



AUDIT GUIDELINES

Substance Use and Gambling Services (SUGS) Program

October 2021
(Effective for Fiscal Year 2020/2021 Audits)

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	AUDIT REQUIREMENTS	2
	A. Single Audit	2
	B. Financial Statement Audit.....	2
	C. Reporting Package	3
	D. Due Date	3
	E. Penalty.....	3
	F. Where to Send.....	4
	G. Incomplete or Inadequate Audits	4
	H. Management Decision	4
III.	SUBRECIPIENT VS. CONTRACTOR DETERMINATION	5
IV.	PIHP RESPONSIBILITIES.....	8
V.	AUDIT OBJECTIVES.....	10
VI.	ITEMS REQUIRING SPECIAL CONSIDERATION	12
	A. Financial Reporting.....	12
	B. Procurements and Subcontracts	12
	C. Debarment and Suspension.....	12
	D. Fee Collection	13
	E. Match Requirement.....	14
	F. Subrecipient and Contractor Monitoring	14
VII.	MATERIAL WASTE OR LOSS.....	15
VIII.	RETENTION OF AUDIT WORKING PAPERS AND RECORDS	16
IX.	EFFECTIVE DATE AND MDHHS CONTACTS.....	17

I. INTRODUCTION

The Substance Use and Gambling Services (SUGS) Program Audit Guidelines are intended to provide clarification of the audit requirements contained in the Medicaid Managed Specialty Supports and Services Concurrent 1915(b)/(c) Waiver Program(s), the Healthy Michigan Program, and Substance Use and Gambling Services Program Contract, between the Michigan Department of Health and Human Services (MDHHS), and Prepaid Inpatient Health Plans (PIHPs). The SUGS Program Audit Guidelines prescribe general audit responsibilities and may not address all circumstances or conditions that are unique to the SUGS Program. Therefore, the auditor is required to exercise professional judgment to determine the necessary audit steps needed to accomplish the audit objectives.

The audit requirements contained in the SUGS Contract, and the clarifications contained herein also apply to subcontract agencies receiving federal awards as a subrecipient. If, however, the subcontractor received payment for goods or services provided as a contractor, the subcontractor would be exempt from the audit requirements contained in the SUGS Contract and the clarifications contained herein (See the section titled “Subrecipient vs. Contractor Determination” in these Audit Guidelines).

II. AUDIT REQUIREMENTS

A. Single Audit

PIHPs and subcontract agencies that expend \$750,000 or more in Federal awards¹ during the fiscal year must obtain a single audit or program-specific audit (when administering only one federal program) in accordance with 2 CFR Part 200, Subpart F.

The single audit must be performed by an independent auditor, and in accordance with Generally Accepted Government Auditing Standards (GAGAS).

A program-specific audit must be performed by an independent auditor, and in accordance with GAGAS and the program-specific audit guide from the Office of Inspector General of the Federal agency if applicable. If a program-specific audit guide is not available, the requirements outlined in 2 CFR Part 200 Subpart F, Section 200.507 must be followed.

See the Audit Objectives Section of these Audit Guidelines for further details and requirements.

B. Financial Statement Audit

PIHPs and subcontract agencies that are exempt from the Single Audit requirements, must obtain a Financial Statement Audit prepared by an independent auditor and in accordance with Generally Accepted Auditing Standards (GAAS). Subcontract agencies receiving payments for goods or services provided as a contractor are exempt from the financial statement audit requirements.

¹ Guidance on determining Federal awards expended is provided in 2 CFR Part 200, Section 200.502. Generally, Medicaid payments to a subrecipient for providing patient care services to Medicaid eligible individuals are not considered Federal awards expended. Additionally, payments received for goods or services provided as a contractor would not be considered Federal awards. Guidance in 2 CFR Part 200 Section 200.331 should be considered in determining whether payments constitute a Federal award or a payment for goods and services. Guidance is also provided in the section titled “Subrecipient vs. Contractor Determination” in these Audit Guidelines.

C. Reporting Package

The following sections list the specific items that must be included in the reporting package for various scenarios:

For PIHPs and subcontract agencies subject to Single Audit (even if federal funding received from, or indirectly from, MDHHS is less than \$750,000), the reporting package includes:

1. The single audit reporting package described in 2 CFR Part 200 Section .200.512(3)(c), including the corrective action plan; and
2. Management letter, if one is issued, and management's response.

For PIHPs and subcontract agencies exempt from Single Audit, the reporting package includes:

1. The financial statement audit prepared in accordance with GAAS; and
2. Management letter, if one is issued, and management's response.

D. Due Date

The PIHPs must submit the reporting package described above to MDHHS within nine months after the end of the agency's fiscal year.

Subcontract agencies must submit the reporting package described above to their applicable PIHP within nine months after the end of the subcontractor's fiscal year. PIHPs may contractually require an earlier reporting package due date for their subcontractor agencies.

E. Penalty

If the PIHP fails to submit the applicable single audit or financial statement audit reporting package within nine months after the end of the agency's fiscal year and an extension has not been approved by MDHHS, MDHHS may withhold from current funding five percent of the audit year's grant funding (not to exceed \$200,000) until the required reporting package is received. MDHHS may retain the withheld amount if the reporting package is delinquent more than 120 days, and an extension has not been approved by MDHHS.

F. Where to Send

The PIHP must submit the reporting package described above by e-mail to MDHHS at MDHHS-AuditReports@michigan.gov. The required materials must be assembled in a PDF file compatible with Adobe Acrobat (read only). The subject line must state the agency name and fiscal year end. MDHHS reserves the right to request a hard copy of the audit materials if for any reason the electronic submission process is not successful.

G. Incomplete or Inadequate Audits

If MDHHS determines the reporting package is incomplete or inadequate, the auditee and possibly its independent auditor will be informed of the reason of inadequacy and its impact in writing. The recommendations and expected time frame for resubmitting the corrected reporting package will be indicated.

H. Management Decision

MDHHS will issue a management decision on findings and questioned costs contained in the PIHP single audit within six months after the receipt of a complete and final reporting package. The management decision will include whether or not the audit finding is sustained; the reasons for the decision; and the expected PIHP action to repay disallowed costs, make financial adjustments, or take other action. Prior to issuing the management decision, MDHHS may request additional information or documentation from the PIHP, including a request for auditor verification or documentation, as a way of mitigating disallowed costs.

III. SUBRECIPIENT VS. CONTRACTOR DETERMINATION

An entity receiving pass-through federal funds may be a subrecipient or a contractor. Federal awards expended by a subrecipient would be subject to Single Audit requirements. The payments received for goods or services provided as a contractor would not be considered federal awards and are therefore not subject to the Single Audit requirements.

A **subrecipient** is defined as “a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program but does not include an individual who is a beneficiary of such a program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency.”

A **contractor** is “a dealer, distributor, merchant, or other seller providing the goods or services that are required for the conduct of a federal program. These goods or services may be for an organization’s own use or for the use of beneficiaries of the federal program.”

The following checklist is designed to help determine whether an entity receiving federal funds should be considered a subrecipient or a contractor for Single Audit purposes. Generally, a preponderance of “yes” answers for a particular classification should assist this determination. However, in some instances, it may be difficult to determine whether a relationship is that of a subrecipient or a contractor; therefore, the decision should be based on the substance of the relationship over the form of the agreement. [2 CFR Part 200, Section .200.331]

General Instructions:

1. Answer all questions for both types of organizations. Each question should be answered either “Yes” or “No.” A “Yes” answer is indicative of the type of relationship being reviewed. However, there are certain factors that will have a greater bearing on the conclusion than others, such as responsibility for determining eligibility for the program.
2. After completing the checklist, document the conclusion and the basis for the classification in Step #2.

SUGS PROGRAM AUDIT GUIDELINES

Step 1

Answer the following questions (1-10) for the entity receiving federal funds:

Subrecipient Classification

Characteristics indicative of a federal award received by a subrecipient (questions 1 – 5):

1. Does the entity determine who is eligible to receive Federal assistance? [2 CFR Part 200, Section 200.331(a)(1)]
2. Does the entity have programmatic decision-making responsibility such as the determination of program benefits, approval of costs incurred, establishment of program service area, etc.? [2 CFR Part 200, Section 200.331(a)(3)]
3. Does the entity have its performance measured in relation to whether objectives of a federal program were met? [2 CFR Part 200, Section 200.331(a)(2)]
4. Does the entity have responsibility for adherence to applicable Federal program requirements specified in the Federal award? [2 CFR Part 200, Section 200.331(a)(4)]
5. Does the entity use the federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity? [2 CFR Part 200, Section 200.331(a)(5)]

Contractor Classification

Characteristics indicative of a payment of goods or services received by a contractor (questions 6 – 10):

6. Does the entity provide the goods and services within normal business operations? [2 CFR Part 200, Section 200.331(b)(1)]
7. Does the entity provide similar goods or services to many different purchasers? [2 CFR Part 200, Section 200.331(b)(2)]
8. Does the entity operate in a competitive environment?
[2 CFR Part 200, Section 200.331(b)(3)]
9. Does the entity provide goods or services that are ancillary to the operation of the Federal program? [2 CFR Part 200, Section 200.331(b)(4)]
10. Is the entity not subject to compliance requirements of the Federal program as a result of the agreement?
[2 CFR Part 200, Section 200.331(b)(5)]

SUGS PROGRAM AUDIT GUIDELINES

Step 2 - Conclusion

Based on the preponderance of “Yes” answers, substance of the relationship, and discussions with appropriate personnel, the entity has been determined to be a: (check one)

Subrecipient _____
Contractor _____

Comments:

IV. PIHP RESPONSIBILITIES

(AUDITS, SUBRECIPIENT MONITORING, OTHER REQUIREMENTS)

To ensure fulfillment of the audit, subrecipient monitoring, and other requirements of 2 CFR Part 200 Compliance Supplement, and the SUGS Contract with MDHHS, PIHPs must:

1. Identify in its accounts all Federal awards received and expended and the Federal programs under which they were received including the AL title and number, award number and year, name of the Federal agency, and name of the pass-through entity; and inform subcontractors of AL title and number, award name and number, and name of Federal agency for Federal awards passed through to subcontractors.
2. Maintain internal control over programs assuring that the Federal and state grants are being managed in compliance with applicable laws, regulations, and the provisions of contracts.
3. Comply with provisions of contracts, laws, and regulations, including the compliance requirements applicable to the Federal program as listed in 2 CFR Part 200; and advise subcontractors of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements.
4. Ensure that any executed subcontract requires the subcontractor to comply with all terms and conditions of the SUGS Contract, and any billing or request for reimbursement for subcontract costs is supported by a valid subcontract and adequate source documentation on costs and services.
5. Prepare appropriate financial statements in accordance with generally accepted accounting principles, including (as required) the schedule of expenditures of Federal awards in accordance with 2 CFR Part 200, Section 200.510.
6. Ensure that the required audit is completed by an independent auditor, and the required reporting package is submitted to MDHHS by the contractually required due date; and submit the single audit reporting package and data collection form to the Federal clearinghouse within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period according to the requirements of 2 CFR Part 200, Section 200.512.
7. Permit access by authorized representatives of MDHHS, Federal grantor agency, Comptroller General of the United States and State Auditor General to records, files and documentation related to the SUGS Program as requested; and ensure that any executed subcontract allows the PIHP access to the records and financial statements of the subcontractor as necessary.
8. Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with 2 CFR Part 200, Section 200.511.

SUGS PROGRAM AUDIT GUIDELINES

9. Monitor the activities of subcontractors (including those below the single audit threshold) as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts.
10. Ensure that each of the subcontractors comply with the applicable audit requirements; and require timely submission of subcontractor audit reports to the PIHP.
11. Review subcontractors' audit reports and issue a management decision on audit findings within six months after receipt of the subcontractor's audit report and ensure that the subcontractor takes appropriate and timely corrective action as required by 2 CFR Part 200, Section 200.521(d).
12. Ensure the procurement, receipt, and payment for goods and services to contractors comply with laws, regulations, and the provisions of contracts or grant agreements as required by 2 CFR Part 200, Section 200.501(g).

V. AUDIT OBJECTIVES

The “Audit Requirements” Section details the type of audit required. Following are the objectives of each:

The objective of a financial statement audit is primarily limited to determining whether the financial statements of the audited agency are presented fairly in all material respects in conformity with Generally Accepted Accounting Principles.

The objectives of a single audit /program-specific audit are to determine whether:

1. The financial statements of the audited agency are presented fairly in all material respects in conformity with Generally Accepted Accounting Principles and/or the Schedule of Expenditures of Federal Awards is presented fairly in all material respects in relation to the financial statements taken as a whole.
2. The audited agency has complied with laws, regulations and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs.

To assist auditors in performing the required compliance audit and to help identify important compliance requirements, auditors should refer to the Compliance Supplement AND the section of these SUGS Program Audit Guidelines titled “Items Requiring Special Consideration.”

The Compliance Supplement (2 CFR 200, Appendix XI) identifies the compliance requirements that are applicable to the programs included in the Supplement (e.g. AL 93.959). Part 3 includes a general description of compliance requirements, audit objectives, and suggested audit procedures. Part 4 or Part 5 contains additional information about the compliance requirements that arise from laws and regulations applicable to each program, including the requirements specific to each program that should be tested. For programs not covered in the Compliance Supplement (e.g. AL 93.243), the auditor should use the types of compliance requirements contained in the compliance supplement as guidance for identifying the types of compliance requirements to test, and determine the requirements governing the Federal program by reviewing the provisions of contracts and grant agreements and the laws and regulations referred to in such contracts and grant agreements.

Section VI of these SUGS Program Audit Guidelines titled “Items Requiring Special Consideration” highlights various contractual and other regulatory provisions that require compliance testing in addition to the items specifically identified by the Compliance Supplement.

SUGS PROGRAM AUDIT GUIDELINES

Compliance testing must include tests of transactions, and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance.

3. The audited agency has internal accounting and other control systems in place to provide reasonable assurance to achieve the following objectives with regards to the federal grant:
 - Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and federal reports;
 - Compliance with laws, regulations and other compliance requirements; and
 - Funds, property and other assets are safeguarded against loss from unauthorized use or disposition.

Additional Note: The primary objectives of the audits are financial and compliance issues. Auditors are not expected to perform an economy and efficiency audit. However, auditors should report conditions that come to their attention that are material in their opinion that reflect:

- a. Unnecessary duplication of effort
- b. Inefficient or wasteful use of resources
- c. Ineffective or costly procedures

VI. ITEMS REQUIRING SPECIAL CONSIDERATION

As stated in the “Audit Objectives” section, this section highlights various contractual and regulatory provisions that **require compliance testing as part of a single audit** in addition to the items specifically identified by the 2 CFR Part 200 Compliance Supplement. Contract and regulatory references are provided for convenience. The auditor should report material noncompliance as an audit finding in the schedule of findings and questioned costs.

NOTE: If an MDHHS contract provision is subcontracted, the auditor of the PIHP is not expected to perform compliance testing at the subcontractor level. However, the auditor is expected to perform testing at the PIHP level to determine if subcontracts contain all applicable terms and conditions, and the PIHP performed their required pass-through agency responsibilities.

A. Financial Reporting

The final Financial Status Report (FSR) and the Obligation Report comply with contractual provisions and MDHHS Instructions. (*SUGS Contract – Part IV, Section E*)

The PIHP used the applicable Federal cost principles for determining allowable costs to report on the FSR and Obligation Report (2 CFR Part 200, Subpart E is applicable to agencies that are local government entities, and 2 CFR Part 200, Subpart E is also applicable to agencies that are non-profit entities). (*SUGS Contract – Part III, Section A*)

Any reported expenditures that do not comply with the applicable 2 CFR 200 cost principles or contract provisions should be included as a questioned cost in the audit report.

B. Procurements and Subcontracts

Procurement of needed services and supports comply with contractual provisions and applicable Federal procurement regulations. (*SUGS Contract – Part I, Section E.6 and 2CFR Part 200 Sections 200.318 through 200.327 as applicable*)

The PIHP properly classified their payments to contractors as Federal awards to subrecipients, or payments for goods and services to a contractor according to the guidance provided in 2 CFR Part 200, Sections 200.331 (a) and (b).

C. Debarment and Suspension

The PIHP will comply with federal regulation 2 CFR 180 and certifies that its employees and subcontractors: (*SUGS Contract - Part II, Section D*)

SUGS PROGRAM AUDIT GUIDELINES

1. Are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any federal department or contractor;
2. Have not within a five-year period preceding this agreement been convicted of or had a civil judgement rendered against them for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public (federal, state, or local) transaction or contract under a public transaction; violation of federal or state antitrust statutes or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, tax evasion receiving stolen property, making false claims, or obstruction of justice;
3. Are not presently indicted or otherwise criminally or civilly charged by a government entity (federal, state or local) with commission of any of the offenses enumerated in section 2;
4. Have not within a five-year period preceding this agreement had one or more public transactions (federal, state or local) terminated for cause or default; and
5. Have not committed an act of so serious or compelling a nature that it affects the Grantee's present responsibilities.

The PIHP verified or received certifications that its employees and subcontractors are not excluded from participation in Federal health care programs under either Section 1128 or Section 1128A of the Social Security Act. *(PIHP Contract - Part I. Section R.10.b)*

D. Fee Collection

The PIHP made reasonable efforts to collect 1st and 3rd party fees where applicable. Any under-recoveries of otherwise available fees resulting from failure to bill for eligible services are to be excluded from reimbursable expenditures. *(SUGS Contract – Part 2 1.B)*

The PIHP assured that all available sources of payments were identified and applied prior to the use of MDHHS-administered funds. *(SUGS Contract – Part 2 1.B)*

“Fees and collections” are defined in the Administrative Rules (*Rule 325.4151*) and include only those fees and collections that are associated with services paid for by the agency.

All fees and collections reported need to be verified with the PIHP's records. The portion of fees and collections revenue reported and actually received by the PIHP needs to be traced and agreed to the PIHP's general ledger. The portion of fees and collections revenue received and reported by subcontracted services providers and reported by the PIHP (subcontractor revenue not actually received by the PIHP but reported by the PIHP), needs to be traced and agreed to the underlying PIHP records used to prepare this information.

E. Match Requirement

The PIHP met the contractual local match requirement. Administrative Rules 325.4151 through 325.4153 (promulgated pursuant to Section 6213 of Public Act No. 368 of 1978, as amended) define allowable match and require that program budgets include allowable match funds equal to not less than 10% of the total program budget, less direct federal and other state funds. The match requirement applies both to budgeted funds and actual expenditures. “Fees and collections” as defined in the Rule include only those fees and collections that are associated with services paid for by the PIHP. If the PIHP does not comply with the match requirement, or cannot provide reasonable evidence of compliance, MDHHS may recover payment in an amount equal to the amount of the match shortfall.

F. Subrecipient and Contractor Monitoring

Pass-Through Agency Responsibilities

The PIHP complied with their pass-through responsibilities. For Federal awards (as defined by 2 CFR Part 200, Section 200.1) passed through to subrecipients (as defined by 2 CFR Part 200, Section 200.1), agencies must (2 CFR Part 200, *Section 200.332 and SUGS Contract – Part I, Section H*):

- a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the required information as stated in 2 CFR Part 200, Section 200.332(a);
- b) Evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward;
- c) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, and performance goals are achieved. As stated in 2 CFR Part 200, Section 200.332(d), monitoring must include reviewing financial and performance reports, following-up and ensuring the subrecipient takes timely and appropriate action on deficiencies, and issuing a management decision for audit findings provided by the pass-through entity as required by 2 CFR part 200, Section 200.521;
- d) Verify that every subrecipient is audited, as required by 2 CFR Part 200, Section 200.501, when it is expected that the subrecipient’s Federal awards expended during the fiscal year equaled or exceeded the threshold set forth.

Contractor Contract Responsibilities

The PIHP ensured the procurement, receipt, and payment for goods and services to contractors complied with laws, regulations, and the provisions of contracts or grant agreements. (2 CFR Part 200, Section 200.501 (g))

VII. MATERIAL WASTE OR LOSS

If during the course of the audit, the auditor finds material waste or loss (e.g. defalcations, theft, etc.), the auditor should promptly notify the PIHP and MDHHS, or, if conditions warrant it, notification may only be to MDHHS. Notification should also be made if the audited agency's records are found to be non-auditable.

VIII. RETENTION OF AUDIT WORKING PAPERS AND RECORDS

Audit working papers, records, and subcontractors' audit reports must be retained for a minimum of three years after the final audit review closure by MDHHS. The audit working papers, records, and reports **must be transferred to the PIHP, and accessible for review** by representatives of MDHHS, the Federal Government and their representatives if requested. There should be close coordination of audit work between the PIHP auditor and the auditors of its subcontractors. To the extent possible, they should share audit information and materials in order to avoid redundancy.

IX. EFFECTIVE DATE AND MDHHS CONTACTS

These SUGS Program Audit Guidelines replace the October 2020 Guidelines and are effective for the fiscal year 2020/2021 audits. Any questions relating to these Guidelines should be directed to:

Matt Hiatt, Senior Auditor
Bureau of Audit
Michigan Department of Health and Human Services
Cadillac Place
3044 W. Grand Boulevard
Detroit, Michigan 48202
hiattm@michigan.gov
Phone: (313) 456-1798

For further guidance on issues pertaining to the Substance Use and Gambling Services Program, please contact:

Jeffrey Wieferich, MA, LLP, Director
Bureau of Community Based Services Behavioral Health and Developmental
Disabilities Administration
Michigan Department of Health and Human Services
320 S. Walnut Street
Lansing, Michigan 48913
Wieferichj@michigan.gov
Phone: (517)335-0499