

**Baltimore County Department of Health  
Bureau of Behavioral Health  
Standards for Audit of Human Services Sub-Vendors**

**Cost reimbursement contract** means a funding agreement with sub-vendor that relates the award to a detailed line-item budget, line-item control, and detailed reporting requirements. These requirements will include year-end approved MDH 440 and 440A forms, audits, and documentation of the vendor's review of the detailed line-item budget.

**Sub-vendor** means any organization with whom Baltimore County Bureau of Behavioral Health engages to deliver health-related services to third party clients, using funds awarded to the vendor by MDH.

**Responsibilities for sub-vendor audits**

**Vendor responsibilities:** The standards set forth in this document shall apply to all Baltimore County Bureau of Behavioral Health sub-vendors whom are contracted to provide human services with the acceptance of grant funds. Sub-vendors are to comply with these requirements and to communicate them to their accountant and third-party financial auditor. These standards shall also apply when a sub-vendor contracts with its own sub-vendor.

**Controls over sub-vendors:** Each sub-vendor is responsible for having adequate controls and monitoring procedures over contracted program(s).

**Cost reimbursement contracts:** Auditor must include the approved MDH 440 and 440 A and certify that the reported expenditures and revenues are true and correct.

**Audit requirements for contracts totaling \$100,000 or greater**

Sub-vendor contracts that are for one year or continuing from year to year shall be audited every fiscal year.

**Vendor responsibilities for sub-vendor audits**

**Selection of auditors:**

Sub-vendor must contract with independent auditor(s) to certify that the reported expenditures and revenues are true and correct on the MDH 440 and 4400A.

A vendor should consider several factors when evaluating proposals for audit services: responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, results of external quality control reviews, and price.

Sub-vendor is responsible for assuring that an audit is conducted according to the following standards:

**Risk analysis:** The vendor must assure that before an auditor begins an audit of a sub-vendor, the auditor performs a risk analysis. He or she shall use auditor judgment and shall consider, but not be limited to, the following criteria:

- nature of the control environment
- competence and experience of the personnel administering the program
- prior audit findings
- length of time since the sub-vendor was last audited
- sub-vendor's phase in the funding life cycle, i.e., if the program is in its first or last year, the risk may be higher due to start-up or closeout activities.

**Scope of audit:** Each audit of a sub-vendor should include the following areas (with a CPA Audit Firm):

- verification of the information reported on the approved MDH Form 440 and 440A
- review and analysis of internal control procedures
- determination of compliance with laws, regulations, and the terms and conditions of the sub-vendor's contract with the vendor
- determination of compliance with the terms and conditions of HSAM or LHDFSM
- follow up on prior audit findings
- determination of findings and questionable costs

Note: Compliance testing should include tests of transactions and other auditing procedures necessary to provide the auditor with sufficient evidence to support an opinion on compliance.

### **Content of audit report.**

#### 1) General:

- Each report issued for a sub-vendor audit should provide sufficient schedules, forms, analysis, etc., to allow the reader to evaluate the results of the subcontracted service during each of the contract fiscal years (ending June 30) **separately and isolated from the sub-vendor's total operations.**
- The audit report must include the approved MDH 440, 440A and provide a **statement of revenues and expenditures** that details total revenues and allowable expenditures and the amount due to the vendor for each contract that the sub-vendor has with the vendor.
- The report also shall include all notes prepared by the auditor and any management letter that may have been generated as part of the audit.

## 2) **Specific:**

Each audit report should contain the following parts, though they need not be organized in this manner:

- an opinion (or disclaimer of opinion) as to whether the MDH Form 440, 440A is presented fairly in all material respects in conformity with generally accepted accounting principles. This opinion or disclaimer would be included in a report prepared by independent auditors, but not by a vendor's in-house staff.
- a report on internal control describing the scope of internal control testing and the results of the tests
- a report on compliance with laws, regulations, and the provisions of the contract or agreement that the sub-vendor has with the vendor
- a report on compliance with the terms and conditions of HSAM or LHDFSM
- a report on the status of prior audit findings
- a list of funds due either to the vendor or to the sub-vendor
- a schedule of findings and questionable costs

### **Audit findings:**

**Subject matter of audit findings:** Auditors should report the following as audit findings in a schedule of findings and questionable costs.

- Reportable conditions in internal control. These reportable conditions should include all weaknesses detected, if any.
- All noncompliance detected, if any, with laws, regulations, contracts, or grant agreements.
- Known questionable costs (those specifically identified by the auditor) that are \$500 or greater. In addition, when reporting the finding the auditor should include information to give a perspective on the prevalence and possible consequences of the questionable costs.
- Non-allowable costs.
- Known or suspected fraud affecting MDH funds.

Note: Auditors shall refer to the appropriate sections of HSAM or LHDFSM concerning allowable costs, non-allowable costs, and budget modifications and shall use this material for guidance in determining whether certain costs should be allowable.

3) **Detail of audit findings:** The auditor should present audit findings in sufficient detail to allow the auditee to prepare a corrective action plan and to implement it. The auditor should include, but not be limited to, the following information:

- The grant or contract number, the source of funding, and the fiscal year.
- The criteria upon which the audit finding is based, citing a statute, regulation, etc.

- The condition that the auditor found.
- The questionable costs, how they were computed, how prevalent they are (i.e., whether they represent an isolated instance or a systemic problem), and what their likely consequences are.
- Recommendations to prevent future occurrence of the problem.

#### 4) Vendor's post-audit responsibilities

**Vendor's review of sub-vendor audit:** The vendor is responsible for reviewing the audit report and management letter after each sub-vendor audit is completed. (This applies to all audits – regular or special circumstances – required by these standards.) The vendor should determine if:

- the sub-vendor utilized MDH funds in the appropriate manner as detailed in the approved budget
- the sub-vendor is in compliance with HSAM or LHDFSM
- any funds are due to or from the sub-vendor
- conditions exist that may prevent the sub-vendor from delivering services and/or fulfilling the terms and conditions of its contract with the vendor

**Note:** The vendor should retain audit reports and written documentation of follow-up results for five years after the due dates. If funds are due back to MDH, the vendor shall return the funds along with the revised MDH Form 440 and an explanatory letter to the following address:

Department of Health and Human Services  
Baltimore County Bureau of Behavioral Health  
Attention: Accountant II  
6401 York Road, Third Floor  
Baltimore, Maryland 21212

#### References

- COMAR 10.04.03 and 21.06.05.02
- State Finance and Procurement (SFP) 15-110 and 7-404
- MDH Human Services Agreements Manual, section 2210.04
- Local Health Department Funding System Manual, section 2180.04