

COMMUNITY MENTAL HEALTH PARTNERSHIP OF SOUTHEAST MICHIGAN/PIHP	Policy Financial Audits of Contractors
Department: Finance	Local Policy Number (if used)
Regional Operations Committee Approval Date 9/28/2020	Implementation Date 9/28/2020

I. PURPOSE

To establish guidelines and standards regarding the financial audit obligations outlined in provider contracts, and to provide guidelines for exempting a contractual provider from the independent auditor requirements.

II. REVISION HISTORY

DATE	REV. NO.	MODIFICATION
2014	1	Revised to reflect the new regional entity.
2019	2	Revised to reflect updated deadlines.
9/28/2020	3	Revised contractor

III. APPLICATION

All contractual providers of Community Mental Health Partnership of Southeast Michigan (CMHPSM) and the Community Mental Health Service Providers (CMHSP).

IV. POLICY

It is the policy of the CMHPSM that annual audits conform to Generally Accepted Auditing Standards (GAAS) and all applicable federal and state laws and regulations regarding accounting practices and standards.

V. DEFINITIONS

Annual Audit: An audit of the contractor’s financial records performed annually by an independent auditor or audit firm. An annual audit shall include a separate section of all activities funded under the terms of the contract.

Community Mental Health Partnership of Southeast Michigan (CMHPSM): The Regional Entity that serves as the PIHP for Lenawee, Livingston, Monroe and Washtenaw for mental health, developmental disabilities, and substance use disorder services.

Community Mental Health Services Program (CMHSP): A program operated under chapter 2 of the Mental Health Code as a county community mental health agency, a community mental health authority, or a community mental health organization.

Contractual Provider: Any agency or organization that provides direct support services to consumers within CMHPSM, with the exclusion of hospitals. Also referred to as “contractor.”

Financial Compilation: A compilation of the contractor’s financial records presented in the format of financial statements regarding assets, liabilities, revenue and expenses.

Program Audit: An audit of the contractor’s financial records that relate to the services provided on behalf of a CMHSP provided by an independent auditor or audit firm. A program audit shall report on the contractor’s adherence to the terms of the contract between the contractor and the CMHSP, including the accuracy of expenses and revenue reported.

Regional Entity: The entity established under section 204b of the Michigan Mental Health Code to provide specialty services and supports for people with mental health, developmental disabilities, and substance use disorder needs.

VI. **STANDARDS**

- A. Each contractor of CMHPSM is required to submit an annual audit performed by an independent auditor or accounting firm.
- B. Each Contractor shall submit to the CMHSP the agency’s Plan of Correction to address audit exceptions, comments, and/or recommendations, and submit progress reports periodically.
- C. A Contractor may be permitted to waive the annual audit requirement if they meet the criteria for exemption and return an “Annual Audit Waiver Request” form to the CMHSP. The contractor must meet one of the following three criteria in order to be granted an Audit Waiver:
 - 1. Contractor provides services to 6 (six) or less CMHSP consumers per year.
 - 2. Contractor receives \$50,000 or less annually from entire CMHPSM to provide services to consumers.
 - 3. Contractor employs fifteen (15) or fewer employees or full-time equivalents (FTE) throughout the entire organization of the provider.
- D. Each Contractor may be required to submit to the CMHSP a program audit or financial compilation in lieu of or in addition to the annual audit.
- E. If an Audit Waiver is approved, a Financial Compilation will be required.
- F. A financial compilation does not need to be conducted by an independent auditor or audit firm; however, it must be attested to by the Contractor’s Executive Director or Financial Officer. When the annual financial compilation is required, it must be submitted to PIHP within one hundred twenty (120) days of the close of CONTRACTOR’s fiscal year or the termination of this Contract, whichever occurs first. Failure to provide this compilation may result in the imposition of a financial penalty.
- G. Further requirements of this policy, including requirements for a single audit, are contained in the approved contract language of CMHPSM for each fiscal year, which is incorporated by reference here.

VII. **EXHIBITS**

None

VIII. **REFERENCES**

- A. CMHPSM Provider Contract
- B. Generally Accepted Accounting Principles (GAAP) <http://www.fasab.gov/accepted.html>
- C. Generally Accepted Auditing Standards (GAAS)
- D. 2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

IX. PROCEDURES

WHO

DOES WHAT

Contracting Agency

1. A new Audit Waiver Request must be submitted for each contract cycle. Contractor has until the end of the 3rd quarter to submit the Audit Waiver Request to the CMHSP.
2. Assures timely completion of all audits.
3. Submits Annual Audit or Financial Compilation to the CMHSP on or before 180 days after the close of the Contractor's fiscal year.
4. May submit in writing to the CMHSP up to two 30-day requests for extensions of the submission date. Request(s) shall include an explanation of extenuating circumstances for delay. "The audit is not yet completed" is not considered an extenuating circumstance.

CMHSP Designee

1. If an audit includes audit exceptions and/or auditor comments, requires Contractor to submit a Financial Plan of Correction within thirty (30) days of the issuance of the audit.
2. If a Financial Compilation indicates a financial concern, requires Contractor to submit a Financial Plan of Correction within thirty (30) days of the submission of the Financial Compilation.
3. The following will occur if an audit or financial compilation is not submitted on or before the due date, the Contractor has not been approved for an extension, or extension has expired: a. Provider will be issued a reminder notice after requirement is 15 days past due b. After 30 days past due the Provider may be placed on provisional contract status until the requirement is met. c. After 45 days past due, additional sanctions may be imparted including a formal finance review, up to contract termination.
4. May approve up to two (2) 30-day extensions of the audit submission date if there are extenuating circumstances.

WHO

DOES WHAT

Contracting Agency

1. Submit to the CMHSP a Financial Plan of Correction for any audit exceptions, comments, and/or recommendations noted by the independent auditor or audit firm within thirty (30) days of issuance of the audit.
2. Submit status reports and products or other evidence of corrections as required under the Plan of Correction.
3. Failure to submit, comply with, or attain outcomes of a required Financial Plan of Correction may be cause for contract sanctions, up to and including contract termination.
4. The CMHSP may require the addition of concerns or issues in the Plan of Correction.

CMHSP Designee

1. If approved, verifies Contractor eligibility for Annual Audit Waiver at the end of contract cycle.
2. Notifies local Board of any Contractor that has a Plan of Correction.
3. Reviews Plan of Correction submitted by Contractor. May add additional requirements.
4. Makes recommendation about the feasibility of maintaining a Provider on the Network Panel regarding financial status.
5. Sends to Contractor regular invoices indicating amount withheld due to late audit submission.
6. Sends to Contractor written notification when a required Financial Plan of Correction has been successfully met.