

**STATE OF VERMONT  
DEPARTMENT OF MENTAL HEALTH (DMH)  
AND  
DEPARTMENT OF DISABILITIES, AGING AND INDEPENDENT LIVING (DAIL)**

**AUDIT GUIDE FOR COMMUNITY MENTAL HEALTH CENTERS**

*revised 3/26/2009*

## **I. PURPOSE OF THE AUDIT GUIDE:**

The purpose of this Audit Guide is to familiarize independent public accountants for Community Mental Health Centers<sup>1</sup> funded by the State of Vermont through its DMH and DAIL of the Agency of Human Services with the standard audit guidelines and recommended procedures to be followed in the annual audit of contract activities and services provided under the Agency's contract with DMH and DAIL.

It is important for auditors to understand the background under which these audits are to be conducted in order to insure a complete examination as well as to issue findings and recommendations to the Agencies and DMH and DAIL that are made in a framework of a comprehensive understanding of the funding process and its ultimate goals.

This guide supplements the audit procedures necessary to conduct an examination in accordance with generally accepted auditing procedures in accordance with the standards established by the American Institute of Certified Public Accountants and the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" issued by the Comptroller General of the United States.

This guide is intended to provide insight into particular aspects of the programs funded through the auspices of DMH and DAIL; however, it is not intended to supplant the auditor's judgment of the appropriateness of procedures required in individual circumstances. As in all audit engagements, the auditor must use professional judgment and tailor the procedures recommended in this guide to conditions in existence at each Agency.

DMH and DAIL have developed these guidelines to assist agencies and their independent auditors in fulfilling the terms of funding required by their contract. If, in the opinion of the auditor, material departures from these guidelines are necessary, they should be approved in advance by an appropriate representative of DMH and DAIL.

## **II. BACKGROUND:**

Authority is granted to the State of Vermont by 18 V.S.A. chapters 207, 177, and 173, all as amended, to enter into contracts through the Agency of Human Services, DMH and DAIL with non-profit organizations which have been designated by the Commissioner of Mental Health and the Commissioner of DAIL, respectively, to be Community Mental Health Agencies under 18 V.S.A. Section 8907. The contracts are intended to provide developmental and mental health services to persons who reside in the geographic area of the Agency and who are determined to be in need or unable to care for themselves and/or experiencing an emergency situation. These services are to be designed and implemented in such a way, as to assist and direct each individual treated to achieve their maximum capacity to function independently.

Program standards and criteria which cover the various activities funded through grant and contract awards to mental health Agencies are included as part of their contract agreement. Programs currently funded as of the date of this Audit Guide include the following:

1. Mental Health Programs
  - A. Adult Mental Health Services:

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<sup>1</sup> Within the narrative section of this Audit Guide, the generic term "Agency" will be utilized hereafter to designate each of the community mental health centers to which this Audit Guide applies.

These services are provided to individuals 18 years of age or older who are experiencing emotional, psychological, or social problems significant enough to interfere with daily life. Individuals are offered a broad range of services which clarify problems and goals, assist in establishing or regaining coping skills and allow the person to return to a more adequate level of functioning with minimal or no continuing professional support.

B. Children's Mental Health Services:

The goal of children's mental health programs is to prevent or improve the effects of mental health problems and to maintain and encourage the establishment of independent functioning. The target population is young people under the age of 18 who have, or are at risk of developing serious mental health problems.

C. Community Rehabilitation and Treatment (CRT) Services:

The CRT Program offers a wide range of rehabilitation, treatment and support services including outpatient, case management, residential, and day programs to adults 18 years of age or older with a severe and persistent psychological disorder that seriously impairs their functioning relative to such primary aspects of daily living as interpersonal relationships, housing, employment, or health care. Services provided assist individuals in acquiring the skills and supports necessary to achieve or maintain a level of independence and integration within their community.

D. Emergency/Screening/Acute Services:

Emergency Services generally includes assessment of the individual and the circumstances which have led to the crisis, crisis counseling, screening for hospitalization or emergency placement, assessment of need for other mental health and human services, referral and follow-up. They are intended to assist in resolving or stabilizing an immediate situation for people of any age experiencing an acute mental health crisis.

2. Developmental Services Programs

A. Outpatient:

1. Case Management-

Case Management involves service coordination functions performed on behalf of eligible clients, which encompasses all activities that are necessary to coordinate the efforts of multiple providers and/or programs. Additional client evaluation along with the development and review of Individual Program Plans (IPPs) is encompassed under case management services.

2. Social Support –

Social support services are interventions that assist clients in achieving and maintaining successful patterns of community living. Services include, but are not limited to: assistance in locating appropriate housing; monitoring of residential settings, including those which are not operated by the Agency; assuring that clients are able to access generic programs and resources; and, other traditional social casework and counseling activities.

3. Supervised Apartments –

Supervised apartments are designed for adults who do not need the structure of a group home, but who are not ready for totally independent living. Residents of such programs generally have adequate skills to perform daily living functions with minimal assistance and are usually engaged in competitive or sheltered employment.

B. Vocational Services:

Productive work is essential to the attainment of financial independence and personal self-esteem for all individuals, including those with developmental disabilities. Vocational services are designed to help the individual achieve their maximum potential for the meaningful employment in normal work settings. Individuals are evaluated for minimum job entry skills and then placed on the job. Follow-along services of varying intensity are provided indefinitely in order to monitor the need for additional on-the-job training. Vocational services should assist developmentally disabled persons in finding and maintaining employment in a regular work setting, and when applicable, provide meaningful work opportunities for persons employed in a sheltered work environment.

C. Day Programs:

1. Day Activities –

Day activity is a primarily social and recreational service with minimal emphasis on structured, professionally-rendered programming, which is provided outside the client's residential setting. These services will typically be offered to older residents of city care (boarding) homes whose ability to function in the community can be enhanced or maintained through programs which resemble traditional senior citizen centers. The day activity program is required to provide a set of core, professionally-monitored services including: periodic evaluation of general health status; monitoring of health problems that can be managed in non-medical settings; nutrition services; counseling and training in the use of leisure time; and, assistance with basic activities of daily living as necessary.

2. Intensive Day Programming A –

These day services are offered to persons who require intensive, professionally-directed and/or provided treatment or habilitation. This intervention is likely to include: training in basic self-care; speech, physical and/or occupational therapy; mobility training; and, programming to reduce inappropriate and/or maladaptive behaviors.

3. Intensive Day Programming B –

This is an intervention which is designed primarily for individuals whose greatest barriers to increased independence are limitations in self-direction and the ability to achieve greater self-

sufficiency in major aspects of daily life. Services to be offered include training the person to: follow verbal, pictorial, and written directions; perform multi-step tasks in proper sequence and within an appropriate period of time; increase attention span; ask questions or seek assistance when needed; increase personal initiative; develop temporal skills; manage personal financial resources; independently use common community resources such as transit services; recognize situations which are dangerous or threatening to health and respond properly; and, behave in a manner that is appropriate to the situation and those (e.g., peers, teachers, supervisors, etc.) with whom the individual is interacting.

D. Respite Care:

Respite care services are short term interventions provided to enable families to meet the demands of everyday living (e.g., shopping, doctor appointments, etc.), vacation, or to cope with unexpected events. These services may be provided in or out of the home. The extent and schedule of respite care is determined by a family's particular needs.

E. Residential:

1. Group Homes –

Group homes provide full-time, supervised living situations for persons who do not require intensive training, but for whom semi-independent living is not yet appropriate. The majority of these programs serve adults who are also enrolled in day activity and/or vocational training programs.

2. Staffed Apartments –

Staffed apartments are home and community-based, waiver funded residential settings for one to three individuals. These homes provide intensive, individualized programs of habilitations. Staffed homes maintain full-time, live-in staff; in addition, specialized services of professionals are also likely to be needed. In addition to residentially-based habilitation and training, residents should participate in other day services which are conducted away from the residence.

3. Intermediate Care Facilities for Developmentally Disabled (ICF/DD's) –

ICF/DD's are Medicaid-funded residential settings which provide intensive programming for children and adults with severely handicapping conditions. Highly structured developmental programming and supervision are provided by live-in staff. Residents of such facilities have substantial deficits in self-care skills and may have associated physical handicaps which severely limit their mobility.

4. Foster Care/Developmental Homes –

Specialized foster care homes are residential setting for developmentally disabled children who may have other handicapping conditions. This alternative represents the most normal setting for children and affords the greatest opportunity for social integration. Key elements in the operation of these homes include: proper selection and training of potential foster parents; provision of substantial support services and assistance; integral involvement of the foster parents in the individual education planning and individual program planning processes for their foster child; and, adequate financial enumeration.

F. Consultation & Education:

Consultation is interaction between an Agency staff person and representative(s) of another organization or individual practitioner to impart mental health knowledge, skills or attitudes. It does not include consultation, supervision, or case staffing within the Agency about Agency clients. Education is the process of imparting knowledge to and changing attitudes of the general public or special interest groups to increase understanding of mental disorder and availability of resources.

**III. CONTRACTUAL REQUIREMENTS BETWEEN THE AGENCIES AND THE DEPARTMENT OF MENTAL HEALTH AND DEPARTMENT OF DISABILITIES, AGING AND INDEPENDENT LIVING**

Each Agency enters into an individual contract with DMH and DAIL which specifically outlines the provisions of the contract and the responsibilities of both parties under the contract. The auditor should become thoroughly familiar with the contents of this grant document before starting any other phase of fieldwork.

In general, the contract can be expected to contain provisions relating to the following:

1. Funding Summary and Payment Schedule:

This section of the contract details the amounts to be paid to the Agency in consideration for the services performed. DMH and DAIL provide for payment to the Agencies through Medicaid reimbursement as well as through contract/grant reimbursement. The contract contains a Funding Summary (a.k.a. Exhibit B) and a Payment Schedule (a.k.a. Exhibit C) which details, by program area, the amounts to be funded through such means as Grant-In-Aid, Block grants contracts, and Medicaid.

2. Required Financial Reporting:

DMH and DAIL specify the format and frequency of reports which must be filed in order to receive funding. The auditor should verify with the Agency the status of reports which currently are required. In general, as a minimum, the following reports are to be prepared by the Agency:

A. Annual Budget:

This annual budget is due to DMH and DAIL before the beginning of each contract period (July 1). It specifies predetermined payments which are to be made based on the agreement between DMH, DAIL and the Agency for the provision of client services for the current year.

B. Monthly Service Reports (MSRs):

These reports will be designed in a format acceptable to DMH and DAIL in cooperation with the Vermont Council of Developmental & Mental Health Services, Inc. and will include a variety of programmatic and client service data necessary for the effective operation of the Agencies. Reports generally will be due the last day of the month following the reporting month.

C. Monthly Electronic Financial Statements:

Financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) shall be submitted to DMH and DAIL electronically on a monthly basis. Unless otherwise approved in

advance, the statements are due no later than the last day of the month following the reporting month. July and August financial statements are due September 30<sup>th</sup>.

D. Final Reports:

Final electronic financial statements and draft of annual financial audit are due November 1<sup>st</sup> as negotiated in the contract for the fiscal year. Final annual financial audit is due two weeks after acceptance of draft annual financial audit.

3. Program and Financial Management Requirements:

As a condition of the contract each Agency must establish and maintain a financial management system which provides for adequate internal management and accounting controls over all funds provided under the contract. Financial controls must meet the following minimum requirements:

- A. The accounting system must provide accurate, current and complete disclosure of the financial results of operations. The accounting records must be maintained on an accrual basis and follow Generally Accepted Accounting Principles as established by the Financial Accounting Standards Board or other recognized body for non-profit organizations in the field of mental health.

Records must adequately identify the source and application of all funds provided under the contract with DMH and DAIL.

Appropriate internal control and accountability for all funds provided by DMH and DAIL is required to insure that all funds are used for authorized purposes.

The system must provide for procedures to determine that all costs charged to the contract are reasonable, allowable, and necessary in accordance with the applicable cost principles in accordance with various Federal and State regulations.

- B. An examination of the Financial Statements as they relate to activities and services funded by DMH and DAIL is to be performed by an independent certified public accounting firm under contract with the individual Agency.

Fifteen days after receipt of the draft report by the Agency, the following items should be forwarded directly to DMH and DAIL: (1) Draft financial statements exclusive of management and compliance letters and (2) the proposed adjusting journal entries and six supporting schedules as detailed in Section 12 of The Audit Program.

These draft documents will be reviewed by the State to insure that the draft financial information reported by the Agency is in agreement with the financial records of the State, prior to the issuance of a final report. The final report is to be submitted directly to DMH and DAIL within 15 (fifteen) days after the final report has been submitted to the Agency.

- C. A bond to provide protection against loss, in an amount to be agreed upon in the contract, shall be obtained for each officer, agent, and employee of the Agency who is authorized to receive or disburse funds.

- D. All funds provided by DMH and DAIL are to be used exclusively in the provision of services to mentally ill and developmentally disabled persons in accordance with the terms as outlined in Section II of this Audit Guide.

4. Retention of Records

A. AGENCY –

All records, reports, documents, and files are required to be maintained and preserved for services performed under contract with DMH and DAIL and shall be maintained for a minimum of seven (7) years after the close of the contract period. All records relating to the expenditure of funds paid must be available for review, audit, and monitoring purposes to be authorized Federal and State Officials.

B. AUDITOR –

As part of DMH’s and DAIL’s monitoring process, the auditor’s work papers must be retained and made available upon request to an authorized representative of DMH and DAIL. Work papers must be made available for a period of three years after the final report has been accepted by the Agency.

**IV. REFERENCE MATERIALS:**

In order to be prepared to audit the agencies funded through DMH and DAIL, the auditor should have access to certain reference materials. These include, but are not necessarily limited to:

- AICPA\* “Statements on Auditing Standards”
- AICPA\* “Audit Guide for Voluntary Health and Welfare Organizations”
- AICPA\* “Statement of Position 78-10”; “Accounting for certain Non-Profit Organizations”
- AICPA\* “Audits of Federal Financial Assistance to State and Local Government Units”
- GAO\* “Standards for audit of Governmental Organizations, Programs, Activities, and Functions”
- GAO\* “Guidelines for Financial and Compliance Audits of Federally Assisted Programs”
- OMB\* “Compliance Supplement to Office of Management and Budget Circular A-102 and Budget Circular A-133

Public Law 97-35, Part B and implementing federal regulations pertaining to Alcohol, Drug, and Mental Health Block Grant Funds.

Public Law 97-35, Section 1915c and federal regulations pertaining to Title XIX Home and Community Based Waiver Services.

Title XIX of the Social Security Act.

CFR 45.228 pertaining to safeguarding of client information.

Section 504 of the Federal Rehabilitation Act of 1973.

The Civil Rights Act of 1964 and related regulations.

19 V.S.A. 18, Chapter 207, Sections 8901-8906, and amended  
Chapter 177, Sections 7401 (14 and 15)  
Sections 8907-8913  
Chapter 173, Sections 7201-7206  
All regulations promulgated under these sections.

## **V. SCOPE OF THE AUDIT:**

The audit is to be made in accordance with generally accepted auditing standards and the “Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.” The purpose is for the auditor to determine and report:

1. Whether the financial statements of the Agency present fairly its financial position and the results of its financial operations in accordance with Generally Accepted Accounting Principles and whether the Agency has complied with laws and regulations that may have a material effect on the financial statements.
2. Whether the Agency has internal control systems to provide reasonable assurance that it is managing funds provided under State or Federal contracts and grants in compliance with applicable laws and regulations.

## **VI. AUDIT PROGRAM:**

The accompanying audit program has been provided to establish audit guidelines and recommended procedures to be followed in the annual audit of the grant activities and services provided under the Agency’s contract with DMH and DAIL. This audit program supplements procedures necessary to conduct an examination in accordance with generally accepted auditing procedures in accordance with standards established by the American Institute of Certified Public Accountants and the “Standards for Audit of Governmental Organizations, Programs, Activities, and Functions” issued by the Comptroller General of the United States. As in all audit engagements, the auditor must use professional judgment and tailor the procedures recommended in this audit program to conditions in existence at the Agency being audited.

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4. RECEIVABLE AND BILLINGS
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7. ACCOUNTS PAYABLE AND OTHER LIABILITIES
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**STATE OF VERMONT  
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**AUDIT PROGRAM**

AGENCY: \_\_\_\_\_  
PERIOD: \_\_\_\_\_

**SECTION 1: Preliminary Surveys, Review of Grants, and Grant Documents and Entrance Conference**

Preliminary planning is a key to proper implementation of an audit. Accordingly the examination should begin by reviewing key reference materials, including available financial reports for the Agency, appropriate minutes, correspondence, grant agreements, approved budgets for each program, and cost allocation plans where such have been established.

In addition, preliminary work must include an entrance conference at the Agency to explain the purpose of the engagement. Preliminary work will also include a review of compliance with regulations as specified in the specific grant.

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
1. Obtain a signed engagement letter from the Agency including requirements identified in the contract.	_____	_____	_____
2. Determine that all applicable independence rules have been complied with in relation to the Agency and its funding sources.	_____	_____	_____
3. Gain an initial, overall understanding of the Agency's operations by:			
a. Review of prior year's financial statements.	_____	_____	_____
b. Review of interim financial statements and reports for the current year, including filings with DMH and DAIL.	_____	_____	_____
4. Arrange an entrance conference with the appropriate Agency personnel. The following items should be covered.	_____	_____	_____
a. Timing of preliminary audit work, confirmation procedures and field audit work;	_____	_____	_____
b. Extent of client assistance to be provided;	_____	_____	_____

**SECTION 1: Surveys, Review of Grants, and Grant Documents and Entrance Conference *(continued)***

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
c. Disposition of prior year’s management letter points;	_____	_____	_____
d. Significant legal and regulatory matters and contingencies;	_____	_____	_____
e. Changes in data processing methods, or in accounting program internal controls;	_____	_____	_____
5. Examine minutes of meeting of board of directors and note all pertinent provisions.	_____	_____	_____
6. Review grant agreements and related correspondence.	_____	_____	_____
7. Obtain and review approved budgets for all significant program areas.	_____	_____	_____
8. Review Agency organizational chart.	_____	_____	_____

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**SECTION 2: Evaluation of Internal Control and Development of a Sampling Plan**

Generally accepted auditing standards as well as the GAO Standards for Governmental Audits provide that an evaluation be made of the system of internal control to determine to what extent it can be relied upon to insure accurate information and to insure compliance with applicable regulations and to provide for efficient and effective operations. In this regard, since many of the Agencies utilize data processing provided by an outside service bureau, it will be important to include a review of information provided through the service as well as the controls which have been established at the data processing service center. The work in this area should follow the guidelines as described in the AICPA Statement of Auditing Standards #3 and provide a general review of the controls which exist in the EDP environment. The system should be reviewed and flow-charted to determine the extent of necessary testing. The nature and extent of the audit tests to be performed would be dependent upon the evaluation of internal control.

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
1. Document internal control procedures at the beginning of the engagement through interview with the appropriate agency personnel. Questionnaires, flowcharts or narratives should be used, as appropriate forms and documents.	_____	_____	_____
2. Upon completion of the internal control interview process, prepare a summary memo which highlights any internal control deficiencies. Draw an overall conclusion as to the adequacy of internal control and its impact upon the audit.	_____	_____	_____
3. Document the areas in which you plan to rely on internal controls, if any, and design functional tests for these areas.	_____	_____	_____
4. Perform functional testing, and evaluate results. Consider whether the exceptions indicate non-compliance with established control procedures so as to reduce the auditor's reliance on internal control.	_____	_____	_____

**SECTION 2: Evaluation of Internal Control and Development of a Sampling Plan (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
5. Adjust audit procedures based upon the evaluation of internal control and the results of functional testing, if necessary.	_____	_____	_____
6. Summarize points to be included in current year's internal control and compliance report.	_____	_____	_____

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**SECTION 3: Cash Receipts and Cash Balances**

The objectives of tests of cash are to establish that all cash which should have been received was received and deposited properly and intact and was recorded properly in the accounting records. Procedures should include a review of the cash receipts and general ledger cash accounts for unusually large items; testing of footings and cross-footings; sampling of various cash receipt items to determine whether or not they were appropriately posted; confirmation of bank reconciliations with appropriate examination of details as required based on the evaluation on internal control.

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
<b>A. PETTY CASH</b>			
1. Obtain listings of petty cash funds: Name(s) of the custodians, purpose of the funds, restrictions on the funds involving the nature and amount of expenditures, imprest amount of funds, and other controls in effect.	_____	_____	_____
2. Reconcile the petty cash listing to the general ledger.	_____	_____	_____
3. Through review of the general ledger and/or reimbursement files ascertain that the frequency of replenishment is reasonable. Determine that the Agency is not processing an unreasonably high level of expenditures through petty cash.	_____	_____	_____
4. If considered appropriate, a sample of petty cash reimbursements should be reviewed as to authorization, reasonableness of nature and amount of expenditures, validation, numerical sequence of documentation and other attributes.	_____	_____	_____

**SECTION 3: Cash Receipts and Cash Balances (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
<b>B. CHECKING ACCOUNTS</b>			
1. Review all accounts opened and closed during the year.	_____	_____	_____
2. Scan selected bank reconciliations throughout the year to determine that the reconciliations are complete, accurate, and prepared on a timely basis. Follow through and discuss any unusual or recurring reconciling items.	_____	_____	_____
3. Obtain confirmations from the bank as of the balance sheet date for all accounts.	_____	_____	_____
4. Obtain bank reconciliations for all accounts as of the balance sheet date.	_____	_____	_____
a. Verify the clerical accuracy of the bank reconciliation by footing and cross-footing pertinent items.	_____	_____	_____
b. Review old outstanding checks with the Agency personnel.	_____	_____	_____
c. Trace the list of deposits in transit to the cash receipts journal. Evaluate the reasonableness of time lapse.	_____	_____	_____
d. For cancelled checks, deposits, and debit/credit memos which are reconciling items and represent transfers between bank accounts or related organizations ascertain that both sides of these transactions have been properly recorded on the books.	_____	_____	_____
e. Agree reconciled balances to the general ledger and bank confirmations.	_____	_____	_____

**SECTION 3: Cash Receipts and Cash Balances (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
<b>C. SAVINGS AND MONEY MARKET ACCOUNTS</b>			
1. Obtain confirmation from the bank as of the balance sheet date and reconcile to the general ledger.	_____	_____	_____
2. Scan statements or all accounts during the year and investigate any unusual items.	_____	_____	_____
3. Reconcile the interest earned per the statements to the interest income reported on general ledger.	_____	_____	_____
<b>D. TRANSFERS</b>			
For a sample of transfers between cash accounts, perform appropriate transfer test procedures to ascertain that transfers are handled in a proper and timely manner.	_____	_____	_____
<b>E. CASH RECEIPTS JOURNAL</b>			
1. Scan the cash receipts journal for the year for unusual items and consistency of trends.	_____	_____	_____
2. For a random test each month, verify the footings and cross-footings of the cash receipts journal. For selected items, trace the posting from cash receipts journal to the general ledger. Scan the cash receipts journal for the test month to verify the reasonableness of the account distribution of the receipts.	_____	_____	_____

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**SECTION 4: Accounts Receivable and Billings**

The objective of the audit of billings and receivables is to determine that all billings represent valid claims and are properly prepared and that all receipts are accurately reflected in the billing and accounts receivable records and that all amounts reflected in the accounts receivable are considered to be collectible. Procedures include a sampling of billing, and cash receipts and subsequent receipts tests on accounts receivable. Because of the confidential nature of the client’s relationship with the organization, confirmation of accounts receivable is generally not an appropriate technique for use in a Social Service Agency. Therefore, it is necessary to verify accounts receivable balances by review of subsequent collections and other methods.

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
<b>A. ACCOUNTS RECEIVABLES: CONTRACTS &amp; GRANTS</b>			
1. Obtain schedule from Agency of amounts due on grants and contracts.	_____	_____	_____
2. Verify that the nature and timing of the receivable is appropriate and consistent with the terms of the grant. This evaluation should be completed in conjunction with the procedures being done under the section relating to Program Funding Page VI-9A).	_____	_____	_____
3. Based upon an analysis of the billing & collections under the grant/contract:			
a. Reconcile billing to the corresponding revenue.	_____	_____	_____
b. Verify receipts during the year on a limited basis.	_____	_____	_____
4. Verify collect-ability of the receivable through vouching to subsequent cash receipt. If the balance has not been collected as of the last field date, review the nature of the problem and the potential collect-ability with the appropriate Agency personnel.	_____	_____	_____
5. Request direct confirmation if deemed appropriate for a material unusual amount.	_____	_____	_____

**SECTION 4: Accounts Receivable and Billings (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
<b>B. ACCOUNTS RECEIVABLE: MEDICAID</b>			
1. Obtain detailed accounts receivable things as of June 30, and reconcile to general ledger.	_____	_____	_____
2. Utilizing aging summaries as of beginning and ending of year and most current date perform analytical review procedures to ascertain reasonableness and collect-ability of receivables.	_____	_____	_____
3. Verify Medicaid receivable through subsequent collection procedures. Subsequent receipt verification may be performed on a collective rather than an individual client account basis.			
a. Obtain the Medicaid settlement sheets which accompany Medicaid remittances received subsequent to June 30.	_____	_____	_____
b. Prepare a summary schedule of payments noting the date of payment, total amount of payment, and portion of payment attributable to dates of service of June 30 and prior. Verify the initial payment of your summary which may have a Medicaid payment date of prior to June 30, but was actually received and deposited by the Agency in July.	_____	_____	_____
c. Trace selected items to bank statements.	_____	_____	_____
d. Determine that the Agency is taking appropriate steps to re-bill and resolve any denied Medicaid claims. Select several denied claims from the Medicaid settlement sheets and have the Agency demonstrate that the appropriate steps were taken to follow-up and collect the charges.	_____	_____	_____
e. Inquire as to any pending changes in Medicaid reimbursement rates which may affect receivables at year end.	_____	_____	_____

**SECTION 4: Accounts Receivable and Billings (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
C. ACCOUNTS RECEIVABLE: PRIVATE FEES			
1. Obtain detailed accounts receivable aging as of the balance sheet date and reconcile to general ledger.	_____	_____	_____
2. Utilizing gains summaries for prior year, current year, and most recent date, perform analytical review procedures to ascertain reasonableness and collectability of receivables. Inquire as to reasons for any significant fluctuations and evaluate Agency's response.	_____	_____	_____
3. Determine if the receivables are stated at gross charges or if they have already been adjusted to reflect a sliding fee scale. Make adjustments as needed.	_____	_____	_____
4. Review collection on private fee receivables for current year and compare with prior collection history. Investigate any significant fluctuations.	_____	_____	_____
5. Verify that the aging is supported by individual client receivable cards or invoices. Select a sample of client cards or unpaid invoices and determine that they were properly aged and recorded on the aging.	_____	_____	_____
6. It is not permissible to use confirmations due to the confidential nature of the records. Therefore, it is necessary to utilize subsequent receipts as a basis for verifying the receivables. Due to the large volume of individual client accounts with small balances, it generally would not be practical to trace subsequent receipts to individual accounts as a basis for evaluating the universe of accounts. Therefore, a more general approach should be considered. Procedures may include, but not be limited to, the following.	_____	_____	_____
a. Summarize receipts through the last day of field work on year end patient receivables by category, or if available, compare year aging to next quarter's aging and summarize activity.	_____	_____	_____

**SECTION 4: Accounts Receivable and Billings (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
b. Compare collection results obtained above to history of collections. Investigate all significant variances. Discuss old open receivables with Management and consider writing off.	_____	_____	_____
7. Based upon the information gather in the above steps calculate an allowance for uncollectible accounts, in conjunction with appropriate Agency personnel, to determine if the net realizable value of the private fees receivable as of year end is fairly stated. The allowance should be considered in relation to the write-offs during the year and the ratio of allowance to gross receivable in prior years.	_____	_____	_____
<b>D. BILLINGS</b>			
1. Review billing and collection procedures in detail with the business manager and individual in charge of client fees. Obtain copies of appropriate fee schedules and sample forms.	_____	_____	_____
2. Select a sample of encounter/ intake forms and verify computation of fee, posting to service/income journal, posting to individual accounts receivable card and note subsequent collection.	_____	_____	_____
3. Select a sample of charges posted on individual accounts receivable cards and verify posting to service/income journal, computation of fee, and delivery of service to encounter/ intake form.	_____	_____	_____
4. As an overview, a sample of fee income accounts should be selected to verify the reasonableness to the Agency's statistics for client services. As an example, the auditor should multiply the client service days by the per diem rate for comparison to the fee income reported on a residential program.	_____	_____	_____

**SECTION 4: Accounts Receivable and Billings (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
E. SOURCE JOURNALS			
1. For a sample of cash receipts journal postings, perform a test of footings and verify posting to accounts receivable and income accounts.	_____	_____	_____
2. For a sample of service/income journal postings, perform a text of footings and verify posting to accounts receivable and income accounts.	_____	_____	_____
3. For a random test month, verify the footings of the income/billing journal. For selected items, trace the posting from income/billing journal to the general ledger. Scan the income/billing journal for the test month to verify the reasonableness of the account distribution of the billings.	_____	_____	_____

**STATE OF VERMONT  
DMH AND DAIL**

**AUDIT PROGRAM**

AGENCY: \_\_\_\_\_

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**SECTION 5: Property and Equipment**

The objective of the audit test of property and equipment is to determine that the property and equipment exists and is being properly used in the operation of the program for which it was acquired, that all acquisitions and disposals are appropriately authorized and that depreciation is appropriately charged.

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
<b>A. FIXED ASSETS</b>			
1. Tour Agency's major facilities as appropriate.	_____	_____	_____
2. Obtain or prepare a summary of the asset accounts showing balances at beginning of year, additions, deletions and year-end balance. Test the mathematical accuracy of the analysis. Agree balances to general ledger.	_____	_____	_____
3. Obtain detailed schedules supporting additions and deletions and agree to summary schedule. Examine supporting documentation and invoices for major additions and deletions.	_____	_____	_____
4. Physically observe selected additions on a test basis.	_____	_____	_____
5. Determine Agency's capitalization policy and verify compliance therewith. Policy should be reasonable in comparison with Medicare guidelines as specified on HIM-15.	_____	_____	_____
6. Review activity in repair and maintenance accounts. Identify items, if any, that should have been capitalized and recommend adjustment if appropriate.	_____	_____	_____
7. Inquire as to the existence of idle or abandoned assets. Consider the appropriateness of carrying values and obtain documentary evidence in support thereof.	_____	_____	_____

**SECTION 5: Property and Equipment (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
8. Inquire as to the existence of any major commitments to purchase property, plant and equipment which should be disclosed in the financial statements.	_____	_____	_____
9. Inquire as to the existence of liens, encumbrances, pledges, etc; examine supporting documentation and compare such to the information obtained through direct correspondence with lenders.	_____	_____	_____
<b>B. ACCUMULATED DEPRECIATION</b>			
1. Obtain or prepare a summary schedule of accumulated depreciation accounts starting with beginning of year balances, showing additions, deletions and year-end balances. Test the mathematical accuracy of the analysis and agree ending balances to the general ledger.	_____	_____	_____
2. Obtain detailed depreciation schedules.			
a. Agree total asset cost, depreciation expense and accumulated depreciation to summary schedules.	_____	_____	_____
b. Test calculations of depreciation expense. Depreciation methodology should be straight-line. Useful lives utilized should be reviewed for reasonableness.	_____	_____	_____
c. Reconcile depreciation expense per summary schedule to the general ledger.	_____	_____	_____
d. For major retirements, reconcile deleted accumulated depreciation to detailed depreciation schedules and recomputed gain or loss on disposal of assets. Agree computation to the general ledger balance.	_____	_____	_____

**STATE OF VERMONT  
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**SECTION 6: Other Assets**

As with accounts receivable, investments and other assets need to be verified particularly in regard to their existence, legal ownership, recorded value, and proper recording of related income or expense.

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
<b>A. INTANGIBLE ASSETS</b>			
1. Obtain an analysis showing all activity for the year and agree ending balances to the general ledger.	_____	_____	_____
2. Examine documentary evidence and other data supporting additions to intangible assets.	_____	_____	_____
3. Evaluate the Agency's policy of amortization of intangible assets for reasonableness, propriety and consistency with the prior year. Check computations of expense for the current year ending balance.	_____	_____	_____
<b>B. INVESTMENTS</b>			
1. Ascertain the nature, existence of restrictions and ownership of investments.	_____	_____	_____
2. Obtain a schedule of investments and reconcile to general ledger. The nature of recorded value should be ascertained and verified.	_____	_____	_____
3. Review significant transactions occurring during the year.	_____	_____	_____
4. Verify that an income from investment has been properly recorded. Recalculate income for reasonableness and agree to the general ledger.	_____	_____	_____
5. Based upon their nature, the investments should be counted or confirmed directly by the custodian.	_____	_____	_____

**SECTION 6: Other Assets (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
C. OTHER ASSETS			
1. Obtain a schedule and reconcile balances to general ledger.	_____	_____	_____
2. Examine supporting documentation and verify calculations if appropriate.	_____	_____	_____
3. Obtain direct confirmation if appropriate.	_____	_____	_____

**STATE OF VERMONT  
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**AUDIT PROGRAM**

AGENCY: \_\_\_\_\_  
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**SECTION 7: Accounts Payable and Other Liabilities**

The objective of the audit of accounts payable and other liabilities is to ascertain that all operating and financing obligations of the Agency have been properly reflected in the accounting records of the Agency. Audit procedures will consist primarily of cut-off testing of expenses and disbursements, confirmation of balances owed to vendors and lending institutions, review of related expense and income accounts, analytical review procedures, and discussions with appropriate Agency personnel.

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
<b>A. ACCOUNTS PAYABLE</b>			
1. Obtain aged schedule of accounts payable and reconcile to general ledger. Verify the clerical accuracy of the listing.	_____	_____	_____
2. Consider reasonableness of amount in comparison with prior periods and in relation to the Agency's cash position and level of monthly expenditures.	_____	_____	_____
3. For a sample of items inclusive in the listing, verify the validity of the payable through vouching and/or subsequent disbursement. Vendor statements may be used as an alternative if available.	_____	_____	_____
4. Perform a search for unrecorded liabilities including such procedures as interview of personnel, examination of unpaid invoice files, and review of cash disbursements and purchase journal for the subsequent period.	_____	_____	_____
<b>B. ACCRUED EXPENSES</b>			
1. Verify the calculation of accrued payroll and substantiate to the payroll register.	_____	_____	_____

**SECTION 7: Accounts Payable and Other Liabilities (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
2. Obtain a schedule of accrued sick/vacation pay. Verify the clerical accuracy of the footing. On a test basis, accumulated hours and pay rates should be verified to personnel records. Determine that the accrual is being computed with the established personnel policies of the Agency.	_____	_____	_____
3. Determine the reasonableness of accrued payroll taxes by reviewing client calculations, comparing year-end accruals to tax returns, and reviewing subsequent payments.	_____	_____	_____
4. Investigate any other significant or unusual current liability accounts. Examine supporting documentation and consider confirming significant balances.	_____	_____	_____
<b>C. DEFERRED INCOME</b>			
1. Obtain a schedule of deferred income from the Agency and verify the clerical accuracy of the analysis.	_____	_____	_____
2. Verify the gross amount of the original deferral to an appropriate grant document or contract.	_____	_____	_____
3. Verify the accuracy of income recognized for consistency with grant document or contract in conjunction with revenue audit steps.	_____	_____	_____
<b>D. NOTES AND MORTGAGES PAYABLE</b>			
1. Obtain schedule of debt and summarize all data pertinent for verification and disclosure for financial statement purposes. Reconcile schedule to general ledger and Verify computations of long-term portion and maturities for the succeeding five years.	_____	_____	_____
2. Determine that provisions of the loan agreement are being followed.	_____	_____	_____
3. Vouch additions and early retirement of debt.	_____	_____	_____

**SECTION 7: Accounts Payable and Other Liabilities (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
4. Confirm debt and terms with lending institutions.	_____	_____	_____
5. Verify computation of accrued/ prepaid interest.	_____	_____	_____
6. Reconcile interest expense to the above schedule.	_____	_____	_____
7. Examine all significant leases for instances where a capitalized lease might exist.	_____	_____	_____
8. Vouch lease payments on a test basis.	_____	_____	_____
9. Verify the amounts of outstanding lease commitments and other information to be disclosed in the financial statements.	_____	_____	_____

**STATE OF VERMONT  
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**SECTION 8: Schedule of Net Assets Balance**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
1. Obtain reconciliation between the beginning schedule of net assets balance per the general ledger and the ending balance per the prior years audited financial statements to insure that all audit adjustments have been recorded by the Agency.	_____	_____	_____
2. In accordance with instructions that the Agencies have received from DMH and DAIL, the Agency may have adjustments posted directly to the schedule of net assets balance for items relating to prior years' grants. Obtain an analysis of all such adjustments from the Agency to ascertain if the adjustments have been properly handled.	_____	_____	_____

**STATE OF VERMONT  
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**SECTION 9: Program Funding**

An important segment of the audit involves reviewing the terms of various funding agreement between the Agency, DMH and DAIL, and other funding sources.

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
1. Audit firm must verify amounts of certified Medicaid match funds reported each fiscal year by the Designated Agency. The CMS requirements and definition for certified match are under Title 42, Part 433, Sections 433.50 and 433.51, revised October 1, 2008. This regulation is located at: <a href="http://www.access.gpo.gov/nara/cfr/cfr-table-search.html#page1">http://www.access.gpo.gov/nara/cfr/cfr-table-search.html#page1</a> .	_____	_____	_____
2. Obtain copies of all significant grants and contracts between the Agency and DMH and DAIL and become familiar with the terms.	_____	_____	_____
3. Review and summarize significant grants and contracts from other funding sources (Federal, local government, and United Way) and become familiar with the terms.	_____	_____	_____
4. Obtain or prepare a schedule of all receipts from above grants and contracts. Compute the income for the year on each grant and contract, and related accounts receivable and deferred income schedule and accounts receivable to the general ledger.	_____	_____	_____
5. Verify collect-ability of the receivable through vouching to subsequent cash receipts. If the balance has not been collected as of the last day of fieldwork, review the nature of the problem and the potential collect-ability with the appropriate Agency personnel.	_____	_____	_____

6. Prepare a Schedule of Federal Awards, summarizing each federal award, including the CFDA number, amount of the award, expenditures against the award and remaining balance. *(See attached format on the following page for an example of the Schedule of Federal Awards)*

\_\_\_\_\_

# SAMPLE

(NAME OF AGENCY)  
SCHEDULE OF FEDERAL AWARDS  
FOR THE YEAR ENDED (DATE)

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTRO/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>CURRENT YEAR FEDERAL AWARD</u>	<u>PRIOR YEAR'S FEDERAL AWARDS</u>	<u>REVENUE RECOGNIZED</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
Passed Through Vermont Agency of Human Services					
Dept. of Aging and Independent Living:					
(List each award)					
Department of Health:					
(List each award)					
Total Department of Health and Human Services					
<u>OTHER FEDERAL AWARDS</u>					
Passed through Vermont Agency of Human Services					
Division of Alcohol and Drug Abuse					
(List each award)					
Department of Mental Health:					
(List each award)					
Total Other Federal Awards					
TOTAL FEDERAL AWARDS					

This is a sample of what we want to see. Each agency may differ depending on what they receive for grants, but the supplied headers must be used.

**STATE OF VERMONT  
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**AUDIT PROGRAM**

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PERIOD: \_\_\_\_\_

**SECTION 10: Allocation of Administrative Cost Centers**

The Administrative Cost Centers consist of the following components: Administration, Fringe Benefits, Building Costs and Transportation.

The audit procedures set forth below are intended to test compliance of allocation procedures. The audit procedures indicated below **must** specifically address verification of costs included in the Administrative Cost Centers in as much as verification of costs is included in the general audit procedures of the overall audit of Agency costs.

A. ADMINISTRATIVE COSTS

1. GENERAL DESCRIPTION

a. Definition of Cost:

Administrative Costs represent those costs which are necessary for the overall administration of a Community Mental Health Agency. These costs include the following:

1. Personnel:

- Executive Director
- Assistant Director
- Administrative Assistant
- Business Manager/Chief Fiscal Officer
- Accountants
- Controller
- Bookkeepers
- Public Relations Personnel
- Agency Planning Personnel/Research
- Switchboard Operator
- MIS Personnel
- Billing Clerks
- Medical Records Clerk/Librarian
- Admin Receptionist
- HRD Director

## SECTION 10: Allocation of Administrative Cost Centers *(continued)*

### 2. Operating Expenses:

Contractual, Non-clinical; Computer Services; Recruitment of Above Personnel; All General Insurance other than Building or Vehicle, Interest other than Mortgage; Penalties; Bank Service Charges; Research; Professional fees; Postage; Office Supplies; Equipment Repair/ Equipment Depreciation; Meetings; Workshops; Training; Publications; Advertising; Telephone; Equipment Rental; and other Operating Expenses related to above positions.

### b. Distribution Method

1. The above costs are to be distributed to the individual programs on the ratio or direct individual program expenses to total direct program expenses. The total charged to a major program, i.e. Mental Health, Developmental Services can not exceed the contracted amount specified in the Performance Contract.
  2. Costs to be allocated must be identified in 1.a. above. If administrative services are sold to other programs/services not operated by this agency, costs associated with these contractual agreements must be offset before distribution of costs to Mental Health and Developmental Services.
2. Have the Agency prepare a summary of the amounts allocated to each of the component programs. The sum of the component cost centers should be reconciled to the total costs inclusive in the administrative Cost Center. If any discrepancies exist, the matter should be reviewed with the Agency; the source of the problem ascertained; and an adjustment should be made to eliminate the discrepancy.

**SECTION 10: Allocation of Administrative Cost Centers (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
3. Review the nature of the general ledger accounts, inclusive in the Administrative Cost Center to verify That the nature of the costs is consistent with the definition described in the preceding paragraph.	_____	_____	_____
4. For a random test month(s), test the reasonableness of the allocation by:	_____	_____	_____
a. Verifying total costs to be allocated to the general ledger period;	_____	_____	_____
b. Verifying the personnel costs to be utilized as a basis for allocation to the appropriate source, which is assumed to be the general ledger;	_____	_____	_____
c. Verifying clerical accuracy of the allocation computation;	_____	_____	_____
d. Resolving all discrepancies, if any should exist.	_____	_____	_____

**B. FRINGE BENEFITS**

**1. GENERAL DESCRIPTION**

a. Definition of Costs:

Fringe benefits costs are inclusive of payroll taxes, health insurance, worker’s compensation, disability, and such other reasonable costs inclusive in the Agency’s fringe benefit package for its employees.

b. Distribution Method:

Fringe benefits costs are to be allocated based upon the corresponding salary costs.

**SECTION 10: Allocation of Administrative Cost Centers (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
2. Have the Agency prepare a summary of the amounts allocated to each of the component programs. The sum of the component cost center should be reconciled to the total costs inclusive in the Fringe Benefits Cost Center. If any discrepancies exists. The matter should be reviewed with the Agency; the source of the problem ascertained; And an adjustment should be made to Eliminate the discrepancy.	_____	_____	_____
3. Review the nature of the general ledger accounts inclusive in the fringe benefits cost center to verify that the nature of the costs are consistent with the definition described in the preceding paragraph.	_____	_____	_____
4. Test the reasonableness of the Fringe Benefits allocation for the year by;			
a. Verifying the total Fringe Benefits costs for the year to the general ledger;	_____	_____	_____
b. Verifying the total salary costs for the year to the general ledger as a base for allocation;	_____	_____	_____
c. Verifying clerical accuracy of allocation computation;	_____	_____	_____
d. Resolving discrepancies, if any should exist.	_____	_____	_____

**SECTION 10: Allocation of Administrative Cost Centers (continued)**

C. BUILDINGS COSTS

1. GENERAL DESCRIPTION

a. Definition of Costs:

Building Costs represent those costs incurred by the Agency in order to obtain appropriate physical space to provide administrative and program services. Common items found within. The Building Cost are:

- Maintenance Salaries
- Janitorial Service and Supplies
- Utilities
- Contracted Repairs
- Insurance
- Building Depreciation
- Rent
- Mortgage Interest Expense

b. Distribution Method:

In those instances where particular building space is attributable to only on program, then total costs for that specific building should be allocated directly to that specific program. In those instances where building space is shared by more than on program, then it is recommended that building costs be distributed by square footage utilized by each program as a percent-age of the total square footage, exclusive of common space.

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
2. Have the Agency prepare a summary of the amounts allocated to each of the component programs. The sum of the component costs centers should be reconciled to the total costs inclusive in the building costs center. If any discrepancies exist, the matter should be reviewed with the Agency; the source of the problem ascertained; and an adjustment should be made to eliminate the discrepancy.	_____	_____	_____
3. Review the nature of the general ledger accounts inclusive in the Building Costs Centers to verify that the nature of the costs is consistent with the definition described in the preceding paragraph.	_____	_____	_____

**SECTION 10: Allocation of Administrative Cost Centers (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
4. Obtain schedules from the Agency with regards to allocation of costs.			
a. Ascertain which buildings are directly allocated to a specific program as well as those which are required to be allocated between more than one program.	_____	_____	_____
b. Ascertain that the allocations appear to be reasonable and consistent with location and nature of programs noted.	_____	_____	_____
c. Obtain detail square footage schedules developed by the Agency for purposes of allocation between programs.	_____	_____	_____
d. Review such schedules for reasonableness, and on a test basis, verify the clerical accuracy of allocations.	_____	_____	_____
5. Compare the allocation of the Building Costs with the prior year allocation. Through discussion with management and verification to supporting documentation, ascertain that the allocations are reasonably consistent between years.	_____	_____	_____

**D. TRANSPORTATION COSTS**

**1. GENERAL DESCRIPTION**

**a. Definition of Costs:**

An integral part of several of the programs offered by each Agency is to provide transportation services to its clients. A sample of the items inclusive under Transportation Costs are:

- Drivers' Salaries
- General Supplies
- Gas and Oil
- Repairs and Maintenance
- Vehicle Depreciation
- Insurance
- Registration
- Vehicle Lease and Rentals
- Reimbursed Mileage

**SECTION 10: Allocation of Administrative Cost Centers (continued)**

Certain transportation costs are billable under the Title XIX Medicaid Program.

b. Distribution Method:

In general, gross Transportation Costs are allocated to appropriate and benefiting programs based upon a verifiable statistic, such as the number of trips.

2. Have the Agency prepare a summary of the amount allocated to each of the component programs. The sum of the component cost centers should be reconciled to the total costs inclusive in the Transportation Cost Center.

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
<p>If any discrepancies exist, the matter should be reviewed with the Agency; the source of the problem ascertained; And an adjustment should be made to eliminate the discrepancy.</p>	_____	_____	_____
<p>3. Review the nature of the general ledger accounts inclusive in the Transportation Cost Center to verify that the nature of the costs is consistent with the definition described in the preceding paragraph.</p>	_____	_____	_____
<p>4. For a random test month(s), verify the reasonableness of the allocation by:</p>			
<p>a. Verifying the costs to be allocated to the general ledger;</p>	_____	_____	_____
<p>b. Verifying the statistics as to the number of trips to the appropriate source;</p>	_____	_____	_____
<p>c. Verifying the clerical accuracy of the allocation computation;</p>	_____	_____	_____
<p>d. Resolving all discrepancies, if any should exist.</p>	_____	_____	_____

**STATE OF VERMONT  
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**AUDIT PROGRAM**

AGENCY: \_\_\_\_\_

PERIOD: \_\_\_\_\_

**SECTION 11: Payroll, Non-Personnel Costs, and Cash Disbursements**

The objective of the examination of cash disbursements is to determine that the disbursements are;

- ✓ Authorized for payment by the Agency;
- ✓ Properly paid under Agency control;
- ✓ Appropriate expenditures authorized under the terms of the funding agreement;
- ✓ Documented to support their purpose adequately.

Based upon the results of the evaluation of internal control procedures, a sample of cash disbursements drawn on a statistical basis may be examined to determine that the expenditure was appropriate, properly documented, and allowable and necessary under the terms of the agreement for the program. Paid checks would be traced on a sample basis to the cash disbursements journal and posting to the appropriate account would also be tested.

The objective of payroll testing is to determine that the employees are authorized and that payrolls are accurately calculated and recorded. A sample test of the payroll may be performed which would include tracing hours to time sheets, reviewing personnel files, testing deductions from pay and calculations of payroll amount, and tracing positions to be approved positions where appropriate. If considered necessary, a payroll payout directly to the employees at the Agency may be done.

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
A. GENERAL			
1. Scan the cash disbursements journal and payroll journal for the year for unusual items and consistency in trends. Investigate any unusual items.	_____	_____	_____
2. For a random test month, verify the footings and cross footings of the cash disbursements and payroll journals. For selected items, trace the postings from the journals to the general ledger.	_____	_____	_____

**SECTION 11: Payroll, Non-Personnel Costs, and Cash Disbursements (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
A. PAYROLL			
1. Based upon the evaluation of internal control, the appropriate audit approach (substantive testing vs. compliance testing) should be developed to ascertain that payroll expenditures as reported are appropriate and fairly stated by program.	_____	_____	_____
2. If the internal control procedures with regards to payroll expenditures are found to be adequate, compliance tests should be performed on a sample of payroll disbursements. Attributes to be tested should be specifically tailored based upon the Agency's procedures and controls. Attributes may include, but are not necessarily limited to, such items as:			
➤ Agreement of cancelled check to payroll register.			
➤ Verification that check has been signed by authorized individual.			
➤ Agreement of endorsement with personnel records.			
➤ Accuracy computation of net pay as gross pay less deductions.			
➤ Appropriateness of program center charged.	_____	_____	_____
3. If Internal control procedures cannot be relied upon payroll accounts should be validated; sample procedures may include, but are not limited to:			
a. Obtain a listing of all employees and their gross salary for the fiscal year investigate all salaries which seem out of line; agree employee contracts to the gross salary reported on a an individual basis.	_____	_____	_____
b. Foot payroll listing and agree total payroll expense to the general ledger.	_____	_____	_____
c. Have the Executive Director or designees review the listing for the reasonableness of salaries and ascertain that all payees are employees of the Agency.	_____	_____	_____

**SECTION 11: Payroll, Non-Personnel Costs, and Cash Disbursements (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
d. Analytical review procedures should include ratio analysis of payroll as a percentage of each program's expenses compared to prior years.	_____	_____	_____
4. In those instances where an individual provides services to more than one program are, determine the methodology utilized to reflect the appropriate distribution of the cost. Verify the adequacy of the method; ascertain that there is appropriate compliance through an examination of test items.	_____	_____	_____
5. In those instances where allocations are based on budgets on interim basis, ascertain that allocations have been adjusted as of year end to properly reflect an allocation on an acceptable statistical basis.	_____	_____	_____
<b>C. EXPENDITURES OTHER THAN PAYROLL</b>			
1. Based upon the evaluation of internal control, the appropriate audit approach (substantive testing vs. compliance testing) should be developed to ascertain that program expenditures as reported are appropriate and fairly stated.	_____	_____	_____
2. If internal control procedures with respect to cash disbursements are found to be adequate, compliance tests should be performed on a sample of cash disbursements. Specific attributes to be tested should be specifically tailored based upon the agency's procedures and controls. Attributes may include such items as:			
➤ Agreement of cancelled check to cash disbursement journal.			
➤ Verification that check has been signed by authorized individual.			
➤ Examination of endorsement on cancelled check.			
➤ Agreement of payee and amount to supporting invoice package.			
➤ Determination if account distribution is proper and consistent with program purpose.			
➤ * Determination if authorization for payment and account distribution is present agreement with authorized purchase order.			

**SECTION 11: Payroll, Non-Personnel Costs, and Cash Disbursements (continued)**

	<u>Initial</u>	<u>Date</u>	<u>W/P Reference</u>
<ul style="list-style-type: none"> <li>➤ Verification of receipt of goods to receiving report or other documentation.</li> <li>➤ * Verification of cancellation of supporting documents to prevent resubmission.</li> </ul>	_____	_____	_____
3. If internal control procedure are not too relied upon, material expense accounts should be validated either by recalculation for reasonableness or vouching to invoices. Analytical review procedures suggested below should be expanded to include ratio analysis. All accounts with unusual variances should be investigated.	_____	_____	_____
4. Perform analytical review procedures on expenses. The analytical review should include: <ul style="list-style-type: none"> <li>➤ Natural account classification (Salaries, fringe benefits, etc.)</li> <li>➤ Program (children, Developmental Services, etc.)</li> </ul> <p>Analytical review procedures should include Input from the Agency’s Executive Director as well as the Business Manager.</p>	_____	_____	_____
5. If specific accounts are deemed to require further review, have the Agency prepare a detailed analysis and perform the validation procedures based upon the analysis.	_____	_____	_____
6. Analyze legal expense and review related invoices for possible contingencies.	_____	_____	_____
7. Recalculate projected payroll tax expense based on total payroll and compare to the general ledger for reasonableness.	_____	_____	_____
8. Determine whether the Agency has any pension profit-sharing, deferred compensation or similar plans. If so, perform the following procedures as appropriate:	_____	_____	_____

**SECTION 11: Payroll, Non-Personnel Costs, and Cash Disbursements (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
a. Obtain or prepare analyses of accrual accounts, test their mathematical accuracy, and reconcile current period provisions to related expense accounts.	_____	_____	_____
b. Vouch payments made during the period.	_____	_____	_____
c. Determine that current period provisions are in compliance with applicable agreements with GAAP, particularly APB Opinion No. 8.	_____	_____	_____
d. Obtain and review the most recent actuary's report, and extract information for required disclosure in the financial statements. Consider confirming information with actuary.	_____	_____	_____
e. Determine whether applicable ERISA requirement shave been met.	_____	_____	_____

**STATE OF VERMONT  
DMH AND DAIL**

**AUDIT PROGRAM**

AGENCY: \_\_\_\_\_

PERIOD: \_\_\_\_\_

**SECTION 12: Client and Service Data**

Vermont's MH/DS statistical systems are an important component of the state's Key Performance Indicator system, cost finding procedures, and overall management capability. These statistical systems include both the locally maintained Management Information System and the Monthly Service Reports provided to DMH and DAIL. Because of the importance of these systems, an independent audit of statistical systems is required on an annual basis. The overall goal of this audit is to ensure that a complete and accurate description of all clients served and all service provided is available to local agencies and provided to DMH and DAIL.

The Objectives of this audit include:

1. To assure that all services reported to DMH/DAIL actually occurred. This included the accuracy of information regarding type, duration, and date of service,
2. To assure that all MSR eligible services provided in programs that receive DMH/DAIL funding are reported to DMH/DAIL. This includes both indirect and direct services to clients, unscheduled and scheduled events, and consultation and education services to recipient organizations. These services include all services specified in section 2 of the Vermont DMH/DAIL Guidelines.
3. To assure that all client data reported to DMH/DAIL is accurate. This includes all MSR client record data including demographic data, clinical data, and dates.

In order to achieve these objectives, the independent auditors will evaluate random samples of service and client records, and review the internal controls of the agency as they apply to client and service data.

**A. OBJECTIVE ONE**

Assure that all services reported to DMH/DAIL actually occurred. This includes the accuracy of information regarding type, duration, and date of service.

1. Random Sample

DMH/DAIL will select a random sample of all services reported for the year and send to the agency and the auditor a service by service listing of the sample. This listing will include the MSR client ID #, the type of service code, the date, and the duration for every unit of service in the sample.

The size of the sample will be specified by the auditor. The sample, however, shall not include fewer than fifty service records.

The auditors will verify each service in the sample by reference to a signed staff time sheet or client attendance sheet. In order to qualify as a match, the MSR record and source document must correspond precisely in terms of client, type of service, duration, and date of service.

#### **SECTION 12: Client and Service Data (*continued*)**

The audit report will include the total number of records selected, and the number of records from each program element. The number of records that contain the same information as the source document, and the number of records that are not substantiated by a source document should also be broken down by a program by program basis.

#### **B. OBJECTIVE TWO**

Assure that all services provided by DMH/DAIL funded programs are reported to DMH/DAIL. This includes both indirect and direct client services, unscheduled and scheduled events, and consultation and education services to recipient organizations. These services include all services specified in section 2 of the Vermont DMH/DAIL Guidelines.

##### **1. Random Sample**

The auditors will select a random sample of time sheet and attendance sheet service records to determine if these services are accurately reflected in the Agency's Monthly Service Report or are appropriately included in an exceptions report.

The sample size will be specified by the auditor. The sample, however, shall not include fewer than fifty service records.

The auditors will verify that each MSR eligible service in the sample is reflected in the state's MSR file. The auditor will provide a list of eligible services to the state for verification. This list will include the client MSR number, type of service code, duration of service, and date of service.

The audit report will include the total number of services selected, and the number of services selected from each program element. The report should also contain the number of services from each program that were MSR eligible, and the number of services from each program that had corresponding MSR records.

##### **2. Internal Controls**

The auditors shall review the internal controls that help assure that a complete and accurate record of clients served and services provided by DMH/DAIL funded programs is submitted to DMH/DAIL in the MSR. The list of internal controls provided below is suggested rather than required. The audit report, however, should note the existence of these and other pertinent controls that are in use in the Agency.

The auditors should determine if:

1. a. The Agency has a policy requiring that all services provided clients are recorded on time sheets. This includes non-billable as well as billable services, unscheduled as well as scheduled events, and services that occur in the field as well as the Agency facilities.
- b. Clinical staff is aware of this policy and conform to this policy.
- c. Other pertinent internal controls (specify).

2. The Agency has internal controls that assure that all other time (non direct service) is accounted for and entered into the computer.

**SECTION 12: Client and Service Data (continued)**

3. The Agency has internal controls that assure that all service data is correctly entered into the computer.
  - a. Hash totals for hours of service are compared to machine generated totals.
  - b. Other pertinent internal controls. (Specify)
4. At the end of each quarter DMH/DAIL MSR feedback reports are compared to locally generated totals for consistency. When discrepancies are found they are followed up on and resolved.

**C. OBJECTIVE THREE**

Assure that all **client data** reported to DMH/DAIL is accurate. This includes all MSR client record data including demographic data, clinical data, and dates.

1. Random Sample

DMH/DAIL will select a random sample of all clients served during the year and send to the Agency and the auditor a client by client ID number, and data regarding date of birth, diagnosis, family income, and the responsibility for fee for each individual in the sample.

The size of the sample will be specified by the auditor. The sample, however, shall not include fewer than fifty client records.

**STATE OF VERMONT  
DMH AND DAIL**

**AUDIT PROGRAM**

AGENCY: \_\_\_\_\_  
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**SECTION 13: Related Party**

Related parties consist of all affiliates of an enterprise, including (a) its management and their immediate families, (b) its principal owners and their immediate families, (c) investments accounted for by the equity method, (d) beneficial employee trusts that are managed by the management of the enterprise, and (f) any party that may, or does, deal with the enterprise and has ownership, control, or significant influence over the management or operating policies of another party to the extent that an arm’s length transaction may not be achieved.

	Initial	Date	W/P Reference
A. Organize File:			
1. Obtain copy of the “Disclosure Form” as submitted to the Department.	_____	_____	_____
2. Obtain copies of any other related party documents.	_____	_____	_____
B. Review of Related Party; Transactions:			
1. Define relationship of the party.	_____	_____	_____
2. Determine Basis of Cost, is it actual or does it include mark-up.	_____	_____	_____
3. Determine if the related organization is a bona fide separate organization.	_____	_____	_____
a. Does the related party meet all 4 exceptions to CMS Pub, 15 and 1010	_____	_____	_____
b. Do peer group analyses to determine if the costs are reasonable.	_____	_____	_____

**FOR EACH RELATED PARTY**

C. Disclosure

List all transactions that occurred in the organization this year. The following must be disclosed:

1. Sales, purchasing, and transfers of realty and personal property.	_____	_____	_____
--	-------	-------	-------

**SECTION 13: Related Party (continued)**

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
2. Services received or furnished (e.g., accounting, management, engineering, and legal services).	_____	_____	_____
3. Use of property and equipment by rent or lease.	_____	_____	_____
4. Borrowing and lending's.	_____	_____	_____
5. Maintenance of bank balances as compensating balances for the benefit of another.	_____	_____	_____
6. Inter-company billings based on allocation of common costs.	_____	_____	_____
7. Filing of consolidated tax returns.	_____	_____	_____
8. Loan guarantees <u>or</u> which Agency is a guarantor on any loans.	_____	_____	_____
9. Are there any loan agreements that contain no repayment schedule?	_____	_____	_____
10. Are <b>any</b> real estate transactions at other than an appraised value?	_____	_____	_____
11. List all business transactions involving the immediate family of any employee.	_____	_____	_____
12. Describe the relationship of the organization with any other health care provider with which material transactions occurred for this accounting period.	_____	_____	_____

**STATE OF VERMONT  
DMH AND DAIL**

**AUDIT PROGRAM**

AGENCY: \_\_\_\_\_

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**SECTION 14: Report Preparation**

DMH and DAIL require that each Agency submit detail supporting schedules for selected financial statement items. These schedules are not required to be incorporated in the financial statements. However, these schedules are to be submitted to DMH and DAIL at the time that the final **DRAFT** financial statements are submitted. Considering the Auditor’s involvement in preparation of the financial statement, the Auditor is required to assist the Agency in preparing the following schedules:

- Proposed Adjusting Audit Journal Entries in a Format Compatible with Posting.
- Schedule of Accounts Receivable
- Schedule of Other Receivables
- Schedule of Deferred Income
- Schedule of Client Fees by Program and Natural Account Classification
- Schedule of DMH and DAIL Contracts by Program and Natural Account Classification
- Schedule of Other State Contracts by Program and Natural Account Classification

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
A. The financial statements have been prepared in accordance with the guidelines discussed previously.	_____	_____	_____
B. Supporting schedules have been prepared for submission along with the <b>DRAFT</b> financial statements to DMH and DAIL.	_____	_____	_____
C. Disclosure (supporting schedules) is prepared on related party transactions, including transactions to which no amounts or nominal amounts were ascribed. Dollar amount of transaction.	_____	_____	_____
D. Statement on whether or not the Agency followed Administrative Tier I and Tier II procedures.	_____	_____	_____

**STATE OF VERMONT  
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**SECTION 15: Exit Conference**

On the last field date, of the examination, an exit conference should be held with the Executive Director, Business Manager, and any other individuals designated by the Agency for the purpose of reviewing the results of the audit.

	<b>Initial</b>	<b>Date</b>	<b>W/P Reference</b>
A. A copy of the proposed adjusting audit journal entries and trial balance should be marked draft/tentative and given to the Agency. The nature and impact of the adjustments should be reviewed. Copies of supporting work-papers should be given when requested.	_____	_____	_____
B. Review the nature of items to be included in the management letter along with the recommended corrective action.	_____	_____	_____
C. A summary memo including a list of attendees and narrative on the results of the meeting should be prepared.	_____	_____	_____

**INTERNAL CONTROL QUESTIONNAIRE**  
**FOR**  
**COMMUNITY MENTAL HEALTH CENTERS**

AGENCY: \_\_\_\_\_  
PERIOD: \_\_\_\_\_

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**COMMUNITY MENTAL HEALTH CENTERS**

**INTERNAL CONTROL QUESTIONNAIRE**

**INTRODUCTIONS**

AGENCY: \_\_\_\_\_

PERIOD: \_\_\_\_\_

Agency Personnel Consulted

NAME

TITLE

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

NAME

TITLE

Questionnaire Prepared by:

\_\_\_\_\_

Questionnaire Reviewed by:

\_\_\_\_\_

-----

The accompanying internal control questionnaire has been prepared to provide **basic** guidelines to assist the auditor in the evaluation of the Agency’s internal control and its impact upon the development of audit procedures. DMH and DAIL do not require that this specific questionnaire be utilized by the auditor in his/her evaluation of internal control. However, the auditor must make certain to address all points of accounting procedures and controls as covered in this questionnaire.

Each question should be answered with a “Yes” or “No” response. A “Yes” answer is indicative of the presence of an internal control procedure. In certain indicated instances, the auditor should inquire as to the name and/or title of the individual responsible for the procedure and so note it in the third column of the questionnaire. A “No” answer indicated a deficiency in internal control procedures and must be addressed on the **Bridging Work paper on Internal Controls**. In addition to fully describing the deficiency, the work paper should fully discuss the compensating controls in effect and the potential effect of weakness in internal control. Based upon the preceding information, the auditor should indicate in any expanded or alternative audit procedures are required.

This internal control questionnaire is designed to provide a basis for understanding the internal control and accounting procedures of the Agency. This questionnaire is not intended to preclude the auditor from using his/her judgment in expanding inquiries for conditions not originally anticipated by this questionnaire. Where appropriate, this questionnaire should be supplemented with flowcharts and/or narratives.

**COMMUNITY MENTAL HEALTH CENTERS**  
**INTERNAL CONTROL QUESTIONNAIRE**  
**FOR**  
**STATE OF VERMONT**  
**DMH AND DAIL**

AGENCY: \_\_\_\_\_  
PERIOD: \_\_\_\_\_

		<b>YES</b>	<b>NO</b>
<b>I.</b>	<b>GENERAL</b>		
	Is the general ledger kept up-to-date and balanced monthly?	_____	_____
	Are internal financial statements prepared and are they reviewed by the Executive Director and Board of Directors?	_____	_____
	Are the band accounts reconciled monthly?	_____	_____
	Are journal entries approved and adequately explained?	_____	_____
	Are all employees involved in record keeping or custody of assets, or in some other position of trust adequately bonded?	_____	_____
	Are all employees required to take annual vacations?	_____	_____
	Is a formal organization chart and job descriptions adhered to?	_____	_____
	Is consistency of account classification provided for by the use of a chart of accounts?	_____	_____
	Is the insurance coverage (including fidelity) carried by the Agency periodically reviewed for adequacy?	_____	_____
	Are budgets or forecasts prepared on a departmental/program basis and monitored?	_____	_____
<b>II.</b>	<b>COMPLIANCE</b>		
	Are the certification conditions of participation being met?		
	✓ Physical Plant	_____	_____
	✓ Staffing	_____	_____
	✓ Medical Records	_____	_____
	✓ Personnel Policies and Procedures	_____	_____
	✓ Programming	_____	_____

**COMMUNITY MENTAL HEALTH CENTERS  
INTERNAL CONTROL QUESTIONNAIRE (continued)**

Are the wage and hour regulations for the appropriate personnel policies being met? \_\_\_\_\_

Are recent Fire Marshal, OSHA, etc, deficiencies being corrected? \_\_\_\_\_

**III. REVENUE, CASH RECEIPTS AND ACCOUNTS RECEIVABLE  
REVENUE**

Due to the variety of sources of revenue (i.e., grants, Medicaid fees, private client fees, and town appropriations) and nature of revenue (i.e., residential programs, clinic services, transportations charges, and contract fees), the auditor should obtain a summary of all significant sources of revenue from the agency and document accounting procedures relating to such revenue. These procedures cannot be adequately documented in a questionnaire format and should, therefore, be completed through direct interview with the Agency. Prepare a narrative summary of the interview.

		YES	NO	(IF YES) NAME
<b>CASH RECEIPTS</b>				
A.	Recorded cash receipts should be for funds actually received.			
1.	Are authenticated duplicate deposit tickets received by a person who does not handle or record cash?	_____	_____	_____
2.	Are authenticated duplicate deposit tickets compared to the cash receipts journal?	_____	_____	_____
B.	All cash received should be recorded in the cash receipts journal and receipts should be deposited as the amount received.			
1.	Mail Receipts:			
a.	Is mail opened by someone other than the bookkeeper?	_____	_____	_____
b.	Is a record of money and a listing of checks received prepared by the person opening the mail?	_____	_____	_____
c.	Is the above record regularly compared with the detail cash receipts journal by a person who does not record receipts?	_____	_____	_____
2.	Are receipts given directly by mail opener to person preparing the deposit?	_____	_____	_____

**COMMUNITY MENTAL HEALTH CENTERS  
INTERNAL CONTROL QUESTIONNAIRE (continued)**

**III. REVENUE, CASH RECEIPTS AND ACCOUNTS RECEIVABLE (continued)**

		<b>YES</b>	<b>NO</b>	<b>(IF YES) NAME</b>
3.	Is a restrictive endorsement (for deposit only) placed on all checks when received?	_____	_____	_____
4.	Receipts of Cash:			
	a. Are receipts recorded by cash registers, other mechanical devices, or pre-numbered receipts?	_____	_____	_____
	b. Are control totals regularly checked to recorded cash receipts by a person who does not receive cash, prepare deposits, or record cash receipts?	_____	_____	_____
5.	Is the cash receipts journal footed and proved to the general ledger monthly by a person not posting the cash receipts journal or having access to cash receipts?	_____	_____	_____
C.	Cash receipts should be deposited on a timely basis.			
1.	Are cash receipts deposited intact daily?	_____	_____	_____
	<b>ACCOUNTS RECEIVABLE</b>			
1.	Are revenues, credits/refunds, and cash receipts recorded in the subsidiary ledger on a timely basis?	_____	_____	_____
2.	Is an accounts receivables trial balance prepared and reconciled with the general ledger control each month by a person not posting the accounts receivable subsidiary ledger or having access to cash receipts?	_____	_____	_____
3.	Are monthly statements mailed to all clients by persons not having access to cash receipts or accounting records?	_____	_____	_____
4.	Are the receivables aged regularly?	_____	_____	_____
5.	Are aged receivables reviewed for collect-ability by responsible officials?	_____	_____	_____
6.	Are bad debts controlled after their write-off by a person who does not have access to cash?	_____	_____	_____

**COMMUNITY MENTAL HEALTH CENTERS  
INTERNAL CONTROL QUESTIONNAIRE (continued)**

**IV. PAYROLL AND PERSONNEL**

		YES	NO	(IF YES) NAME
A.	Recorded payroll payments should be for work actually performed by non-fictitious employees.			
1.	Are staff schedules used for hourly employees?	_____	_____	_____
2.	Are time clocks used for hourly employees?	_____	_____	_____
3.	Do personnel records exist that include W-4's and wage and salary authorization?	_____	_____	_____
4.	Are payroll checks signed by a responsible official or is the total payroll approved by a responsible official?	_____	_____	_____
5.	Are payroll checks distributed by a person who has not prepared checks, recorded payroll transactions, or who does not authorize termination of employment?	_____	_____	_____
6.	Are unclaimed payroll checks controlled?	_____	_____	_____
B.	Payroll transactions should be properly authorized.			
1.	Is written authorization required for:			
	Additions to the payroll?	_____	_____	_____
	Initial wage and salary rates?	_____	_____	_____
	Changes in wages and salary rates?	_____	_____	_____
	Dismissals?	_____	_____	_____
	Vacation and sick pay?	_____	_____	_____
	Employee miscellaneous deductions?	_____	_____	_____
2.	Are hours compared to staff schedules and approved on a weekly basis by a responsible person?	_____	_____	_____
3.	Are overtime hours and premium pay authorized by a responsible official?	_____	_____	_____
4.	Are advances approved by a responsible official?	_____	_____	_____
C.	Existing payroll transactions should be recorded.			

**COMMUNITY MENTAL HEALTH CENTERS  
INTERNAL CONTROL QUESTIONNAIRE (continued)**

**IV. PAYROLL AND PERSONNEL (continued)**

		<b>YES</b>	<b>NO</b>	<b>(IF YES) NAME</b>
1.	Are all employees paid by check?	_____	_____	_____
2.	Are payroll checks drawn on a separate account operated on an imprest system?	_____	_____	_____
3.	Is payroll bank reconciliation prepared by someone other than the bookkeeper?	_____	_____	_____
D.	Recorded payroll transaction should be for the amount of time actually worked and at the proper pay rate; withholdings should be properly calculated.			
1.	Are payroll hours internally verified by someone other than the employee?	_____	_____	_____
2.	Are all required payroll deductions made and recorded?	_____	_____	_____
3.	Are hourly wage rates, calculations of gross pay, and withholdings periodically reviewed by someone other than the bookkeeper?	_____	_____	_____
E.	Payroll transactions should be properly Classified and recorded on a timely basis.			
1.	Does the chart of accounts provide for an adequate departmental classification of payroll?	_____	_____	_____
2.	Are payrolls recorded on a timely basis?	_____	_____	_____
3.	Are actual payroll levels compared to budgeted hours by department?	_____	_____	_____
4.	Is there a periodic review of the summarization of payroll records for the timely filing of payroll taxes?	_____	_____	_____
5.	For individuals working on more than one program, is the salary allocated on time studies or statistics rather than budget?	_____	_____	_____

**COMMUNITY MENTAL HEALTH CENTERS  
INTERNAL CONTROL QUESTIONNAIRE (continued)**

**V. ACQUISITION OF GOODS & SERVICES, CASH DISBURSEMENTS, & ACCOUNTS PAYABLE**

		YES	NO	(IF YES) NAME
<b>Acquisition of Goods and Services</b>				
A.	Recorded acquisitions should be for goods and services actually received, consistent with the best interests of the facility.			
1.	Are written purchase orders required for all purchases?	_____	_____	_____
2.	Are purchase orders approved before commitments are made?	_____	_____	_____
3.	Are receiving reports and purchase orders attached to vendors' invoices?	_____	_____	_____
B.	Acquisitions should be properly approved.			
1.	Are all vendors' invoices approved by a responsible official before a check is prepared?	_____	_____	_____
C.	Existing purchases should be accounted for And reported on a timely basis.			
1.	Are written receiving reports prepared on all materials received and quantities and quality of materials verified?	_____	_____	_____
2.	Are receiving reports pre-numbered and periodically accounted for?	_____	_____	_____
3.	Is it policy that acquisitions are recorded in the same period as the merchandise or services are received?	_____	_____	_____
4.	Are there adequate controls to ensure proper handling and correct recording of undelivered supplies?	_____	_____	_____
5.	Have procedures been established to ensure that invoices are paid within the discount period?	_____	_____	_____
D.	Purchases should be properly classified.			
1.	Does the chart of accounts provide for an adequate departmental classification of purchases, including expenses?	_____	_____	_____
2.	Is there internal verification of classification?	_____	_____	_____

**COMMUNITY MENTAL HEALTH CENTERS  
INTERNAL CONTROL QUESTIONNAIRE (continued)**

**V. ACQUISITION OF GOODS & SERVICES, CASH DISBURSEMENTS, & ACCOUNTS PAYABLE (continued)**

	YES	NO	(IF YES) NAME
3. Are actual purchase and usage levels compared to a budget?	_____	_____	_____

**Cash Disbursements**

A. Recorded cash disbursements should be properly authorized and for goods and services actually received.

1. Are all checks prepared from approved documents?	_____	_____	_____
2. Are all checks signed by a responsible official who does not record in the purchases or cash disbursements journal?	_____	_____	_____
3. Are invoices and documents supporting actual receipts of goods and services?			
Examined by the signer at time of signing the check?	_____	_____	_____
b. Properly voided or marked to prevent reuse?	_____	_____	_____

B. Existing cash disbursement transactions should be recorded on a timely basis.

1. Are all disbursements except petty cash made by check?	_____	_____	_____
2. Is access to blank checks limited to persons authorized to prepare or supervise preparation of checks?	_____	_____	_____
3. Are all checks pre-numbered and accounted for?	_____	_____	_____
4. Are all voided checks retained?	_____	_____	_____
5. Are check protectors used?	_____	_____	_____

**Accounts Payable**

1. Are acquisitions and disbursements recorded in the subsidiary ledger when the goods and services are received and when payments are made?	_____	_____	_____
2. Are the accounts payable subsidiary balances regularly totaled and balanced with the general ledger control by a person not recording in the cash disbursements journal?	_____	_____	_____
3. Are vendors' statements compared monthly to the accounts payable subsidiary records?	_____	_____	_____

**COMMUNITY MENTAL HEALTH CENTERS  
INTERNAL CONTROL QUESTIONNAIRE (continued)**

**VI. CASH**

		<b>YES</b>	<b>NO</b>	<b>(IF YES) NAME</b>
A.	Cash in Bank			
1.	Are bank reconciliations prepared by someone other than a person who handles cash or records in the journals and ledgers?	_____	_____	_____
2.	Are bank statements delivered to the reconciler unopened?	_____	_____	_____
3.	Does the bank reconciliation include tests of cancelled checks (dated, payees, amounts, signatures and endorsements), deposit slips, and/or reconciling items?	_____	_____	_____
B.	Petty Cash			
1.	Are vouchers prepared and submitted with requests for reimbursement?	_____	_____	_____
2.	Are petty cash funds occasionally checked by someone other than the imprest cash custodian?	_____	_____	_____
3.	Is the cash disbursements journal footed and proved to the general ledger monthly by a person not posting the cash disbursements journal or writing checks?	_____	_____	_____

**VII. INVENTORY COUNT AND COSTING**

A.	Custody of Inventory			
1.	Is the physical custody of inventory assigned to responsible employees?	_____	_____	_____
2.	Is the system designed to minimize misuse or theft of inventory by employees and clients?	_____	_____	_____

**VIII. PROPERTY AND EQUIPMENT**

1.	Is approval by a responsible official required for acquisition of property and equipment?	_____	_____	_____
2.	Is approval by a responsible official required for disposals of property and equipment?	_____	_____	_____
3.	Are detailed property and equipment records maintained?	_____	_____	_____
4.	Is a physical inventory of property and equipment taken periodically and compared with detailed property and equipment records?	_____	_____	_____

**COMMUNITY MENTAL HEALTH CENTERS  
INTERNAL CONTROL QUESTIONNAIRE (continued)**

**VIII. PROPERTY AND EQUIPMENT (continued)**

		YES	NO	(IF YES) NAME
5.	Are there physical safeguards against theft or loss of moveable equipment?	_____	_____	_____
6.	Are there clear-out policies and procedures to aid the accounting department to distinguish between capital items and repairs and maintenance?	_____	_____	_____
7.	Are the policies well-defined for methods of depreciation and depreciable life?	_____	_____	_____
8.	Is idle property and equipment reviewed periodically for valuation and segregated on the records?	_____	_____	_____
9.	Is the computation of depreciation expense reviewed?	_____	_____	_____
10.	Are there procedures for reviewing insurance coverage, at least semi-annually?	_____	_____	_____

**IX. SECURITIES AND INVESTMENTS AND RELATED INCOME**

1.	Is a record kept of each investment security?			
2.	Are securities held in the name of the Agency?			
3.	Are securities and investment documents kept in a secure place?	_____	_____	_____
4.	Are all securities and investment documents under the control of a custodian?	_____	_____	_____
5.	Are securities and investment documents periodically inspected or confirmed and reconciled with the accounting records by a person not having access to securities and investments or the investment records?	_____	_____	_____
6.	Are purchases and sales of investments properly authorized?	_____	_____	_____
7.	Are schedules of all investments showing income received prepared periodically reviewed by a responsible official?	_____	_____	_____

**COMMUNITY MENTAL HEALTH CENTERS  
INTERNAL CONTROL QUESTIONNAIRE (continued)**

**X. NOTES PAYABLE**

		<b>YES</b>	<b>NO</b>	<b>(IF YES) NAME</b>
1.	Do proper officers authorize all notes payable and long-term debt transactions?	_____	_____	_____
2.	Does a copy of the note or debt agreement support the payment of principal or interest?	_____	_____	_____
3.	Are interest payments recomputed before payment?	_____	_____	_____
4.	Are debt instruments and interest coupons properly cancelled and filed?	_____	_____	_____
5.	Do subsidiary records for notes payable and long-term debt include information necessary to compute interest accruals?	_____	_____	_____
6.	Are there records that show loan terms (repayment schedule, collateral and restrictive covenants)?	_____	_____	_____

**XI. TRUST FUNDS**

A.	Are trust funds under the supervision of a responsible official?	_____	_____	_____
B.	Is a separate bank account maintained for trust funds? Is it reconciled monthly to the detailed resident trust fund cards?	_____	_____	_____
C.	Is the recording of trust fund transactions separate from the depositing of trust fund checks and the reconciliation of bank account?	_____	_____	_____
D.	Are all trust funds recorded on books of the Agency?	_____	_____	_____
E.	Are residents asked to sign out their funds on pre-numbered paid-out slips?	_____	_____	_____
F.	Are residents asked to sign their periodic statements of account?	_____	_____	_____
G.	Is proper accounting exercised when resident trust funds exceed specific dollar limits so that interest income is earned?	_____	_____	_____

**INTERNAL CONTROL QUESTIONNAIRE**  
**FOR**  
**COMMUNITY MENTAL HEALTH CENTERS**  
**SUMMARY**

I have reviewed the internal control, and I have considered the accounting system and internal control generally to the extent necessary to form an opinion as to the effectiveness of internal control and the scope of necessary audit procedure.

**Conclusion(s):**

**Prepared by:** \_\_\_\_\_  
(Accountant)

\_\_\_\_\_  
(Date)

**Reviewed by:** \_\_\_\_\_  
(In charge Accountant)

\_\_\_\_\_  
(Date)