	21.00	43,680	48.75%	64,974	29.90	58,484	43.10%	83,691	(8.90)	\$ (18,717)
						48.75%	-			43.10%	-	-	\$ -

Control Questions

Self-Assessment Questionnaire Excerpt

#	Are the following included in the amounts budgeted or are they expected to occur during the next fiscal year?	Link	Yes	No
d.	<p>Principal and interest costs for a mortgage with a term of less than 15 years (55 Pa. Code § 4300.87)?</p> <p>If yes, please submit a summary of the total principal and interest costs of the mortgage, the property's appraised fair market rental value, and the total costs of any renovations, improvements and repairs on the property that exceed \$10,000.</p>	<p>55 Pa. Code § 4300.87. Occupancy</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
e.	<p>Delinquent tax penalties (55 Pa. Code § 4300.87)?</p> <p>If yes, please submit a summary that details the type of delinquent taxes, their due dates, the tax and penalty amounts to be paid, and explanations for the delinquencies.</p>	<p>55 Pa. Code § 4300.87. Occupancy</p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
f.	<p>Indirect or administrative costs (55 Pa. Code § 4300.94)?</p> <p>If yes, please submit a policy or summary detailing the manner in which indirect or administrative costs are allocated.</p>	<p>55 Pa. Code § 4300.94. Agency Indirect Costs</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Control Questions

Example Provider Financial Statement Questions

- Do you detect potential compliance concerns from provider financial statements and issue management decision letters in accordance with OMB Circular No. A-133?
- Did you pay for:
 - Loans to other organizations controlled by owners or management?
 - Leases or purchases with owners or management that may be for above-market rates?
 - Other potentially ineligible costs that were reported to you?
- Do you need to consider developing a plan to transfer consumers due to the financial instability or cash flow issues of a provider?
- Can you tailor the supplemental schedules of your providers' financial statements to identify compliance issues and decrease your workload?

Control Questions

Provider Financial Statement Assessment Tool Excerpt

II. Audit Report Package Components and Disclosures - Continued				
<i>No.</i>	<i>Component or Disclosure</i>	<i>Yes</i>	<i>No</i>	<i>N/A</i>
14	Interest costs when the provider received advances?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
15	Sale and leaseback transactions?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
16	Debt and lease covenant violations which may cause provider's debt or lease payments to be immediately payable?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
17	Leases, lines of credit and other short term debt agreements that expire within the next year which may hinder the provider's future cash flow?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
18	Significant future retirement plan funding requirements that may hinder the provider's future cash flow?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
19	Deferred compensation plan arrangements for provider owners or management which may cause their compensation to exceed regulatory limits upon being payable?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
20	Related party transactions and guarantees?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
21	Interfund or affiliate transfers, receivables and payables that may indicate the improper use county funds?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
22	Real estate sales or lease amendments at locations where clients are served?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
III. Financial Condition Analysis				
<i>No.</i>	<i>Ratio</i>	<i>Yes</i>	<i>No</i>	

Control Questions

Example Risk Assessment and On-Site Fiscal Compliance Monitoring Questions

- Do you anticipate fiscal compliance issues and prevent them?
- Do you maximize your time by focusing on riskier providers?
- Are you exposed by having a high concentration of consumers or funds with a limited number of providers?

Control Questions

Example Risk Assessment and On-Site Fiscal Compliance Monitoring Questions

- Do consumers or families have one, or a limited number of, providers to obtain services from?
- Have budget reductions impacted a provider's management or fiscal staffing?
- Does the provider's board of directors actively oversee management?
- Do you systematically ensure that the amounts you pay are allowable costs?

Control Questions

Risk Assessment Excerpt

II. Risk Factors - Continued

No.	Risk Factor	High	Mod.	Low
18	<p>The utilization of comprehensive and integrated fiscal systems.</p> <p>The greater the use of comprehensive and integrated fiscal systems, the lower the provider's risk may be. In evaluating this risk, consideration could be given to the extent of the use of manual procedures and the level of integration between a provider's fiscal applications.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19	<p>Turnover of the provider's ownership and board of directors.</p> <p>The greater the turnover of the provider's ownership and board of directors, the higher its risk may be. In evaluating this risk, consideration could be given to the number of board of director members that departed the provider prior to expiration of their terms in the last year.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20.	<p>Turnover of the provider's operational and fiscal management and staff.</p> <p>The greater the turnover of the provider's operational and fiscal management and staff, the higher its risk may be. In evaluating this risk, consideration could be given to responsibilities of the any positions vacated and the depth of experience required for the open positions.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Control Questions

On-Site Fiscal Compliance Monitoring Procedure Tool Excerpt

II. Procedures – Continued

Other Procedures That May Be Applicable to Identified Risks or Concerns - Continued

No.	Procedure	Procedure Performed		
		Without Exception	With Exception	N/A
39.	Select a sample of invoiced occupancy costs for leased or rented buildings and offices from the providers source documents based on the provider's assessed risk level and determine if:	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
a.	The costs resulted from a sale and leaseback transaction or related party transactions and were improperly invoiced to the County. (55 Pa. Code § 4300.87)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
b.	The costs were determined based on the amount of space utilized by the program. (55 Pa. Code § 4300.87)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
c.	The costs are not greater than rental charges available to the general public for similar space in the same geographic area. The provider should have submitted fair rental appraisals to the County in accordance with its contract. (55 Pa. Code § 4300.87)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
d.	The costs excluded penalties resulting from delinquent tax payments. (55 Pa. Code § 4300.87)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Control Questions

Targeted On-Site Fiscal Compliance Monitoring Excerpt

Client Concerns/Risk/Objectives:

Direct salary and wage costs that are charged to the XXXX program may not be for employee time actually spent performing activities or services for that program.

Executive and other administrative department costs may not be allocated equitably to the XXXX's foundation, programs funded by other counties and XXXX waiver programs and such costs may be reimbursed more than once.

Total Possible Exposure to Client: \$XXX,000

Targeted Procedures:

Procedure X: Recalculate the amount of Executive, Chief Operating Officer, Finance, Human Resources, Information Management Service and Legal/Risk Management cost center expenses allocated to all Provider divisions on the Provider's Corporate Department Allocation analysis for XXXX.

Procedure X: Recalculate the allocation percentages and factors used to allocate Executive, Chief Operating Officer, Finance, Human Resources, Information Management Service and Legal/Risk cost center expenses to *Clients* program cost centers on the Provider's Corporate Department Allocation analysis for XXXX. Additionally, amounts used to recalculate the allocation percentage and factors to XXXX.

Procedure X: Trace and agree the total actual expense amounts for each corporate cost center on the Provider's Corporate Department Allocation analysis for XXXX to the Provider's corresponding allocation basis reports.

Procedure X: Compare amounts reported on the Provider's corresponding allocation base reports to XXXX and performing the follow for any differences exceeding XXXX.

Possible Findings and Related Next Steps:

Closing Comments and Contact Information

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The Binkley Kanavy Group

The Binkley Kanavy Group thanks you for attending

We are a professional services firm that operates throughout the Commonwealth. We offer auditing and consulting services to our niche markets of County and Local Governments and Human Service Organizations. Our practice leaders and experts are:

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