

Mary Taylor, CPA Auditor of State

Bulletin 2007-011

Date Issued: November 29, 2007

TO: School District Treasurers
ESC Treasurers
JVSD Treasurers
Community School Finance Officers
County Auditors
County Departments of Job and Family Services
County MRDD Boards
Independent Public Accountants

SUBJECT: Reporting Community Alternative Funding System Medicaid (CAFS)
Settlement Payments in Federal Awards Expenditure Schedules

Background

Effective July 1, 2005, the Medicaid Community Alternative Funding System (CAFS, part of CFDA #93.778) ended. Though governments can no longer bill for CAFS services, some governments (such as school districts) are still receiving CAFS settlement payments from the Ohio Department of Mental Retardation and Developmental Disabilities (ODMRDD).

CAFS payments received after 2005 generally result from ODMRDD's reconciliation of prior years' activities and do not represent payments for current CAFS services. Therefore, the method of reporting ODMRDD CAFS receipts and disbursements in federal award expenditure schedules described in Audit Division Advisory Memo 2007-003 (see attached) requires revision.

This Bulletin describes:

- (1) A revision to reporting CAFS Medicaid receipts in federal award expenditure schedules, and also**
- (2) Describes how to report GAAP receivables from or payables to ODMRDD resulting from CAFS settlement computations.**

Sources of Post 2005 OMRDD CAFS Payments to Local Governments

During the CAFS program, local entities (Schools, County boards, etc.) reported their costs to ODMRDD using the Uniform Cost Report. ODMRDD then used the Uniform Cost Reports to

determine an average “reimbursement” for all filers. For each program year, ODMRDD later reconciles each cost report vs. actual payments and determines a settlement amount to pay or collect from the local entity.¹ The services for which the settlement payment applies would have been rendered prior to June 30, 2005. Because the settlement reconciliations are time consuming, the settlement payments lag several years behind the year of service.

Prior Guidance for Reporting CAFS on Federal Award Expenditure Schedules

To be consistent with previous years’ guidance, ADAM 2007-003 had recommended presenting CAFS disbursements equal to CAFS receipts in the Federal Awards Expenditure Schedule. We recommended this based on the presumed immateriality of cutoff differences between receipts and disbursements, and also as a practical consideration of the complexity of determining the amount of services that ultimately would be billed to Medicaid vs. other funding sources.

Revision to ADAM 2007-003

Because of the lag in settlement payments, the *Prior Guidance* may result in misleading reporting on federal awards expenditure schedules. That is, under the *Prior Guidance*, federal award expenditure schedules may still report significant CAFS disbursements, implying the CAFS program still exists and could be subject to OMB Circular A-133 audit testing as a major program. After discussion with ODMRDD, Federal Awards Expenditure Schedules should now report CAFS Medicaid settlement payments as follows:

- Report CAFS receipts but no disbursements for entities such as schools that present federal receipts and disbursements in their federal schedule.
- Report no CAFS disbursements for entities that only report disbursements in the federal schedule.
- Include a footnote to the federal schedule disclosing the CAFS settlement amount received during the fiscal year. The note need only explain that these amounts relate to settlements for CAFS service provided during prior years.

The above guidance only applies to CAFS. It does **not** apply to receipts from other Medicaid sources.

The revised guidance above applies to schools, county MRDD Boards, and others who provided CAFS Medicaid services prior to June 30, 2005 and are subsequently receiving ODMRDD Medicaid CAFS settlement payments. *This change in federal award expenditure schedule reporting is effective immediately for all unreleased 2006 and subsequent audits.*

AOS audit staff should not include CAFS reimbursements as Medicaid Cluster disbursements in the Record of Single Audit Risk Assessment (RSAR). In addition, there are no procedures to test

¹ ODMRDD’s settlement computations represent receivables or payables to the local entities, requiring accruing an asset or liability for unpaid amounts in GAAP financial statements. See the subsequent section of this Bulletin, *Unpaid CAFS Settlement Receivable/Liability*.

within the Federal Award Compliance Control Record (FAACR) for the ODMRDD Medicaid CAFS Settlement Payments.

Unpaid CAFS Settlement Receivable/Liability

Once ODMRDD reviews and analyzes the monthly cost reports from a local government, ODMRDD determines whether it owes the local government (underpayment) or if the local government owes ODMRDD (overpayment) based on the difference between previous reimbursements and actual costs. ODMRDD is currently compiling July 1, 2001 through December 31, 2003 settlements. ODMRDD submits a proposed settlement to the local entity. The local entity may accept or reject the proposal. If the local government does not agree with the proposal and rejects the offer, it must work with ODMRDD to resolve the disagreement.

However, differences between ODMRDD's initial proposal vs. the agreed-to settlement amount are usually immaterial. Therefore, GAAP entities receiving proposed settlements should record the proposed amounts as a receivable (i.e., underpayment from ODMRDD) or payable (i.e., overpayment from ODMRDD) in GAAP financial statements.

ODMRDD has prepared a spreadsheet documenting the proposed settlement (i.e., over or underpayment) for each of the local governments which is available under "Local Government Resources" on the Auditor of State website.

Federal award expenditure schedules should not report payments of settlement liabilities as Medicaid disbursements.

Funding Subsequent to the End of the CAFS Program

Since June 2005, ODMRDD has expanded its *Individual Options* and *Level One Waiver* programs (parts of Medicaid Title XIX). Both of these waiver programs are using funding previously used in the CAFS program since CAFS ended.

In addition, the Ohio Department of Education (ODE) and the Ohio Department of Job and Family Services have been cooperatively developing a CAFS-equivalent program that ODE will administer exclusively for school districts. This program should commence in the future.

Questions and Comments

If you have any accounting or auditing related questions regarding this Bulletin, please contact the AOS Accounting and Auditing Support Group at (800) 282-0370.



Mary Taylor, CPA
Auditor of State

Audit Division Advisory Memo 2007-03

TO:	Audit Staff and Contracting IPA's
FROM:	Accounting and Auditing Support
DATE:	April 30, 2007
SUBJECT:	County Reporting of Federal Awards related to the following: 1) Ohio Department of Job and Family Services (ODJFS) funding paid to counties (including Medicaid) 2) Community Alternative Funding System Medicaid (CAFS) payments 3) Homeland Security Funding 4) Workforce Investment Act (WIA) funds paid to counties 5) Help America Vote Act (HAVA)

Overview

This information updates the guidance we have typically provided our staff annually. Guidance this year includes updates to the CAFS Medicaid payments and the Homeland Security Cluster program, as well as some reiteration of key information.

Programs the State Region audits

County Federal award expenditure schedules should **not** include any Federal assistance programs when ODJFS has paid the assistance directly to a county.

Programs ODJFS pays directly to counties include (but are not limited) to those listed below.

Our State Region tests these programs through a sample of counties. Ohio's Federal cognizant agency has agreed with this approach.

However, if ODJFS passes these programs' funds through another state agency (such as Health, Mental Health, Alcohol & Drug Addiction Services, Aging, Mental Retardation & Developmental Disabilities or Education) to a county, the Federal funding **would** be subject to auditing and reporting at the county level, under OMB Circular A-133.

We will require all counties to adhere to this reporting policy.

The State Region audited the following programs (note this list has not changed in recent years):

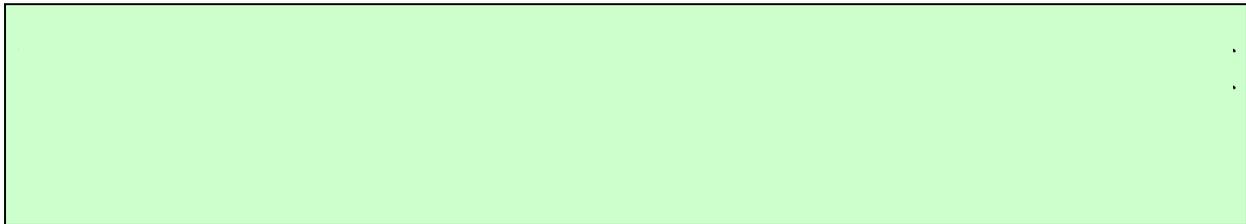
<u>CFDA#</u>	<u>Program</u>
10.551/.561	Food Stamps Cluster

93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.575/596	Child Care Cluster
93.658	Foster Care
93.659	Adoption Assistance
93.667	Social Services Block Grant (Title XX)
93.775/.777/.778	Medicaid Cluster
93.767	State Children's Insurance Program (Title XXI)

Local government Federal Award Compliance Control Records (FACCRs, a practice aid we use to document work to satisfy OMB Circular A-133) do not exist for some of these programs, since per this memo, these programs have generally not been major programs for local governments.

The Auditor of State requires its staff to use FACCRs to document major program work. If our staff must create a FACCR, they should follow AOSAM Section 34900.12. Before creating a FACCR, we suggest our staff check with Accounting and Auditing Support to see if an updated FACCR already exists.

Independent public accountants are responsible for using a FACCR or comparable audit documentation. Independent public accountants can access existing FACCRs at <https://ohioauditor.gov/references/practiceaids/faccrs.html>



ODJFS/County A-133 Compliance Workgroup)

TANF Demonstration Grants, Juvenile Court Foster Care (Title IV-E) Grants

During 2006, ODJFS established several new types of Federal assistance grant agreements with the CDJFS. These include TANF Demonstration Grants (CFDA #93.558) and Juvenile Court Title IV-E Grants (CFDA #93.658). Originally, ODJFS wanted to treat these as subgrants which would have been reported on the county's federal schedule. However, after further discussion and to be consistent with the other programs, ODJFS agreed to amend the grant agreements with the CDJFSs and report these grants on the State's federal schedule through 2008.

County Subrecipients

When a county pays funding from the programs listed above to another local government or non-profit organization, that entity may be a subrecipient.² Subrecipients receiving

² OMB Circular A-133, § ____ .210 provides guidance for AOS staff in determining whether an entity is a subrecipient. Governments may wish to discuss this issue with their independent auditor. The Auditor of

federal funds listed above from counties must comply with OMB Circular A-133 audit and reporting requirements.

Counties paying the funding listed above to a subrecipient should comply with the pass-through requirements listed in OMB Circular A-133 § .___400 (d).

High Risk Federal Programs

Appendix IV of the March 2006 OMB Circular A-133 Compliance states that CFDA #93.778 – Medicaid Cluster is the only program designated as “Higher Risk” by the OMB pursuant to Circular A-133 § ___.525(c)(2). Although such an identification by a federal agency *does not preclude an auditor from determining that a program is low-risk* (for example, because prior audits have shown strong internal control and compliance), the auditor should consider it as part of the risk assessment process.

CAFS Medicaid Payments

As stated in the Medicaid FACCR, until July 1, 2005, the Ohio Department of Mental Retardation and Developmental Disabilities passed through CAFS money to other governments and agencies, such as counties and schools.

As of July 1, 2005, the Community Alternative Funding System (CAFS) program (CFDA # 93.778) no longer exists as a funding stream. The Medicaid FACCR recommends presenting CAFS disbursements equaling CAFS receipts in the Schedule of Federal Awards. This recommendation was based on the presumed immateriality of cutoff differences between receipts and disbursements, and considering the complexity of determining the amount of services that ultimately would be billed to Medicaid vs. other funding sources.

Even though CAFS has terminated, we still recommend presenting CAFS disbursements equaling CAFS receipts in the Schedule of Federal Awards after June 30, 2005. This is primarily due to local governments receiving initial reimbursements during 2006 for services rendered during 2005.³ In addition, local governments may receive MRDD settlement payments from previous fiscal years. These settlement payments are based on the difference between the estimated cost per unit and the actual per unit as reported on the Uniform Cost Report.^{4,5}

State also has a practice aid to assist with this determination located within the Audit Briefcase as *Practice Aids A-133 Subrecipient Vendor Determination Jul 05.doc*.

³ If we selected our samples from 2005 reimbursement requests instead of the entire population of 2005 services, the services for which the county received reimbursement for during calendar year 2006 would not have been subject to audit in the prior periods. As such, these services would require testing during the current audit period. Conversely, if the 2005 test samples were selected from the entire population of 2005 services rendered, the underlying services would have been subjected to audit in the 2005 audit and would not require testing during the 2006 audit.

⁴ The MRDD settlement payments will require only limited testing as the underlying services were previously subject to audit.

State Children's Insurance Program (SCHIP) Funding

As stated in ADAM 2006-01, County Federal Schedules should separately identify State Children's Insurance Program (SCHIP – CFDA # 93.767) funding passed through a State agency other than ODJFS (such as Health, Mental Health, Alcohol & Drug Addiction Services, or Mental Retardation & Developmental Disabilities).

Although often processed in the same way as Medicaid, these funds are not a part of the Medicaid program and should not be reported as Medicaid. Letters to the Counties from MRDD should separately identify the SCHIP payments a county received.

Homeland Security Funding

During 2003, the Federal Department of Homeland Security (DHS) began administering certain Federal awards previously administered through other Federal agencies.

When completing the Federal Awards Expenditure Schedule, recipients should record their expenditures using the CFDA number(s) shown on the *Notice Of Award* for the period in which the funds were awarded since the period of availability usually extends beyond the year of award.

Expenditures under the Homeland Security Grant Cluster in the current audit period *may* be attributable to awards made in prior years under other CFDA numbers.

The rest of this guidance explains how the *Federal Awards Expenditure Schedule* should reflect the CFDA numbers.

When preparing / auditing the *Federal Awards Expenditure Schedule* for Homeland Security Grants (illustrated after item 3 below), consider the following three notes:

The current and previous CFDA numbers are shown in the following table. Expenditures under the CDFA numbers shown in the table (under 3. below) should be combined when determining Type A programs. The following exceptions should be noted (Note we have updated the years listed below from those listed in ADAM 2006-01):

1. Urban Areas Security Initiative grants are part of the Homeland Security Grant Cluster for 2005 and 2006 awards. 2003 and 2004 Urban Areas Security Initiative grants are **not** part of the Homeland Security Grant Cluster, and should be evaluated separately in making the major program determination (see program supplement for CFDA 97.008).
2. Although activities under CFDA 97.004, 97.005, and 97.006 were folded into the State

⁵ Healthcare Billing Systems processes Medicaid bills for a number of local governments. Accounting and Auditing Support staff is currently working with Healthcare Billing Systems (HBS) to obtain a service organization report for the period July 1, 2005 through June 30, 2006. The report will be in the form of agreed-upon procedures, but is intended to satisfy SAS 70 requirements for CAFS, Waiver Administration, TCM, and Day Habilitation Medicaid expenditures. HBS is currently contracting with an independent accountant for this service, but informed us they will attempt to have this report available by approximately the end of May.

Homeland Security Program (SHSP) and, subsequently, the Homeland Security Grant Program (HSGP), these CFDA numbers continue to be used in awards other than the SHSP or HSGP.

Expenditures for 2004 awards under CFDA 97.004, State Domestic Preparedness Equipment Support Program, should not be included in this cluster. Expenditures for 2004 awards under CFDA 97.005, State and Local Domestic Preparedness Training Program, and CFDA 97.006, State and Local Domestic Preparedness Exercise Support, unless received from a pass-through entity, should not be included in the audit of this cluster.

3. Expenditures under Emergency Management Performance Grant (EMPG) and Citizen Corps Program (CCP) awards that predated assignment of DHS numbers for these programs should not be included in this cluster.

<i>Year of Grant</i>	<i>SHGP</i>	<i>CCP</i>	<i>LETPP</i>	<i>EMPG</i>	<i>MMRS</i>
2003	16.007	97.053	N/A	97.042	N/A
2004	16.007 (supplemental award)* 97.004	97.004*	97.004	97.042	97.071
2005	97.067**	97.067	97.067***	97.067	97.067
2006	97.067	97.067	97.067	N/A (no longer part of the cluster)	97.067

Also see Appendix VI Department of Homeland Security Programs and This Compliance Supplement attached to this ADAM for a migration chart of these programs.

* Public Law 108-11 (Emergency Wartime Supplemental Appropriations Act, 2003) appropriated supplemental FY 2003 funds. The appropriations legislation made funds available until December 31, 2003 and awards from this supplemental were made under CFDA 16.007.

** At the subgrantee level, this CFDA number may have been listed as 97.073 and should be included in this cluster.

***At the subgrantee level, this CFDA number may have been listed as 97.074 and should be included in this cluster.

Preparing Homeland Security Awards in the Federal Awards Expenditure Schedule

When preparing the *Federal Awards Expenditure Schedule* and the Data Collection Form, auditors should take care to determine the award year and whether it should be included in the Homeland Security Grant Cluster. The State Domestic Preparedness Equipment

Support Program grant awarded during federal fiscal year 2004 should be reported under CFDA #97.004. The Homeland Security Grant Program Cluster awarded during federal fiscal years 2005 and 2006 should be reported under CFDA #97.067. A footnote to the federal schedule detailing the breakdown between the individual programs should also be included..

A sample *Federal Awards Expenditure Schedule* and footnote are included below to help in the reporting of these grants.

US DEPARTMENT OF HOMELAND SECURITY

Passed through the Ohio Department of Public Safety

Emergency Management Agency

State Domestic Preparedness Equipment Support Program	97.004	55,502
Homeland Security Grant Program	97.067	278,353
Emergency Management Performance Grant	97.042	39,074
TOTAL US DEPARTMENT OF HOMELAND SECURITY		<u>372,929</u>

Example Note to the Federal Awards Expenditure Schedule

NOTE XX HOMELAND SECURITY CLUSTER

The Government reported the following federal programs for the Homeland Security Cluster on the Schedule of Expenditures of Federal Awards. Several programs for federal fiscal year 2005 were incorporated into the State Domestic Preparedness Equipment Support Program (97.004) and Homeland Security Grant Program (97.067) in accordance with the guidance from the U.S. Department of Homeland Security.

<i>CFDA#</i>	<i>Program</i>	<i>Amount</i>
97.004	State Domestic Preparedness Equipment Support Program	\$ xxx,xxx
97.053	Citizen Corps	xxx,xxx
97.xxx	Law Enforcement Terrorism Prevention Program Shelter's – Grants to States and Indian Tribes	xxx,xxx
97.004	Total State Domestic Preparedness Equipment Support Program	<u>\$ xxx,xxx</u>
97.008	Urban Areas Security Initiative	\$ xxx,xxx
97.042	Emergency Management Performance Grants	xxx,xxx
97.053	Citizen Corps	xxx,xxx
97.071	Metropolitan Medical Response System	xxx,xxx
97.073	State Homeland Security Program	xxx,xxx
97.074	Law Enforcement Terrorism Prevention Program Shelter's – Grants to States and Indian Tribes	xxx,xxx
97.067	Homeland Security Grant Program	<u>\$ xxx,xxx</u>
97.008	Urban Areas Security Initiative	\$ xxx,xxx
97.053	Citizen Corps	xxx,xxx
97.071	Metropolitan Medical Response System	xxx,xxx
97.073	State Homeland Security Program	xxx,xxx

	Law Enforcement Terrorism Prevention Program Shelter's – Grants to	
97.074	States and Indian Tribes	xxx,xxx
97.067	Homeland Security Grant Program	<u>\$ xxx,xxx</u>

NOTE: For FFY2004 grants use the first grouping, for FFY2005 grants use the second grouping, and for FFY 2006 grants use the last grouping.

Changes in Workforce Investment Act (WIA) Administration

As we noted in ADAM 2006-01, effective July 1, 2004, Ohio reorganized into 20 local workforce investment areas. Effective July 1, 2005, Ohio reorganized into 19 areas by the merging of the City of Cleveland and Cuyahoga County. Each area has an area agency responsible for oversight, monitoring and policy implementation for all their WIA sub-recipients. Many of these areas use a June 30 fiscal year end. During 2006, we determined the local areas requiring a separate A-133 audit. You should schedule audits of these area agencies for the fiscal year ending June 30, 2007.

Fiscal agents may disclose the amounts they transmit to other entities in the notes to their federal awards expenditure schedule. However, fiscal agents should not report these amounts as disbursements in their Schedule. (Fiscal agents should only report any amounts they disburse as a WIA subrecipient in their Schedule.) Counties and other entities receiving WIA from the fiscal agents should report their disbursements as pass-through assistance from their area agency in their federal awards expenditure schedule.

Reporting WIA on County Federal Awards Expenditure Schedules

As we advised in ADAM 2006-01, effective July 1, 2004, the Ohio Administrative Code 5101:9-31-05 requires all local areas and sub-recipients of local areas to establish a workforce development fund. The entity receiving funds shall deposit all funds received under this section into the workforce development fund. All expenditures for activities funded under this section shall be made from the workforce development fund.

Prior law required counties to commingle WIA dollars in their public assistance fund. The new law should simplify preparing a county's federal awards expenditure schedule, regarding WIA funds.

ODJFS reconciles WIA monies they pass through to the local area agencies, as reported on local area agency federal schedules. If the auditor wishes to obtain 3rd party confirmations of the WIA receipts amounts reported on a County's Federal Schedule, auditors should contact the appropriate Local Area Agency. If the Local Area Agency is included in the County's reporting entity, please contact Janet Kramer at (614)466-6076 or KramerJ@odjfs.state.oh.us for confirmation of WIA Monies sent to the County.

Effect of this Bulletin on County Auditors and County Departments of Job and Family Services

Per OMB Circular A-133 §___ .300(a) and (d), it is a county's responsibility to prepare a Federal awards expenditures schedule for audit. For examples, see your county's 2004 Single Audit Report. An independent auditor can assist in preparing this schedule, subject to Government Auditing Standards independence requirements. However, the county is ultimately responsible for preparing the federal schedule.

County auditors and their department of job and family services must identify a complete listing of Federal awards received from ODJFS and also the related county disbursements.

Help America Vote Act (HAVA) of 2002

Even though many counties purchased their voting equipment during calendar year 2005, they were not required to have the machines in place until the May 2006 primary. As such, the following information is repeated from ADAM 2006-001.

A-133 Considerations

On Oct. 29, 2002, President George W. Bush signed into law the Help America Vote Act of 2002. The legislation was passed in the U.S. House in late 2001 and was approved by the U.S. Senate the following year.

The Help America Vote Act logically embraces the goals of election reform by expecting all levels of government to provide a democratic process that:

- maintains an accurate list of citizens who are qualified to vote;
- encourages every eligible voter to participate effectively;
- uses equipment that reliably clarifies and registers the voter's choice;
- handles close elections in a foreseeable and fair way;
- operates with equal effectiveness for every citizen and every community; and
- reflects limited but responsible federal participation.

The HAVA federal program (CFDA #39.011-ELECTION REFORM PAYMENTS) was originally established under the General Services Administration. In 2005, the Election Assistance Commission (EAC) was established as its own federal agency. The HAVA program was transferred to CFDA #90.401-HELP AMERICA VOTE ACT REQUIREMENTS PAYMENTS. In Ohio, the HAVA funding passes through the Office of the Secretary of State's to the counties.

In April 2005, the Ohio Secretary of State and each county entered into a grant agreement for the Voter Education and Poll Worker Program. The primary objective of the Voter Education and Poll Worker Training Grant Program is to provide funding for County Boards of Elections to perform voter education and poll worker training programs pursuant to the County's approved Voter Education and Poll Worker Training Plan, hereinafter referred to as the Plan. Rather than amending the grant agreements with each county, **the**

Secretary of State is recommending that counties report all federal funds received for the training grant under CFDA #39.011.

The HAVA federal program also provides Ohio counties with \$325 million for buying out antiquated punch-card and lever voting machines. The \$325 million is allocated among the Counties based upon the population of registered voters. The Secretary of State contracted with three companies to manufacture new voting machines. The Counties order the voting machines directly from the manufacturers. The Secretary of State may either pay the manufacturer directly or pay the County which, in turn, pays the manufacturer. The title of the voting equipment passes directly to the County upon completion of the delivery and acceptance of that equipment. If the initial delivery date of the voting equipment was December 31, 2005 or earlier, the equipment should be reported on the 2005 Schedule of Expenditures of Federal Awards. If the initial delivery date of the equipment was on or after January 1, 2006, the equipment should be reported on the 2006 Schedule of Expenditures of Federal Awards. **Federal funds received for the purchase of voting machines should be reported under CFDA #90.401.**

The Secretary of State is sending letters to the County Board of Elections and County Auditors in regards to the reporting of funding for the voting machines. The FACCR will be available on the Intranet.

Financial Reporting Considerations for On-Behalf Payments for Voting Machine Funding (CFDA # 90.401)

Where the Secretary of State paid cash to a county, the reporting is straightforward. However, where the Secretary of State paid for machines on behalf of a county, the county must determine how to report this on the entity wide statements, fund statements and budgetary schedules. Our suggestions follow:

- Entity wide statements: The GFOA suggested that voting machine on-behalf payments are capital contribution, which is an economic, but not a current financial resource. Because full accrual statements report economic resources, the entity wide statements should record a capital asset, if it meets the capitalization criteria. The statement of changes in net assets should report capital contribution.
- Fund statements: Because the governmental fund measurement focus reports only current financial resources, it is *preferable* to exclude on-behalf payments from the fund statements. However, we will not require an audit adjustment to remove these amounts if the county recorded them in the funds.
- Budgetary schedules: The guidance from Bulletins 2000-08 (on-behalf grants for cash-basis governments) and 2002-004 (Issue II) suggest counties probably should report on-behalf payments as a budgetary receipt and disbursement, subject to appropriation. However, we will not cite counties who have not budgeted these on-behalf transactions.

cc: County Auditors
County Departments of Job and Family Services