Presenters

Rick Kes
Senior Analyst, Partner
Over a decade of experience auditing and consulting with health care organizations.

Brett Nesseler
Manager
Several years leading engagements in the health care, non-profit, and governmental space.

Dan Vandenberghe
National Health Care Leader
Decades of experience serving health care clients and leading RSM’s national practice.
Objectives

BY THE END OF THIS COURSE, YOU WILL BE ABLE TO:

• Understand general objectives for meeting a federal compliance audit requirement

• Prepare for the scope of a federal compliance audit engagement

• Avoid common problems associated with a federal compliance audit
COVID-19 Reaction – Health Care

WITHIN EACH ELEMENT OF THE IMPACT CYCLE, WE ASK HEALTH CARE ORGANIZATIONS THE FOLLOWING QUESTIONS:

1. **UNCERTAINTY**
   - Are you familiar with our Coronavirus Resource Center?
   - Would you like to have a discussion with one of our senior industry analysts?
   - Each provider is different; what concerns do you have around maintaining the volume and quality of care you provide?

2. **GUIDANCE & REGULATION**
   - How are you dealing with expanded coverage and changing reimbursement related to the pandemic?
   - Are you taking advantage of expanded virtual health access? How might this change your long-term virtual health strategy?
   - Are you familiar with the provisions of the CARES act that impact your company?

3. **SUPPLY & DEMAND SHOCK**
   - How long can you sustain a period of few or no elective or schedulable procedures?
   - Have you seen an increase in PPE or other supply cost? How soon would you notice an increase with your current reporting?
   - How many days of PPE do you have on hand?
   - Do you have concerns about any critical vendor’s solvency?

4. **WORKFORCE DYNAMIC**
   - How should I be communicating and managing employees, both onsite and virtual?
   - How do I administer new Federal and State Leave Regulations?
   - How are you supporting your clinicians as you ask them to do more?
   - Are you concerned with turnover, including physicians paid on productivity?

5. **LIQUIDITY**
   - How long can your balance sheet last in this environment before you need additional financing?
   - Have you discussed with extending credit or otherwise getting relief on debt?
   - Are you familiar with government loan programs, how to access and terms?
CARES ACT
OVERVIEW
DEFINITIONS

• Catalog of Federal Domestic Aid (CFDA)
• Schedule of Federal Awards (SEFA)
• Office of Management and Budget (OMB)
• Uniform Guidance (UG)
• Governmental Auditing Standards (GAS)
• Generally Accepted GAS (GAGAS)
• Government Accountability Office (GAO)

DEFINITIONS

• Non-federal Entity
• Program Audit
• GAS Audit
• Single Audit
## Health Care–focused Items

<table>
<thead>
<tr>
<th><strong>PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND</strong></th>
<th><strong>MEDICARE REIMBURSEMENT</strong></th>
<th><strong>FEDERAL EMERGENCY MANAGEMENT AGENCY</strong></th>
<th><strong>FEDERAL COMMUNICATION COMMISSION</strong></th>
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- **PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND**
  - Fund: $175 billion
  - Broad definition of health care provider
  - Costs
  - Lost revenue
  - Uninsured

- **MEDICARE REIMBURSEMENT**
  - 20% bump
  - Temporary suspension of sequestration
  - Telehealth
  - DSH payment cuts delayed
  - Advanced payments from Medicare

- **FEDERAL EMERGENCY MANAGEMENT AGENCY**
  - Fund: $45 billion
  - Governmental hospitals
  - Nonprofit hospitals
  - State-specific
  - No reimbursement for lost revenue

- **FEDERAL COMMUNICATION COMMISSION**
  - Fund: $200 million
  - Governmental hospitals
  - Nonprofit hospitals
Summary of CARES Act

• Signed into law on March 27, 2020
• Provider Relief Fund
  - Qualifies as federal funding and triggered compliance audit requirements
  - Various distributions to health care providers starting in April 2020
  - Multiple CFDAs have been identified
    • Provider Relief Fund – 93.498
    • Rural Health Clinic Testing – 93.697
    • Uninsured COVID Testing and Treatment – 93.461
    • Grants for New and Expanded Services under the Health Center Program – 93.527
Summary of CARES Act

- Paycheck Protection Program Loans and Medicare Accelerated & Advanced Payment Programs
  - Not subject to compliance audit requirements
  - However, SBA may perform a separate audit and have indicated all loans over $2 million will be subjected to full audit
EXPECTED AUDIT REQUIREMENTS

GAS, UNIFORM GUIDANCE, AND SINGLE AUDITS
Common Compliance Audit Questions

• I am a **for-profit health care company**, what should I do? What are my options?

• What is a **program specific audit** and how do I qualify? Need to consider all sources (states/local governments)

• What are the **governmental auditing standards (GAS) audits** I’ve been hearing about?

• What is a **Single Audit**?
What is GAS - aka “GAGAS” or the “Yellow Book”?

• Issued by the GAO - applies to all audits performed to satisfy a federal audit requirement

• Builds on the requirements of GAAS

• Certain **for-profit entities** may be able to satisfy HHS audit requirements with a financial audit of the federal award(s) (program specific or GAS audit)
  - Uniform Guidance would not apply
  - Scope of audit still involves auditing compliance with laws and regulations material to the reported federal award(s)
    • Many of the same laws and regs. would be addressed in the scope of an audit in accordance with Uniform Guidance.
What are my options?

I am a non-federal entity (non-commercial)
- Yes
- No (see next page)

Did you expend Federal awards under more than one Federal program?
- Yes
  - Single Audit
- No
  - Program Audit is an option

*Presumes total federal awards expended are $750,000 or more
*Based on what we currently know
What are my options?

I am a commercial (for-profit) entity

Yes

Did you expend Federal awards under more than one Federal program?

Yes

Choose between one of these options below

Single Audit

GAS financial audit of the award

No

Choose one of these options below

Program Audit

GAS financial audit of the award

*Based on what we currently know

Are Provider Relief Fund payments to commercial (for-profit) organizations subject to Single Audit in conformance with the requirements under 45 CFR 75 Subpart F? (Modified 7/30/2020)

Commercial organizations that receive $750,000 or more in annual awards have two options under 45 CFR 75.216(d) and 75.501(i): 1) a financial audit of the award or awards conducted in accordance with Government Auditing Standards; or 2) an audit in conformance with the requirements of 45 CFR 75 Subpart F.
High risk auditees need 40% coverage, low risk need 20%
- One qualification to be a low risk auditee is having a single audit for the previous two years
- Being a high risk auditee has no other audit implications and is not a negative

Type A federal awards
- Federal expenditures exceeding a certain threshold (generally $750,000)
- Can be high risk or low risk based on prescriptive considerations

Type B federal awards
- Federal expenditures are less than the Type A threshold
- Risk assessed by the auditor if any low risk Type A programs
• What is a **major program**?
  - Any program that is tested during the single audit is a major program

• How are **programs selected**?
  - Risk assessment and grant coverage

• Any **Type A program** that has not been audited in the past two years is deemed high risk and will be a major program
Compliance Reporting

- Schedule of expenditures of federal awards (SEFA) - Client Prepared
- Notes to schedule of expenditures of federal awards – Client Prepared
- Summary schedule of prior audit findings (if applicable) - Client Prepared
- Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Governmental Auditing Standards
- Report on compliance for each major federal program; report on internal control over compliance; and report on schedule of expenditures of federal awards required by the Uniform Guidance
- Schedule of findings and questions costs
- Corrective action plan (if applicable) – Client Prepared
Compliance Reporting

• A single audit must be submitted to Federal Audit Clearinghouse (FAC) within the earlier of 30 days after receipt of the auditors reports or 9 months after year end of the auditee
  - Regular financial statement audit report and compliance report can be dated and issued individually at separate times; however, the SEFA, as supplemental information, should be included in the scope of the audit of the financial statements
  - Your auditor is required to participate and can assist you with your portion of the submission to the FAC website

• FAC website is publicly available
  - The full submission, including a PDF of the financial statements, is posted
  - Compliance reporting includes all material weaknesses, significant deficiencies and instances of noncompliance, not just those specific to the program
Sample Healthcare Client

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020

<table>
<thead>
<tr>
<th>Federal Grantor/ Pass-Through Grantor/Program Title</th>
<th>Federal CFDA Number</th>
<th>Pass-Through Entity Identifying Number</th>
<th>Passed Through to Subrecipients</th>
<th>Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Department of Health and Human Services</td>
<td>93.498</td>
<td>#######</td>
<td>-</td>
<td>$ 800,000</td>
</tr>
<tr>
<td>Provider relief fund:</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Total expenditures of federal awards

$ - $ 800,000

See notes to schedule of expenditures of federal awards.
PROVIDER RELIEF FUND – MAJOR PROGRAM GUIDANCE
Provider Relief Fund

• So, what might a Single Audit with the Provider Relief Fund as a major program look like?

• How does that differ from what a GAS or program specific audit?

• The government is still in the process of issuing the guidance for these specific grants. An updated compliance supplement with guidance is expected in the fall.

• [Link to the 2019 Compliance Supplement]
Materiality in the audit of a major program differs from that in an audit of the financial statements.

Materiality is affected by:

- The nature of the compliance requirement, which may or may not be quantifiable in monetary terms.
- Qualitative considerations, such as the needs and expectations of federal and pass-through agencies.
Compliance Requirements

HHS CAN SELECT UP TO SIX REQUIREMENTS

A. Activates allowed or unallowed
B. Allowable Costs/Cost Principles
C. Cash Management
D. Reserved
E. Eligibility
F. Equipment and Real Property Management
G. Matching, Level of Effort, Earmarking
H. Period of performance
I. Procurement and Suspension and Debarrment
J. Program Income
K. Reserved
L. Reporting
M. Subrecipient Monitoring
N. Special Tests and Provisions
Factors affecting allowability of costs.

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

• Be **necessary** and **reasonable** for the performance of the Federal award and be allocable thereto under these principles.

• Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
Allowability of Costs

More factors affecting allowability of costs.

• Be determined in accordance with generally accepted accounting principles (GAAP)
• Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
• Be adequately documented.
§ 200.318 General Procurement Standards.

The non-Federal entity must use its own documented procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

Non-Federal entities must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.
§ 200.320 Methods of procurement to be followed*.
The non-Federal entity must use one of the following methods of procurement.
(a) Procurement by micro-purchases.
(b) Procurement by small purchase procedures.
(c) Procurement by sealed bids (formal advertising).
(d) Procurement by competitive proposals.
(e) Procurement by noncompetitive proposals.
• Link to Procurement Standards in the eCFR

*Note at this time we are unsure if these are going to be applicable to for-profit entities.
Audit Findings

• The **auditor must report the following** as audit findings in a schedule of findings and questioned costs (this does not address the financial statement GAS reporting requirements included in the scope of a compliance audit):
  - Significant deficiencies and material weaknesses in internal control over major programs and significant instances of abuse relating to major programs.
  - Material noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards related to a major program.
  - Known or projected questioned costs that are greater than $25,000 for a type of compliance requirement for a major program.

• If previously subject to audit, **auditee must prepare a summary schedule of prior audit findings**. This should be on their letterhead.

• **Auditee must also prepare a corrective action plan for current year audit findings**, which is included in the audit report. This should be on their letterhead.

• **Auditee is responsible for follow-up and corrective action plan** on all audit findings.
Audit expectations

- **Increased hours and fees** as a result of GAS and compliance audit
- **Increased testing** – will likely need to perform a compliance test and a test of controls
- **Additional time for planning, performance and reviews**
- **Additional reporting requirements** (see page 15)
- **Increased potential and likelihood for findings and deficiencies**
  - Some may impact financial statements
  - Compliance audit removes much of the judgment used when determining a finding or deficiency
  - Some previous findings could be elevated depending on impact to major program or grant requirements
- **Increased requirements for auditor independence and certifications**
  (For example, each auditor must meet Yellow Book CPE requirements and the audit firm must meet peer review requirements)
Other potential oversight

• Office of the Inspector General (OIG)
• Program reviews
• Federal agency desk reviews
• Although the oversight differs in scope and method, findings during the audit are likely to impact other oversight and vice-versa
What to do now?

• Review award agreements and applicable information to ensure policies and procedures are adopted and are in compliance with federal guidelines

• Study the Terms and Conditions of the grants as well as the FAQ’s issued by HHS

• Ensure transaction cycle controls are documented, in place and can be verified

• Ensure any reports that are submitted have auditable documentation

• Track expenses, lost revenues and any other applicable information

• Consider an audit readiness provider

• Start planning for an audit of the applicable award(s)
Common Questions

• Consolidation?
• Who can perform my compliance audit?
• Report issuance considerations?
Health Care Appendix
NONPROFIT | SUMMER 2020

RESEARCH AVAILABLE TO YOU

The Real Economy Health Care Blog
Health care industry analysts interpret data and share timely insights for health care leaders and media.

The Real Economy
Monthly publication to help the middle market anticipate and address unique issues and challenges facing the industries in which they operate. Written by chief economist, Joe Brusuelas, and professionals throughout the firm.

Middle Market Economics
Real-time, relevant macroeconomic perspectives to help you anticipate and address the unique issues and challenges facing your organization. One resource is our quarterly economic index developed in collaboration with Moody’s Analytics, using data collected from RSM and The Harris Poll.

RSM Coronavirus Resource Center
Stay on top of the evolving issues related to the pandemic in order to mitigate risks and plan accordingly. Highlights:
• CARES Act funds terms and conditions,
• CMS waivers and flexibilities, FEMA funding
• FCC telehealth funding

Regulatory & Tax Updates:
• FASB finalizes limited effective-date deferrals for ASC 606 and 842
• Treasury and the IRS release long-awaited guidance to exempt organizations under section 512(a)(6) for separately computing UBTI
• Exempt organizations claim NOL carrybacks through amended Forms 990-T

SERVICE HIGHLIGHTS

• Are you ready for price transparency? We can help.
• Looking for ways to recoup lost revenue and maximize reimbursements? RSM can help improve your denial success rate throughout your revenue cycle utilizing our interactive 835 denials application.
• There are nuances and emerging rules updates for accepting emergency funding. We can help you optimize these funds.
• Learn more about the employee retention tax credit.

Visit www.RSMUS.com/Healthcare

IN THE NEWS

RSM health care senior analysts quoted in national publications:
• Modern Healthcare [June 19]: CARES Act Medicare loan repayment will cut reimbursement by 25%, industry execs say
• Modern Healthcare [June 2]: HHS changes rules for $50 billion provider grants before key deadline
• JD Supra [May 29]: Structuring PPM and DPM Transactions for Maximum Success: Tackling Front-End Issues
• Modern Healthcare [May 22]: HHS will redistribute provider grant funds returned by insurers
• HFMA [May 1]: How hospitals should capture COVID-19 costs to maximize grants from FEMA, CARES Act
• Politico [April 20]: Health care workforce is recession proof. Is it pandemic proof?
• Modern Healthcare [April 1]: Tracking COVID-19 hospital expenses important for federal funding

RELEVANT RSM-ISSUED NEWS RELEASES
• RSM Donates $3.8 Million to Charity Through Birdies Fore Love Program NEWS RELEASE
• Modern Healthcare Ranks RSM No. 10 on 2019 Management Consulting Firm NEWS RELEASE

EVENTS

Health care webcasts – Live and on-demand
• Quarterly Accounting Updates [July 16 and Oct. 15]

Announcing our upcoming health care webcast series:
Financial Sustainability for Health Care Organizations
• Health care today and tomorrow [July]
• Margin Improvement: It’s not just about cutting costs [August]
• Price Transparency: Are you ready? [September]
• You survived the telehealth explosion - Now what? [October]
• MFAR and Uncompensated Care Funding Strategy [November]
• How process intelligence can improve patient care and optimize provider operations [February, 2021]
• Respond to industry risk and uncertainty in today’s health care environment, leveraging emerging technologies, tools and practices [March 2021]
• Business Process Improvement (front end of the rev cycle, accounting and operational) [April 2021]

CLICK HERE TO LEARN MORE OR REGISTER.

EVENTS

• Ask us about HITRUST Educational Sessions
• RSM Classic PGA event – Nov. 2020

NEWS

• Ask your RSM professional to connect you with any of our presenters or authors to schedule a call or meeting, or exchange an email
• Access the latest RSM Health Care Appendix at RSMUS.com/Healthcare-Appendix
THANK YOU FOR YOUR TIME AND ATTENTION
QUESTIONS AND ANSWERS?